

# PROSPECTUS



(a Corporation set up under the Laws of New Jersey, USA with its principal place of business at One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933, USA.)

(IRS employer identification No: 22-1024240)

## **Common Stock**

**(Par Value \$1.00 per Share)**

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Public Offering in certain EEA Member States

## **Johnson & Johnson**

### **EXECUTIVE BONUS PLAN**

The shares offered hereby are the maximum number that may be sold by Johnson & Johnson (hereinafter “**Johnson & Johnson**” or the “**Company**” as the context may require) to eligible participants pursuant to the Johnson & Johnson Executive Bonus Plan (the “**Plan**”), as hereinafter described.

The securities to be offered consist of up to 18,087,269 shares of Johnson & Johnson Common Stock (the “**Common Stock**”), which are available for awards under the Plan.

WARNING: participation in the Plan is subject to the same risks as inherent to any investment in shares of the Company (such as movements in the stock exchange price of the shares). Share prices may go down, and the value of shares cannot be guaranteed.

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**The date of this Prospectus is 23 November 2010.**

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## 1. SUMMARY OF THE PROSPECTUS

dated 23 November 2010 relating to the offer of Common Stock to eligible employees pursuant to the Plan,

offered by  
Johnson & Johnson

### PUBLIC OFFERING IN CERTAIN EEA MEMBER STATES

#### 1 Risk Factors

The Company may from time to time make certain forward-looking statements in publicly-released materials, both written and oral. Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words such as "plans", "expects", "will", "anticipates", "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approvals, market position and expenditures.

Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, the Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.

Some important factors that could cause the Company's actual results to differ from the Company's expectations in any forward-looking statements are as follows:

- Economic factors, including inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Competitive factors, including technological advances achieved and patents attained by competitors as well as new products introduced by competitors;
- Challenges to the Company's patents by competitors or allegations that the Company's products infringe the patents of third parties, which could potentially affect the Company's competitive position and ability to sell the products in question and require the payment of past damages and future royalties. In particular, generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event that the Company is not successful in defending the resulting lawsuits, generic versions of the product at issue will be introduced, resulting in very substantial market share and revenue losses;
- Financial distress and bankruptcies experienced by significant customers and suppliers that could impair their ability, as the case may be, to purchase the Company's products, pay for products previously purchased or meet their obligations to the Company under supply arrangements;
- Changes in the behavior and spending patterns of purchasers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the

frequency of physician visits and foregoing health care insurance coverage, as a result of a prolonged global economic downturn.

- The impact on political and economic conditions due to terrorist attacks in the U.S. and other parts of the world or U.S. military action overseas, as well as instability in the financial markets which could result from such terrorism or military actions;
- Interruptions of computer and communication systems, including computer viruses, that could impair the Company's ability to conduct business and communicate internally and with its customers;
- Health care changes in the U.S. and other countries resulting in pricing pressures, including the continued consolidation among health care providers, trends toward managed care and health care cost containment, the shift towards governments becoming the primary payers of health care expenses and government laws and regulations relating to sales and promotion, reimbursement and pricing generally;
- Government laws and regulations, affecting U.S. and foreign operations, including those relating to securities laws compliance, trade, monetary and fiscal policies, taxes, price controls, regulatory approval of new products, licensing and patent rights, and possible drug reimportation legislation;
- Competition in research, involving the development and the improvement of new and existing products and processes, is particularly significant and results from time to time in product and process obsolescence. The development of new and improved products is important to the Company's success in all areas of its business;
- Challenges and difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and internationally, gain and maintain market approval of products and the possibility of encountering infringement claims by competitors with respect to patent or other intellectual property rights which can preclude or delay commercialization of a product;
- Significant litigation adverse to the Company including product liability claims, patent infringement claims and antitrust claims;
- The health care industry has come under increased scrutiny by government agencies and state attorneys general and resulting investigations and prosecutions carry the risk of significant civil and criminal penalties, including debarment from government business;
- Product efficacy or safety concerns, whether or not based on scientific evidence, resulting in product withdrawals, recalls, regulatory action on the part of the FDA (or foreign counterparts) or declining sales;
- The impact of business combinations, including acquisitions and divestitures, both internally for the Company and externally in the pharmaceutical, medical device and health care industries;
- The potential impact of climate change concerns on the design, manufacturing, marketing and sale of health care products; and
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board and the Securities and Exchange Commission.

The foregoing list sets forth many, but not all, of the factors that could impact upon the Company's ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties. The Company has identified the factors on this list as permitted by

the U.S. Private Securities Litigation Reform Act of 1995.

## 2 Investment decision

***In case of any doubt about the Plan or the offer of the Common Stock or about the risk involved in receiving the Common Stock, eligible employees should consult a specialized financial adviser or abstain from investing.***

***Each eligible employee must determine his investment decision based on its own independent review of the information included in the complete Prospectus.***

### **Approval by the Banking, Finance and Insurance Commission**

On 23 November 2010, the Prospectus (as defined below), drawn up in accordance with chapter II of the Regulation (EC) no 809/2004 of the European Commission dated 29 April 2004, has been approved by the Banking, Finance and Insurance Commission pursuant to article 23 of the law of 16 June 2006 on public offerings of securities and the admission of securities to be traded on a regulated market.

This approval in no way implies an evaluation of the appropriateness of the quality of the operation, or the situation of the Company.

This "**Summary**" contains a brief summary of the principal characteristics of the operation and a description of the features of the Common Stock offered under the Plan as well as Johnson & Johnson. This summary also exists in certain other languages<sup>1</sup> (together, the "**Summaries**"). These versions of the Summary are only translations of this English Summary. In case of discrepancies between the other language versions and this English summary, only this English version will be legally binding. This Summary has to be read as an introduction to the prospectus and its annexes dated 23 November 2010 written in English (the "**Prospectus**") and composed of the following chapters:

- |   |                       |   |
|---|-----------------------|---|
| 1 | Summary               |   |
| 2 | Registration Document | Information on Johnson & Johnson                                  |
| 3 | Securities Note       | Terms and Conditions of the Plan and features of the Common Stock |

**Each decision to invest in the Common Stock has to be based on an exhaustive analysis by the eligible employee of the Prospectus as a whole.**

**The Company has prepared this Summary, including its translation. No civil liability will attach to Johnson & Johnson in respect of the Summary unless it is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.**

**The consistency between the translations of the Summary has been verified by the Law Department Europe of the Company which assumes the responsibility thereof. In case of**

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<sup>1</sup> The summary has been translated in the following languages: Bulgarian, Czech, Danish, Dutch, German, Estonian, Finnish, French, Greek, Hungarian, Italian, Latvian, Lithuanian, Norwegian, Polish, Portuguese, Romanian, Slovenian, Slovak, Spanish, Swedish.

**inconsistencies between the Summary and other parts of the Prospectus, the latest shall prevail. Where a claim relating to the information contained in this Prospectus is brought before a Court, the plaintiff participant may have to bear the costs of translating the Prospectus before the legal proceedings are initiated.**

**Most of the products mentioned or listed in the Prospectus are trademark protected and/or registered. A list of these protected and/or registered products is annexed to the Prospectus as Annex 1 to the Registration Document.**

## Characteristics of the operation

### **Summary of the Plan**

*The following is a brief, but not comprehensive, summary of the Plan, the complete text of which is annexed to the Prospectus as Annex 1 to the Securities Note. Reference is hereby made to that Annex for a complete statement of the provisions of the Plan, including the definitions of certain of the terms used herein. The following summary shall be deemed to be qualified in its entirety by such reference. In case of discrepancies between the following summary and Annex 1 to the Securities Note, the Annex shall take precedence over the summary.*

**Administration of the Plan.** The Plan will be administered by the Management Compensation Committee of Johnson & Johnson (the “**Committee**”), the members of which are appointed annually by the Board of Directors. The Committee determines management compensation and establishes perquisites and other compensation policies for employees (except for executive officers of Johnson & Johnson). The Board of Directors has the sole authority to appoint and remove members of the Committee.

The Committee has the authority (within the limitations described in the Plan) to, among other things:

- select the persons to be granted awards under the Plan;
- determine the nature, size and terms of awards;
- determine the time when awards are to be granted and any conditions that must be satisfied before an award is granted;
- determine whether any conditions applicable to an award have been met; and
- determine the guidelines and/or procedures for payment of awards.

To the extent not prohibited by law, the Committee may delegate its authority to one or more of its members or other persons.

**Awards.** The Plan provides for the grant of dollar-denominated bonuses to be paid in cash, in shares of Common Stock, or in a combination of such shares and cash. The Plan also provides that eligible employees may be allowed to elect to receive certain other payments, to be designated in the Plan, in cash, in shares of Common Stock, or in a combination of such shares and cash.

**Eligibility.** Participants in the Plan will be selected on the basis of demonstrated ability to contribute substantially to the effective management or financial performance of Johnson & Johnson. The Committee will select participants in the Plan from among those persons (other than certain executive officers) who, at any time during the year for which an award is made, are on the active payroll of:

- Johnson & Johnson;
- any of Johnson & Johnson’s domestic or international subsidiaries and affiliated entities;
- a joint venture operation of Johnson & Johnson and its subsidiaries and affiliated entities; or
- a partner in such a joint venture who is assigned to such joint venture.

The Chairman and any Vice Chairman of the Board of Directors and any other officer of Johnson & Johnson who has been designated as part of the Office of the Chairman or elected a Member of the Executive Committee of Johnson & Johnson are not eligible to participate in the Plan.

It is not possible to state the number of employees who will participate in the Plan in the future or the extent of their participation.

**Categories of Awards.** The Plan provides for the grant of dollar-denominated bonuses to be paid in cash, in shares of Common Stock, or in a combination of such shares and cash. Each award shall be paid entirely in cash unless the Committee requires all or part of the award to an eligible employee to be paid in shares of Common Stock, or unless an eligible employee elects to receive shares of Common Stock in lieu of cash as set forth below.

**Share Election.** If the Committee determines that an eligible employee's award for a particular calendar year shall be paid entirely in cash, the Committee may permit the eligible employee to elect to forgo a percentage of the cash award and to receive, in lieu thereof, shares of Common Stock with a fair market value (determined as of a date designated by the Committee) equal to the dollar amount of the award that the eligible employee elects not to receive in cash. However, if the Committee determines that all or part of an award shall be paid in shares of Common Stock, the eligible employee may not make such an election with respect to any portion of the award that is payable in cash. The fair market value of shares of Common Stock on any date is defined as the average of the high and low sales prices on that date of the shares on the principal securities exchange on which they are traded. If there are no sales on that date, then the fair market value is defined as the average of the high and low sales prices of the shares on the date or dates that the Committee determines, in its sole discretion, to be appropriate.

**Permissible Elections.** When electing to receive shares in lieu of cash, an eligible employee must designate the percentage of the award that the eligible employee elects to forgo receiving in cash. The Committee may provide that such an election shall be effective only if it designates a percentage that the Committee permits and causes the eligible employee to receive at least a specified minimum number of shares of Common Stock.

**Election Procedure.** The manner and form in which an election to receive shares in lieu of cash must be made, and the dates by which the election must be made and on which it becomes irrevocable, will be determined by the Committee.

**Shares of Common Stock Subject to the Plan.** Up to 18,087,269 shares of Johnson & Johnson Common Stock, par value \$1.00 per share.

**Source of Shares.** If an eligible employee elects to receive shares of Common Stock pursuant to the terms of the Plan, the source of shares of Common Stock shall be determined by the Committee and may consist of authorized but unissued shares, treasury shares or shares acquired on the open market, or any combination thereof. Any shares issued as a result of such election shall not be issued pursuant to the terms of Johnson & Johnson's Long-Term Incentive Plan ("LTIP") and shall not be subject to the terms of the LTIP.

By contrast, if the Committee determines that all or part of an award shall be paid in shares of Common Stock, such shares shall be paid from the aggregate number of shares of Common Stock authorized to be issued under the LTIP as in effect from time to time. In this case, the source of shares of Common Stock shall be determined by the Compensation & Benefits Committee of the Board of Directors and may consist of authorized but unissued shares, treasury shares or shares acquired on the open market, or any combination thereof.

**Award Limitations.** The Plan does not provide for any limitations on awards to be granted under the Plan. However, an award under the Plan may not be paid until and unless the Committee approves the award, and, in addition, the Compensation and Benefits Committee of the Board of Directors approves either such award or the fund, pool, or reserve from which such award is paid. To the extent awards granted under this Plan are to be paid from the aggregate number of shares of Common Stock authorized to be issued under the terms of the LTIP, they are subject to the award limitations of the LTIP.

**Payment.** An award may not be paid until and unless it has been approved by the Committee, and the award or the fund, pool or reserve from which such award is paid has been approved by the Compensation and Benefits Compensation Committee of the Board of Directors. When approved, and unless the Committee determines otherwise or payment is deferred in accordance with the terms of the Plan, each award for a



particular calendar year shall be paid after the end of that year and on or before 15 March of the following calendar year. Any portion of an eligible employee's award that is payable in shares shall be paid solely in whole shares of Common Stock, and the Committee may direct that cash be paid in lieu of fractional shares or other fractional units, or the Committee may round off fractional shares or units, in its discretion.

**Dilution and Other Adjustments.** In the event of a merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination, or exchange of shares or other change in corporate structure affecting any class of Common Stock, the Committee will make appropriate adjustments in the class and aggregate number of shares to be delivered under the Plan.

**No Assignment or Transfer.** No award under the Plan or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution. Once interests in, or certificates evidencing, shares of Common Stock are issued or transferred to an eligible employee, such shares of Common Stock may be freely transferred, assigned, pledged, or otherwise subjected to lien, subject to restrictions imposed by the Securities Act, the Securities Exchange Act (including, but without limitation, Section 16 thereof) and Johnson & Johnson's Insider Trading Policy.

**Effective Date, Amendments and Termination.** The Plan became effective as of 1 September 2005 and shall remain in effect until such time as it is terminated by the Committee.

The Committee may terminate or amend the Plan at any time, but no such amendment or termination may adversely affect awards granted prior to such termination or amendment, except to the extent necessary or appropriate to comply with applicable law or the rules and regulations of any stock exchange on which Common Stock is listed or quoted. Notwithstanding the foregoing, unless the shareholders of Johnson & Johnson have first approved the amendment, no amendment to the Plan shall be effective if shareholder approval of the amendment is required by either applicable law or the rules of the principal securities exchange on which shares of Common Stock are traded.

***Features of the Common Stock offered under the Plan***

<b>Company</b>	Johnson & Johnson
<b>Form of Securities</b>	Common Stock
<b>Nominal Amount</b>	Par Value US\$1.00 per Share
<b>Listing</b>	New York Stock Exchange, Inc. (Symbol: JNJ)
<b>Subscription period</b>	6 December 2010 up to 31 December 2010
<b>Applicable law</b>	State of New Jersey

## Information concerning Johnson & Johnson

Should you wish to obtain more information concerning Johnson & Johnson, please refer to the section “**Registration Document**” of the Prospectus and to the documents referred to in these parts of the Prospectus.

### *Incorporation and purpose*

On 10 November 1887, Johnson & Johnson was incorporated with an authorized capital stock of \$100,000, which was held by Robert (40%) James (30%) and Edward Mead (30%) Johnson.

The purpose for which Johnson & Johnson is organized is: To engage in any activity within the purposes for which corporations may be organized under the New Jersey Business Corporation Act.

The aggregate number of shares of all classes of stock which Johnson & Johnson has authority to issue is Four Billion Three Hundred Twenty Two Million (4,322,000,000), divided into Two Million (2,000,000) shares of Preferred Stock without par value and Four Billion Three Hundred Twenty Million (4,320,000,000) shares of Common Stock of the par value of One Dollar (\$1.00) each.

### *Legal proceedings*

The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use that accompany such products, it is not feasible to predict the ultimate outcome of litigation.

However, the Company believes that if any liability results from such cases, it will be substantially covered by existing amounts accrued in the Company’s balance sheet and, where available, by third party product liability insurance.

The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which could potentially adversely affect the ability of those subsidiaries to sell those products, or require the payment of past damages and future royalties.

For further information on the Company’s product liability, patents or other legal proceedings, please consult Section 19.7 of the Registration Document.

## Consolidated Balance Sheets – Johnson & Johnson and Subsidiaries<sup>2</sup>

On 3 January 2010, 28 December 2008 and 30 December 2007 (Dollars in Millions Except Share and Per Share Data) (Note 1 to the Consolidated Financial Statements – see Section 19 of the Registration Document)

	2009	2008	2007
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 1 and 2)	\$15,810	10,768	7,770
Marketable securities (Notes 1 and 2)	3,615	2,041	1,545
Accounts receivable trade, less allowances for doubtful accounts \$333 (2008, \$268)	9,646	9,719	9,444
Inventories (Notes 1 and 3)	5,180	5,052	5,110
Deferred taxes on income (Note 8)	2,793	3,430	2,609
Prepaid expenses and other receivables	2,497	3,367	3,467
<b>Total current assets</b>	<b>\$39,541</b>	<b>34,377</b>	<b>29,945</b>
Property, plant and equipment, net (Notes 1 and 4)	14,759	14,365	14,185
Intangible assets, net (Notes 1 and 5)	16,323	13,976	14,640
Goodwill (Notes 1 and 5)	14,862	13,719	14,123
Deferred taxes on income (Note 8)	5,507	5,841	4,889
Other assets	3,690	2,634	3,170
<b>Total assets</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Loans and notes payable (Note 7)	<b>\$6,318</b>	<b>3,732</b>	<b>2,463</b>
Accounts payable	5,541	7,503	6,909
Accrued liabilities	5,796	5,531	6,412
Accrued rebates, returns and promotions	2,028	2,237	2,318
Accrued salaries, wages and commissions	1,606	1,432	1,512
Accrued taxes on income	442	417	223
<b>Total current liabilities</b>	<b>\$21,731</b>	<b>20,852</b>	<b>19,837</b>
Long-term debt (Note 7)	8,223	8,120	7,074
Deferred taxes on income (Note 8)	1,424	1,432	1,493
Employee related obligations (Note 9 and 10)	6,769	7,791	5,402
Other liabilities	5,947	4,206	3,829
<b>Total liabilities</b>	<b>\$44,094</b>	<b>42,401</b>	<b>37,635</b>

<sup>2</sup> The financial information is derived from the audited financial statements of Johnson & Johnson and has to be consulted together with the 2009 Annual Report.

<b>Shareholders' equity</b>			
Preferred stock – without par value (authorized and unissued 2,000,000 shares)	-	-	-
Common stock – par value \$1.00 per share (Note 12) (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	3,120	3,120	3,120
Accumulated other comprehensive income (Note 13)	(3,058)	(4,955)	(693)
Retained earnings	70,306	63,379	55,280
	70,368	61,544	57,707
Less: common stock held in treasury, at cost (Note 12) (365,522,000 and 350,665,000 shares)	19,780	19,033	14,388
<b>Total shareholders' equity</b>	<b>\$50,588</b>	<b>42,511</b>	<b>43,319</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$94,682</b>	<b>84,912</b>	<b>\$80,954</b>

<i>(Dollars in Millions Except for Share Figures)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>% Change</b>	
				<b>2009</b>	<b>2008</b>
Sales to customers	\$61,897	\$63,747	61,095	(2.9)%	4.3%
Net earnings	\$12,266	\$12,949	10,576	(5.3)%	22.4%
Percent return on average shareholders' equity	26.4%	30.2%	25.6%	-	-
Diluted net earnings per share	\$4.40	\$4.57	3.63	(3.7)%	25.9%
Cash dividends paid per share	\$1.930	\$1.795	1.620	7.5%	10.8%
Market price (year-end close)	\$64.41	\$58.56	67.38	10%	(13.1)%

#### *Board of directors*

As at the date of this Summary, the board of directors was composed of the following persons:

Mary Sue Coleman, Ph. D., President, University of Michigan

James G. Cullen, Retired President and Chief Operating Officer, Bell Atlantic Corporation

Ian E. L. Davis, Former Worldwide Managing Director of McKinsey & Company

Michael M.E. Johns, M.D., Chancellor, Emory University

Susan L. Lindquist, Ph.D., Member and Former Director, Whitehead Institute for Biomedical Research; Professor of Biology, Massachusetts Institute of Technology

Anne M. Mulcahy, Retired Chairman and Chief Executive Officer, Xerox Corporation

Leo F. Mullin, Retired Chairman and Chief Executive Officer, Delta Air Lines, Inc.

William D. Perez, Senior Advisor, Greenhill & Co., Inc.; Retired President and Chief Executive Officer,

Wm. Wrigley Jr. Company

Charles Prince, Chairman, Sconset Group LLC; Senior Counselor, Albright Capital Management LLC; Retired Chairman and Chief Executive Officer, Citigroup Inc.

David Satcher, M.D., Ph.D., Director, Center of Excellence on Health Disparities, Director, Satcher Health Leadership Institute and Poussaint-Satcher-Cosby Chair in Mental Health, Morehouse School of Medicine;

William C. Weldon, Chairman, Board of Directors and Chief Executive Officer, Chairman, Executive Committee

#### *Employees*

As on the date of this summary, the operating companies of Johnson & Johnson employed approximately 114,000 employees worldwide.

#### *Statutory auditor*

PricewaterhouseCoopers LLP, New York, New York, USA have served as the Company's independent accountants for all fiscal periods presented in the Prospectus. The Consolidated Financial Statements of the Company have been drawn up in accordance with US GAAP (Generally Accepted Accounting Principles). Page 64 of the Company's Annual Report 2009, page 69 of the Company's Annual Report 2008 and page 75 of the Company's Annual Report 2007 contain the Report of the Company's independent accountants. The Annual Report and the Report can be consulted on the Company's website: [www.investor.jnj.com/fin-reports.cfm](http://www.investor.jnj.com/fin-reports.cfm).

## **Tax Regime**

Annex 2 to the Securities Note of the Prospectus contains a general description of the tax treatment of the Plan in the Member States of residence of the eligible participants in the Plan and deals in particular with the income tax and social security treatment of a participation in the Plan. It does not purport to be a complete analysis of all tax and social security considerations relating to the Plan. Eligible participants should consult their tax advisers as to the consequences under the tax and social security laws of the Member State of which they are resident of receiving, holding and disposing of Common Stock under the Plan and receiving dividends under the Common Stock. The overviews set out in Annex 2 to the Securities Note of the Prospectus are based upon the law as in effect on the date of the Prospectus and is subject to any change in law that may take effect after such date.

**The description above is merely a summary of the current tax legislation, which can change in the course of time. In case of doubt, please consult your financial and tax adviser.**

## **Costs**

The cost and expenses of administering the Plan shall be borne by the Company and shall not be charged to any Award (as defined in the Plan rules) or to any eligible employees.

## **Documentation and notices**

The Prospectus is available at <https://mycompensation.jjweb.jnj.com>. In addition, it can be obtained free of charge from Johnson & Johnson. Requests should be directed to Office of the Secretary, Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933 USA (1-732-524-2455). The eligible participant can also obtain the latest annual reports of Johnson & Johnson at <http://www.investor.jnj.com/DocReq.cfm>, as well as the latest quarterly reports of Johnson & Johnson, at the following website: <http://www.investor.jnj.com/governance/sec-filings.cfm>. The text of the Restated Certificate of Incorporation and the By-laws of Johnson & Johnson are accessible on the website of Johnson & Johnson or can be requested at the above address. Further information on Johnson & Johnson as well as information on the stock price is available on the following website: [www.jnj.com](http://www.jnj.com).

## 2. REGISTRATION DOCUMENT<sup>3</sup>

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<sup>3</sup> This Section is established in accordance with the Schedule set out in Annex I –“*Minimum disclosure requirements for the Share Registration Document (schedule)*” of the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ L 149, 30.4.2004), Corrigendum, Official Journal L 215, 16/06/2004 (the “**Regulation**”). Correspondence with each Item in Annex I is indicated in the footnote.

## 1 Persons Responsible<sup>4</sup>

The management of Johnson & Johnson, a corporation incorporated for an unlimited duration under the laws of the State of New Jersey, USA (hereinafter “**Johnson & Johnson**” or the “**Company**” as the context may require), with its principal place of business at One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933 (Telephone 732-524-0400) is responsible for the information given in this Registration Document<sup>5</sup>. The Company confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import<sup>6</sup>.

## 2 Statutory Auditors<sup>7</sup>

PricewaterhouseCoopers LLP, New York, New York, USA have served as the Company’s independent accountants for all fiscal periods presented in this Prospectus. The Consolidated Financial Statements of the Company have been drawn up in accordance with US GAAP (Generally Accepted Accounting Principles). Page 64 of the Company’s Annual Report 2009, page 69 of the Company’s Annual Report 2008 and page 75 of the Company’s Annual Report 2007 contain the Report of the Company’s independent accountants. The Annual Report and the Report can be consulted on the Company’s website: [www.investor.jnj.com/fin-reports.cfm](http://www.investor.jnj.com/fin-reports.cfm).

## 3 Selected Financial Information of the Company<sup>8</sup>

<i>(Dollars in Millions Except for Share Figures)</i>	2009	2008	2007	% Change	
				2009	2008
Sales to customers	\$61,897	\$63,747	61,095	(2.9)%	4.3%
Net earnings	\$12,266	\$12,949	10,576	(5.3)%	22.4%
Percent return on average shareholders’ equity	26.4%	30.2%	25.6%	-	-
Diluted net earnings per share	\$4.40	\$4.57	3.63	(3.7)%	25.9%
Cash dividends paid per share	\$1.930	\$1.795	1.620	7.5%	10.8%
Market price (year-end close)	\$64.41	\$58.56	67.38	10%	(13.1)%

<sup>4</sup> Item 1 of Annex I of the Regulation.

<sup>5</sup> Item 1.1 of Annex I of the Regulation.

<sup>6</sup> Item 1.2 of Annex I of the Regulation.

<sup>7</sup> Item 2 of Annex I of the Regulation.

<sup>8</sup> Item 3 of Annex I of the Regulation.



**Balance Sheet of Johnson & Johnson**

**Consolidated Balance Sheets – Johnson & Johnson and Subsidiaries<sup>9</sup>**

On 3 January 2010, 28 December 2008 and 30 December 2007 (Dollars in Millions Except Share and Per Share Data)(Note 1 to the Consolidated Financial Statements – see Section 19 of the Registration Document)

	2009	2008	2007
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 1 and 2)	\$15,810	10,768	7,770
Marketable securities (Notes 1 and 2)	3,615	2,041	1,545
Accounts receivable trade, less allowances for doubtful accounts \$333 (2008, \$268)	9,646	9,719	9,444
Inventories (Notes 1 and 3)	5,180	5,052	5,110
Deferred taxes on income (Note 8)	2,793	3,430	2,609
Prepaid expenses and other receivables	2,497	3,367	3,467
<b>Total current assets</b>	<b>39,541</b>	<b>34,377</b>	<b>29,945</b>
Property, plant and equipment, net (Notes 1 and 4)	14,759	14,365	14,185
Intangible assets, net (Notes 1 and 5)	16,323	13,976	14,640
Goodwill (Notes 1 and 5)	14,862	13,719	14,123
Deferred taxes on income (Note 8)	5,507	5,841	4,889
Other assets	3,690	2,634	3,170
<b>Total assets</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Loans and notes payable (Note 7)	<b>\$6,318</b>	<b>\$3,732</b>	<b>2,463</b>
Accounts payable	5,541	7,503	6,909
Accrued liabilities	5,796	5,531	6,412
Accrued rebates, returns and promotions	2,028	2,237	2,318
Accrued salaries, wages and commissions	1,606	1,432	1,512
Accrued taxes on income	442	417	223
<b>Total current liabilities</b>	<b>21,731</b>	<b>20,852</b>	<b>19,837</b>
Long-term debt (Note 7)	8,223	8,120	7,074
Deferred taxes on income (Note 8)	1,424	1,432	1,493

<sup>9</sup> The financial information is derived from the audited financial statements of Johnson & Johnson and has to be consulted together with the 2009 Annual Report.

Employee related obligations (Note 9 and 10)	6,769	7,791	5,402
Other liabilities	5,947	4,206	3,829
<b>Total liabilities</b>	<b>44,094</b>	<b>42,401</b>	<b>37,635</b>
<b>Shareholders' equity</b>			
Preferred stock – without par value (authorized and unissued 2,000,000 shares)	-	-	-
Common stock – par value \$1.00 per share (Note 12) (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	3,120	3,120	3,120
Accumulated other comprehensive income (Note 13)	(3,058)	(4,955)	(693)
Retained earnings	70,306	63,379	55,280
	70,368	61,544	57,707
Less: common stock held in treasury, at cost (Note 12) (365,522,000 and 350,665,000 shares)	19,780	19,033	14,388
<b>Total shareholders' equity</b>	<b>50,588</b>	<b>42,511</b>	<b>43,319</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>

The above information for the fiscal years ended 30 December 2007, 28 December 2008 and 3 January 2010 is derived from, and should be read in conjunction with, the audited annual financial statements of Johnson & Johnson. The audited annual financial statements of Johnson & Johnson for the fiscal years ended 30 December 2007, 28 December 2008 and 3 January 2010 are accessible via the website of Johnson & Johnson at the following address: [www.investor.jnj.com/fin-reports.cfm](http://www.investor.jnj.com/fin-reports.cfm). The Company will provide without charge to each eligible participant, upon the written or oral request of such person, a copy of any or all of these documents. Requests should be directed to: Office of the Secretary, Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933 USA (1-732-524-2455).

#### 4 Risk Factors<sup>10</sup>

*An investment in the Common Stock involves certain risks. Eligible participants should carefully consider the following factors relating to the business of Johnson & Johnson, in addition to the matters and information set forth elsewhere in this Registration Document and the other information contained in the other parts of the Prospectus, prior to participating in the Plan and investing in the Common Stock.*

The Company may from time to time make certain forward-looking statements in publicly-released materials, both written and oral. Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words such as "plans", "expects", "will", "anticipates", "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approvals, market position and expenditures.

<sup>10</sup> Item 4 of Annex I of the Regulation.

Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, the Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.

Some important factors that could cause the Company's actual results to differ from the Company's expectations in any forward-looking statements are as follows:

- Economic factors, including inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Competitive factors, including technological advances achieved and patents attained by competitors as well as new products introduced by competitors;
- Challenges to the Company's patents by competitors or allegations that the Company's products infringe the patents of third parties, which could potentially affect the Company's competitive position and ability to sell the products in question and require the payment of past damages and future royalties. In particular, generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event that the Company is not successful in defending the resulting lawsuits, generic versions of the product at issue will be introduced, resulting in very substantial market share and revenue losses;
- Financial distress and bankruptcies experienced by significant customers and suppliers that could impair their ability, as the case may be, to purchase the Company's products, pay for products previously purchased or meet their obligations to the Company under supply arrangements;
- Changes in the behavior and spending patterns of purchasers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the frequency of physician visits and foregoing health care insurance coverage, as a result of a prolonged global economic downturn.
- The impact on political and economic conditions due to terrorist attacks in the U.S. and other parts of the world or U.S. military action overseas, as well as instability in the financial markets which could result from such terrorism or military actions;
- Interruptions of computer and communication systems, including computer viruses, that could impair the Company's ability to conduct business and communicate internally and with its customers;
- Health care changes in the U.S. and other countries resulting in pricing pressures, including the continued consolidation among health care providers, trends toward managed care and health care cost containment, the shift towards governments becoming the primary payers of health care expenses and government laws and regulations relating to sales and promotion, reimbursement and pricing generally;
- Government laws and regulations, affecting U.S. and foreign operations, including those relating to securities laws compliance, trade, monetary and fiscal policies, taxes, price controls, regulatory approval of new products, licensing and patent rights, and possible drug reimportation legislation;

- Competition in research, involving the development and the improvement of new and existing products and processes, is particularly significant and results from time to time in product and process obsolescence. The development of new and improved products is important to the Company's success in all areas of its business;
- Challenges and difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and internationally, gain and maintain market approval of products and the possibility of encountering infringement claims by competitors with respect to patent or other intellectual property rights which can preclude or delay commercialization of a product;
- Significant litigation adverse to the Company including product liability claims, patent infringement claims and antitrust claims;
- The health care industry has come under increased scrutiny by government agencies and state attorneys general and resulting investigations and prosecutions carry the risk of significant civil and criminal penalties, including debarment from government business;
- Product efficacy or safety concerns, whether or not based on scientific evidence, resulting in product withdrawals, recalls, regulatory action on the part of the FDA (or foreign counterparts) or declining sales;
- The impact of business combinations, including acquisitions and divestitures, both internally for the Company and externally in the pharmaceutical, medical device and health care industries;
- The potential impact of climate change concerns on the design, manufacturing, marketing and sale of health care products; and
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board and the Securities and Exchange Commission.

The foregoing list sets forth many, but not all, of the factors that could impact upon the Company's ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties. The Company has identified the factors on this list as permitted by the U.S. Private Securities Litigation Reform Act of 1995.

## **5 Information about Johnson & Johnson<sup>11</sup>**

### **History and development of Johnson & Johnson<sup>12</sup>**

The name of the Company is "Johnson & Johnson".

The address of Johnson & Johnson's registered office is One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933.

The Company was incorporated in New Jersey on 10 November 1887 for an indefinite period.

In recent history, the following events are considered to be important for the Company's business development:

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<sup>11</sup> Item 5 of Annex I of the Regulation.

<sup>12</sup> Items 5.1 and 5.2 of Annex I of the Regulation.

2007 acquisitions included: Conor Medsystems, Inc., a cardiovascular device company, with new drug delivery technology; Robert Reid, Inc., a Japanese orthopedic product distributor; and Maya's Mom, Inc., a social media company.

2008 acquisitions included: Children With Diabetes, Inc., a company engaged in the business of providing education and support to families with children who suffer from diabetes; Amic AB, a Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings; and Beijing Dabao Cosmetics Co., Ltd., a personal care company in China which sells China's #1 moisturizer.

The 2009 acquisitions included: Mentor Corporation, a leading supplier of medical products for the global aesthetics market; Cougar Biotechnology, Inc., a development stage biopharmaceutical company with a specific focus on oncology; Finsbury Orthopaedics Limited, a privately held UK-based manufacturer and global distributor of orthopaedic implants; Gloster Europe, a privately held developer of innovative disinfection processes and technologies to prevent healthcare-acquired infections and substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program through a newly formed company, of which the Company owns 50.1% and Elan owns 49.9%.

The 2010 acquisitions include: Acclarent, Inc., a medical technology company dedicated to designing, developing and commercializing devices that address conditions affecting the ear, nose and throat; RespiVert Ltd., a privately held drug discovery company focused on developing small-molecule, inhaled therapies for the treatment of pulmonary diseases; and Micrus Endovascular Corporation, a global developer and manufacturer of minimally invasive devices for hemorrhagic and ischemic stroke. Please also refer to section 10 of this Registration Document for further information on the resources for these investments. Company history prior to 2007 can be found at <http://www.jnj.com/connect/about-jnj/company-history/healthcare-growth>.

## **6 Business Overview<sup>13</sup>**

### **6.1 Principal activities<sup>14</sup>**

The Company, through its subsidiaries, is engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company has over 250 operating companies that conduct business in virtually all countries of the world. The Company's primary interest, both historically and currently, has been in products related to human health and well-being. The Company's operating companies are organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics.

#### **CONSUMER**

The Consumer segment includes a broad range of products used in the baby care, skin care, oral care, wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. The Baby Care franchise includes the JOHNSON'S<sup>®</sup> Baby line of products. Major brands in the Skin Care franchise include the AVEENO<sup>®</sup>; CLEAN & CLEAR<sup>®</sup>; JOHNSON'S<sup>®</sup> Adult; NEUTROGENA<sup>®</sup>; RoC<sup>®</sup>; LUBRIDERM<sup>®</sup>; Dabao; and Vendôme product lines. The Oral Care franchise includes the LISTERINE<sup>®</sup> and REACH<sup>®</sup> oral care lines of products. The Wound Care franchise includes BAND-AID<sup>®</sup> brand adhesive bandages. Major brands in the

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<sup>13</sup> Item 6 of Annex I of the Regulation.

<sup>14</sup> Item 6.1 of Annex I of the Regulation.

Women's Health franchise are the CAREFREE® Pantliners; STAYFREE® sanitary protection products; and Vania Expansion products. The nutritional and over-the-counter lines include SPLENDA®, No Calorie Sweetener; the broad family of TYLENOL® acetaminophen products; SUDAFED® cold, flu and allergy products; ZYRTEC® allergy products; MOTRIN® IB ibuprofen products; and PEPCID® AC Acid Controller from Johnson & Johnson • Merck Consumer Pharmaceuticals Co. These products are marketed principally to the general public and sold both to wholesalers and directly to independent and chain retail outlets throughout the world.

#### PHARMACEUTICAL

The Pharmaceutical segment includes products in the following therapeutic areas: anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology and virology. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use. Key products in the Pharmaceutical segment include: REMICADE® (infliximab), a biologic approved for the treatment of a number of immune mediated inflammatory diseases; PROCRIT® (Epoetin alfa, sold outside the U.S. as EPREX®), a biotechnology-derived product that stimulates red blood cell production; LEVAQUIN® (levofloxacin) in the anti-infective field; RISPERDAL® CONSTA® (risperidone), a longacting injectable for the treatment of schizophrenia; CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder; ACIPHEX®/PARIET®, a proton pump inhibitor co-marketed with Eisai Inc.; and DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system, sold outside the U.S. as DUROGESIC®), a treatment for chronic pain that offers a novel delivery system; VELCADE® (bortezomib), a product for the treatment for multiple myeloma; PREZISTA® (darunavir) for the treatment of HIV/AIDS patients; and INVEGA® (paliperidone), a once-daily atypical antipsychotic.

#### MEDICAL DEVICES AND DIAGNOSTICS

The Medical Devices and Diagnostics segment includes a broad range of products distributed to wholesalers, hospitals and retailers, used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care and sports medicine products; Ethicon's surgical care and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring and insulin delivery products; Ortho-Clinical Diagnostics' professional diagnostic products; and Vistakon's disposable contact lenses. Distribution to these health care professional markets is done both directly and through surgical supply and other dealers.

### 6.2 Principal markets<sup>15</sup>

The international business of Johnson & Johnson is conducted by subsidiaries located in 59 countries outside the United States, which are selling products in virtually all countries throughout the world. The products made and sold in the international business include many of those described above under "Principal Activities". However, the principal markets, products and methods of distribution in the international business vary with the country and the culture. The products sold in international business include not only those developed in the United States but also those developed by subsidiaries abroad.

#### Overview of Geographic Areas – Sales to Customers<sup>16</sup>

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<sup>15</sup> Item 6.2 of Annex I of the Regulation.

<sup>16</sup> Export sales are not significant. In 2009, 2008 and 2007, the Company did not have a customer that represented 10% or more of total revenues.

<b>(Dollars in Millions)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
United States	\$30,889	32,309	32,444
Europe	15,934	16,782	15,644
Western Hemisphere excluding U.S.	5,156	5,173	4,681
Asia-Pacific – Africa	9,918	9,483	8,326
<b>Segments Total</b>	<b>\$61,897</b>	<b>63,747</b>	<b>61,095</b>

### 6.3 Influential Factors<sup>17</sup>

The Company is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concerns about the rising cost of health care. In response to these concerns, the Company has a long-standing policy of pricing products responsibly. For the period 1999–2009, in the United States, the weighted average compound annual growth rate of the Company’s net price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI).

Inflation rates continue to have an effect on worldwide economies and, consequently, on the way companies operate. The Company will account for operations in Venezuela as highly inflationary in 2010, as the prior three-year cumulative inflation rate has surpassed 100%. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases.

The Company is exposed to fluctuations in currency exchange rates. A 1% change in the value of the U.S. dollar as compared to all foreign currencies in which the Company had sales, income or expense in 2009 would have increased or decreased the translation of foreign sales by \$300 million and income by \$50 million.

The Company faces various worldwide health care changes that may continue to result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

Changes in the behavior and spending patterns of purchasers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the frequency of physician visits and foregoing health care insurance coverage, as a result of the current global economic downturn will continue to impact the Company’s businesses.

The Company also operates in an environment which has become increasingly hostile to intellectual property rights. Generic drug firms have filed Abbreviated New Drug Applications (ANDAs) seeking to market generic forms of most of the Company’s key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending the patent claims challenged in ANDA filings, the generic firms will then introduce generic versions of the product at issue, resulting in the potential for substantial market share and revenue losses for that product. For further information see the discussion on “Litigation Against Filers of Abbreviated New Drug Applications” in Note 21 to the Consolidated Financial Statements (see section 19 of the Registration Document).

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<sup>17</sup> Item 6.3 and 6.4 of Annex I of the Regulation.

## 7 Organizational Structure<sup>18</sup>

The Company is the parent company of the Johnson & Johnson Family of Companies. It has no parent companies. The Company's structure is based upon the principle of decentralized management. The Executive Committee of Johnson & Johnson is the principal management group responsible for the operations and allocation of the resources of Johnson & Johnson. This Committee oversees and coordinates the activities of the Consumer, Pharmaceutical and Medical Devices and Diagnostics business segments. Each subsidiary within the business segments is, with some exceptions, managed by citizens of the country where it is located.

### Principal Global Affiliates

Annex 2 to this Registration Document contains a comprehensive list of Johnson & Johnson's subsidiaries together with an indication of the place of organization of the relevant subsidiaries.

## 8 Property, plants and equipment<sup>19</sup>

### 8.1 Material tangible Fixed Assets<sup>20</sup>

At the end of fiscal years 2009, 2008 and 2007, property, plant and equipment at cost and accumulated depreciation were:

<b>(Dollars in Millions)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Land and land improvements	\$714	886	756
Buildings and building equipment	8,863	7,720	7,913
Machinery and equipment	17,153	15,234	14,554
Construction in progress	2,521	3,552	3,243
	<u>29,251</u>	<u>27,392</u>	<u>26,466</u>
Less accumulated depreciation	14,492	13,027	12,281
	<u>\$14,759</u>	<u>14,365</u>	<u>14,185</u>

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2009, 2008 and 2007 was \$101 million, \$147 million and \$130 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2009, 2008 and 2007 was \$2.1 billion, \$2.0 billion and \$1.9 billion, respectively.

Upon retirement or other disposal of property, plant and equipment, the costs and related amounts of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is recorded in earnings.

### Rental Expense and Lease Commitments

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<sup>18</sup> Item 7 of Annex I of the Regulation.

<sup>19</sup> Item 8 of Annex I of the Regulation

<sup>20</sup> Item 8.1 of Annex I of the Regulation



Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately \$322 million in 2009, \$309 million in 2008 and \$302 million in 2007.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 3 January 2010 are:

*(Dollars in Millions)*

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>After 2014</b>	<b>Total</b>
\$178	150	128	103	87	94	740

Commitments under capital leases are not significant.

## **8.2 Environmental impact<sup>21</sup>**

Johnson & Johnson's operating companies are subject to a variety of federal, state and local environmental protection measures. The Company believes that its operations comply in all material respects with applicable environmental laws and regulations. Johnson & Johnson's compliance with these requirements did not, during 2009, and is not expected to have a material effect upon its capital expenditures, cash flows, earnings or competitive position.

## **9 Operating and Financial Review<sup>22</sup>**

### **9.1 Cash Flows<sup>23</sup>**

Cash and cash equivalents were \$15.8 billion at the end of 2009 as compared with \$10.8 billion at the end of 2008. The primary sources of cash that contributed to the \$5.0 billion increase versus prior year were \$16.6 billion of cash generated from operating activities and \$2.5 billion net proceeds from long and short-term debt. The major uses of cash were capital spending of \$2.4 billion, acquisitions of \$2.5 billion, net investment purchases of \$2.8 billion, dividends to shareholders of \$5.3 billion and the repurchase of common stock, net of proceeds from the exercise of options, of \$1.2 billion.

Cash flow from operations were \$16.6 billion in 2009. The major sources of cash flow were net income of \$12.3 billion, adjusted for non-cash charges for depreciation, amortization and stock based compensation of \$3.4 billion, restructuring reserves of \$1.1 billion and accounts receivable and inventories of \$0.5 billion. The remaining changes to operating cash flow were a use of funds of \$0.7 billion related to pension plan contributions and decreases in accounts payable partially offset by decreases in other receivables, prepaid expenses and deferred taxes.

In 2009, the Company continued to have access to liquidity through the commercial paper market. For additional details on borrowings, see Note 7 to the Consolidated Financial Statements.

The Company anticipates that operating cash flows, existing credit facilities and access to the commercial paper markets will provide sufficient resources to fund operating needs in 2010.

<sup>21</sup> Item 8.2 of Annex I of the Regulation.

<sup>22</sup> Item 9 of Annex I of the Regulation.

<sup>23</sup> Item 9.1 of Annex I of the Regulation.

Please also refer to the Consolidated Statements of Cash Flows as set out in Section 19 of this Registration Document.

## **9.2 Results of Operations<sup>24</sup>**

### **9.2.1 Analysis of Consolidated Sales**

In 2009, worldwide sales decreased 2.9% to \$61.9 billion, compared to increases of 4.3% in 2008 and 14.6% in 2007. Sales by U.S. companies were \$30.9 billion in 2009, \$32.3 billion in 2008 and \$32.4 billion in 2007. This represents a decrease of 4.4% in 2009, a decrease of 0.4% in 2008 and an increase of 9.0% in 2007. Sales by international companies were \$31.0 billion in 2009, \$31.4 billion in 2008 and \$28.7 billion in 2007. This represents a decrease of 1.4% in 2009 and increases of 9.7% and 21.7% in 2008 and 2007, respectively. The five-year compound annual growth rates for worldwide, U.S. and international sales were 5.5%, 2.2% and 9.6%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 8.5%, 7.1% and 10.1%, respectively. Sales in Europe experienced a decline of 5.1% including operational growth of 2.1% and a negative impact from currency of 7.2%. Sales in the Western Hemisphere (excluding the U.S.) experienced a decline of 0.3% including operational growth of 8.8% and a negative impact from currency of 9.1%. Sales in the Asia-Pacific, Africa region achieved growth of 4.6%, including operational growth of 4.4% and an increase of 0.2% related to the positive impact of currency.

In 2009, 2008 and 2007, the Company did not have a customer that represented 10% or more of total consolidated revenues.

2009 results benefited from the inclusion of a 53rd week. (See Note 1 to the Consolidated Financial Statements for Annual Closing Date details). The Company estimated that the fiscal year 2009 growth rate was enhanced by approximately 0.5%. While the additional week added a few days to sales, it also added a full week's worth of operating costs; therefore, the net earnings impact was negligible.

### **U.S. Health Care Reform**

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law during March 2010. The newly enacted health care reform legislation included an increase in the minimum Medicaid rebate rate from 15.1% to 23.1% and also extended the rebate to drugs provided through Medicaid managed care organizations. The Company has estimated the total year 2010 impact will be an increase in sales rebates estimated at approximately \$400 million.

Beginning in 2011, Companies that sell branded prescription drugs to specified U.S. government programs will pay an annual non-tax deductible fee based on an allocation of the Companies market share of branded prior year sales. Additionally, in 2011, discounts will be provided on the Company's brand-name drugs to patients who fall within the Medicare Part D coverage gap, "donut hole". Beginning in 2013, the Company will record the 2.3% excise tax imposed on the sale of certain medical devices.

### **9.2.2 Analysis of Sales by Business Segments**

Johnson & Johnson's performance and financial condition in each of its divisions is as set out below:

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<sup>24</sup> Item 9.2 of Annex I of the Regulation.

## CONSUMER SEGMENT

Consumer segment sales in 2009 were \$15.8 billion, a decrease of 1.6% from 2008 with 2.0% of this change due to operational growth and negative currency impact of 3.6%. U.S. Consumer segment sales were \$6.8 billion, a decrease of 1.4%. International sales were \$9.0 billion, a decrease of 1.7%, with growth of 4.7% achieved by operations and a decrease of 6.4% resulting from the negative impact of currency fluctuations.

### Major Consumer Franchise Sales:

(Dollars in Millions)	2009	2008	2007
OTC Pharmaceuticals & Nutritionals	\$5,630	\$5,894	5,142
Skin Care	3,467	3,381	3,051
Baby Care	2,115	2,214	1,982
Women's Health	1,895	1,911	1,806
Oral Care	1,569	1,624	1,488
Other	1,127	1,030	1,024
Total	\$15,803	\$16,054	14,493

The Over-the-Counter (OTC) Pharmaceuticals and Nutritionals franchise sales were \$5.6 billion, a decrease of 4.5% from 2008. This was primarily due to the negative impact of currency and lower sales of the over-the-counter ZYRTEC® allergy product line related to the initial build of inventory by the trade during the 2008 launch year. This was partially offset by sales growth in the SPLENDA® sweetener product line. The U.S. Food and Drug Administration (FDA) is currently considering certain recommendations made by its advisory committee for reducing the potential for overdose with acetaminophen, the active ingredient in TYLENOL® brand products. The Company has provided the FDA with its own recommendations and will continue to be actively engaged with the FDA on this topic. In December 2009, the Company announced a voluntary recall of all lots of TYLENOL® Arthritis Pain 100 count with EZ-OPEN CAP following reports of an uncharacteristic smell; however, there was an insignificant impact on sales. In January 2010, the Company has undertaken a broader voluntary recall of TYLENOL® and certain OTC products as a precautionary action.

The Skin Care franchise sales grew by 2.5% to \$3.5 billion in 2009. The sales growth was primarily due to the AVEENO®, NEUTROGENA® and DABAO™ skin care lines.. The Baby Care franchise sales were \$2.1 billion, a decrease of 4.5% primarily due to the negative impact of currency and lower sales for Babycenter.com as a result of exiting the online retail business, partially offset by growth in the haircare product line. The Women's Health franchise sales were \$1.9 billion, a decrease of 0.8% primarily due to the negative impact of currency partially offset by increased sales associated with the acquisition of a joint venture partner in France in the fiscal first quarter of 2009. Prior to the acquisition of the joint venture partner, sales by the joint venture were not recorded as part of the Company's sales to customers. The Oral Care franchise sales were \$1.6 billion, a decrease of 3.4% due to softness in the category in the U.S., partially offset by growth of LISTERINE® mouthwash outside the U.S. The Wound Care/Other franchise sales grew by 9.4% to \$1.1 billion primarily due to the recent acquisitions in the Wellness and Prevention platform and strong sales of PURELL® hand sanitizer.

## PHARMACEUTICAL SEGMENT

Pharmaceutical segment sales in 2009 were \$22.5 billion, a decrease of 8.3% from 2008, with an operational decline of 6.1% and the remaining 2.2% due to the negative impact of currency fluctuations. U.S. sales were \$13.0 billion, a decrease of 12.1%. International sales were \$9.5 billion, a decrease of 2.6%, which included 3.0% operational growth and a decrease of 5.6% resulting from the negative impact of currency fluctuations.

REMICADE® (infliximab), a biologic approved for the treatment of a number of immune mediated inflammatory diseases, achieved sales of \$4.3 billion in 2009, with growth of 14.8% over the prior year primarily attributable to strong overall market growth. REMICADE® is competing in a market which is experiencing increased competition due to new entrants and the expansion of indications for existing competitors.

PROCRIT® (Epoetin alfa) and EPREX® (Epoetin alfa) had combined sales of \$2.2 billion in 2009, a decline of 8.7% compared to the prior year. Lower sales of PROCRIT® and EPREX® were due to the declining markets for Erythropoiesis Stimulating Agents (ESAs).

LEVAQUIN® (levofloxacin)/FLOXIN® (ofloxacin) sales were \$1.6 billion, a decline of 2.6% versus the prior year, due to competition in the category. The patent for LEVAQUIN® (levofloxacin) in the U.S. will expire in December 2010. A pediatric extension was granted by the FDA, which extends market exclusivity in the U.S. through June 2011. The expiration of the product patent or loss of market exclusivity is likely to result in a significant reduction in sales

RISPERDAL® CONSTA® (risperidone), a long-acting injectable for the treatment of schizophrenia, achieved sales of \$1.4 billion in 2009, representing an increase of 8.9% as compared to the prior year. The growth was due to a positive shift from daily therapies to longer-acting RISPERDAL® CONSTA® and the launch of RISPERDAL® CONSTA® in Japan earlier in the year.

CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder (ADHD), achieved sales of \$1.3 billion in 2009, representing an increase of 6.3% over 2008. Sales results in 2008 were favorably impacted by approximately \$115 million related to a change in the estimate of accrued sales reserves related to sales outside the U.S.. Although the original CONCERTA® patent expired in 2004, the FDA has not approved any generic version that is substitutable for CONCERTA®. Parties have filed Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA®, which are pending and may be approved at any time. An approval would lead to a loss of exclusivity and is likely to result in a significant reduction in sales.

TOPAMAX® (topiramate), RISPERDAL® (risperidone), and DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system) experienced sales declines in 2009 of 57.9%, 57.7% and 14.3%, respectively, versus the prior year due to generic competition. Market exclusivity in the U.S. expired for TOPAMAX® (topiramate) in March 2009, RISPERDAL® oral in June 2008 and DURAGESIC® in January 2005.

ACIPHEX®/PARIET® (rabeprazole sodium) experienced a sales decline of 5.4% due to competition in the category.

In 2009, Other Pharmaceutical sales were \$7.6 billion, representing a growth of 6.6% over the prior year. Contributors to the increase were sales of VELCADE® (bortezomib), a product for the treatment of multiple myeloma, PREZISTA® (darunavir), for the treatment of HIV/AIDS patients; INTELENCE™ (etravirine), for HIV combination therapy and INVEGA® (paliperidone), a once-daily atypical antipsychotic. The growth was partially offset by the impact of a generic version of ORTHO TRI-CYCLEN® LO shipped by a competitor. Subsequently, the generic manufacturer

recognized the validity of the patent, paid damages for its infringing sales and ceased further shipments of the product.

During 2009, the Company received regulatory approval for several new molecular entities (NMEs), including STELARA™ (ustekinumab) in the U.S. and European Union (EU) for the treatment of moderate-to-severe plaque psoriasis; INVEGA® SUSTENNA™ (paliperidone palmitate) extended-release injectable suspension in the U.S. for the acute and maintenance treatment of schizophrenia; SIMPONI™ (golimumab) in the U.S. and EU for the treatment of moderate-to-severe, active rheumatoid arthritis (RA), active and progressive psoriatic arthritis (PsA) and severe, active ankylosing spondylitis (AS); and PRILIGY™ (dapoxetine) in several countries for the on-demand treatment of premature ejaculation. NUCYNTA™ (tapentadol) Immediate Release Tablets, for relief of moderate to severe acute pain, was also launched in the U.S. in 2009.

The Company also received approvals expanding the indications for several key products, including INVEGA® (paliperidone) extended-release tablets in the U.S. for the acute treatment of schizoaffective disorder; RISPERDAL® CONSTA® (risperidone) Long-Acting Treatment in the U.S. as both monotherapy and adjunctive therapy to lithium or valproate in the maintenance treatment of Bipolar I Disorder, as well as for the treatment of schizophrenia in Japan; PREZISTA® (darunavir) in the EU with low-dose ritonavir as part of combination therapy in treatment-naïve adults, as well as for treatment-experienced pediatric patients with HIV.

The Company submitted a New Drug Application (NDA) to the FDA for tapentadol extended release (ER) tablets, an investigational oral analgesic for the management of moderate to severe chronic pain in patients 18 years of age or older. In addition, the Company also invested in a number of new platforms for growth in Oncology, Alzheimer's disease and vaccines for the treatment and prevention of influenza and other infectious and non-infectious diseases..

#### Major Pharmaceutical Product Revenues\*:

(Dollars in Millions)	2009	2008	2007
REMICADE® (infliximab)	\$4,304	3,748	3,327
PROCRIT/EPREX® (Epoetin alfa)	2,245	2,460	2,885
LEVAQUIN/FLOXIN® (levofloxacin/ofloxacin)	1,550	1,591	1,646
RISPERDAL® CONSTA® (risperidone)	1,425	1,309	1,128
CONCERTA® (methylphenidate HCl)	1,326	1,247	1,028
TOPAMAX® (topiramate)	1,151	2,731	2,453
ACIPHEX/PARIET® (rabeprazole sodium)	1,096	1,158	1,357
RISPERDAL® (risperidone)	899	2,126	3,420
DURAGESIC® Fentanyl Transdermal (fentanyl transdermal system)	888	1,036	1,164
Other Pharmaceuticals	7,636	7,161	6,458
<b>Total</b>	<b>\$22,520</b>	<b>24,567</b>	<b>24,866</b>

\* Prior year amounts have been reclassified to conform with current presentation.

## MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

The Medical Devices and Diagnostics segment achieved sales of \$23.6 billion in 2009, representing an increase of 1.9% over the prior year, with operational growth of 4.2% and a negative currency impact of 2.3%. U.S. sales were \$11.0 billion, an increase of 4.5% of the prior year. International sales were \$12.6 billion, a decrease of 0.2%, with growth of 4.0% from operations and a decrease of 4.2% resulting from the negative impact of currency fluctuation.

The DePuy franchise achieved sales of \$5.4 billion in 2009, a 4.6% increase over the prior year. This was primarily due to growth in the spine, hip and knee product lines. Additionally, new product launches in the Mitek sports medicine product line contributed to the growth.

The Ethicon Endo-Surgery franchise achieved sales of \$4.5 billion in 2009, a 4.8% increase over the prior year. This was attributable to growth in the endoscopy, HARMONIC®, ENSEAL® and Advanced Sterilization product lines.

The Ethicon franchise achieved sales of \$4.1 billion in 2009, a 7.3% increase over the prior year. This was attributable to growth in the sutures, biosurgical and mesh product lines in addition to sales of newly acquired products from the acquisitions of Omrix Biopharmaceuticals, Inc. and Mentor Corporation. The growth was partially offset by the divestiture of the Professional Wound Care business of Ethicon, Inc. in the fiscal fourth quarter of 2008.

Sales in the Cordis franchise were \$2.7 billion, a decline of 10.3% versus the prior year. The decline reflects lower sales of the CYPHER® Sirolimus-eluting Coronary Stent due to increased global competition. The decline was partially offset by growth of the Biosense Webster business.

The Vision Care franchise achieved sales of \$2.5 billion in 2009, a 0.2% increase over prior year primarily related to growth in the Astigmatic contact lens product line offset by the negative impact of currency.

Sales in the Diabetes Care franchise were \$2.4 billion in 2009, a decline of 3.7% versus the prior year. Declines in the LifeScan product line were partially offset by growth of the Animas insulin delivery business resulting from new product launches and continued development in international markets. The Ortho-Clinical Diagnostics franchise achieved sales of \$2.0 billion in 2009, a 6.6% increase over the prior year primarily attributable to the recent launch of the VITROS® 3600 and 5600 analyzers.

### Major Medical Devices and Diagnostics Franchise Sales\*:

(Dollars in Millions)	2009	2008	2007
DEPUY®	\$5,372	5,136	4,698
ETHICON ENDO-SURGERY®	4,492	4,286	3,834
ETHICON®	4,122	3,840	3,603
CORDIS®	2,679	2,988	3,314
Vision Care	2,506	2,500	2,209
Diabetes Care	2,440	2,535	2,373
ORTHO-CLINICAL DIAGNOSTICS®	1,963	1,841	1,705
<b>Total</b>	<b>\$23,574</b>	<b>23,126</b>	<b>21,736</b>

\* Prior year amounts have been reclassified to conform with current presentation.

### 9.2.3 Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income decreased by \$1.1 billion to \$15.8 billion in 2009 as compared to the \$16.9 billion earned in 2008, a decrease of 6.9%. The decrease was primarily related to lower sales, the negative impact of product mix, lower interest income due to lower rates of interest earned and restructuring charges of \$1.2 billion. This was partially offset by lower selling, marketing and administrative expenses due to cost containment efforts across all the businesses. 2008 included purchased in-process research and development (IPR&D) charges of \$0.2 billion and increased investment spending in selling, marketing and administrative expenses utilized from the proceeds associated with the divestiture of the Professional Wound Care business of Ethicon, Inc. The increase in 2008 of 27.4% over the \$13.3 billion in 2007 was primarily due to lower IPR&D charges of \$0.6 billion, gains from divestitures of \$0.5 billion and higher litigation gains of \$0.5 billion versus restructuring charges of \$0.7 billion and the write-down of the NATRECOR® intangible asset of \$0.7 billion recorded in 2007. As a percent to sales, consolidated earnings before provision for taxes on income in 2009 was 25.4% versus 26.5% in 2008.

The sections that follow highlight the significant components of the changes in consolidated earnings before provision for taxes on income.

**Cost of Products Sold and Selling, Marketing and Administrative Expenses:** Cost of products sold and selling, marketing and administrative expenses as a percent to sales were as follows:

	% of Sales 2009	% of Sales 2008	% of Sales 2007
Cost of products sold	29.8%	29.1	29.1
Percent point increase over the prior year	0.7	-	0.9
Selling, marketing and administrative expenses	32.0	33.7	33.5
Percent point increase/(decrease) over the prior year	(1.7)	0.2	0.8

In 2009, cost of products sold as a percent to sales increased primarily due to the continued negative impact of product mix and inventory write-offs associated with the restructuring activity. Additionally, 2008 included some non-recurring positive items. There was a decrease in the percent to sales of selling, marketing and administrative expenses in 2009 primarily due to cost containment efforts across all the businesses and the annualized savings recognized from the 2007 restructuring program. Additionally, 2008 utilized the proceeds associated with the divestiture of the Professional Wound Care business of Ethicon, Inc. to fund increased investment spending.

In 2008, cost of products sold as a percent to sales remained flat to the prior year. The change in the mix of businesses, with higher sales growth in the Consumer business and a slight sales decline in the Pharmaceutical business, had a negative impact on the cost of products sold as a percent to sales. In 2008, this was offset by manufacturing efficiencies and non-recurring positive items in 2008 and negative items in 2007. There was an increase in the percent to sales of selling, marketing and administrative expenses in 2008 primarily due to the change in the mix of businesses, whereby a greater proportion of sales were attributable to the Consumer segment, which has higher selling, marketing and administrative spending. Additionally, in 2008 the Company utilized the gain associated with the divestiture of the Professional Wound Care

business of Ethicon, Inc. to fund increased investment spending. This was partially offset by ongoing cost containment efforts..

In 2007, there was an increase in the percent to sales of cost of products sold primarily due to the impact of newly acquired consumer brands. There was an increase in the percent to sales of selling, marketing and administrative expenses in 2007 primarily due to the impact of newly acquired consumer brands partially offset by cost containment efforts.

**Other (Income) Expense, Net:** Other (income) expense, net includes gains and losses related to the sale and write-down of certain investments in equity securities held by Johnson & Johnson Development Corporation, gains and losses on the disposal of property, plant and equipment, currency gains and losses, non-controlling interests, litigation settlements and liabilities and royalty income. The unfavorable change of \$0.5 billion in other (income) expense, net from 2009 to 2008 was primarily due to a gain of \$0.5 billion from the divestiture of the Professional Wound Care business of Ethicon, Inc. in 2008.

In 2008, other (income) expense, net included income from net litigation settlements and awards of \$0.5 billion and a gain of \$0.5 billion from the divestiture of the Professional Wound Care business of Ethicon, Inc. In 2007, other (income) expense, net included a charge of \$0.7 billion before tax related to the NATRECOR® intangible asset write-down.

#### **OPERATING PROFIT BY SEGMENT**

**Consumer segment:** In 2009, Consumer segment operating profit decreased 7.4% from 2008. The primary reasons for the decrease in operating profit was \$369 million of restructuring charges, partially offset by cost containment initiatives in 2009. In 2008, Consumer segment operating profit increased 17.4% from 2007. Cost synergies, lower integration costs in 2008 related to the acquisition of the Consumer Healthcare business of Pfizer Inc., and other cost containment initiatives contributed to the increased operating profit in 2008.

**Pharmaceutical segment:** In 2009, Pharmaceutical segment operating profit decreased 15.7% from 2008. The primary reasons for the decrease in operating profit were \$496 million of restructuring charges, \$92 million of litigation expense and negative product mix due to the loss of market exclusivity for TOPAMAX® and RISPERDAL® oral. In 2008, Pharmaceutical segment operating profit increased 16.3% from 2007. The primary driver of the improved operating profit in 2008 was due to the restructuring charges of \$429 million and \$678 million for the NATRECOR® intangible asset write-down recorded in 2007.

**Medical Devices and Diagnostics segment:** In 2009, the operating profit in the Medical Devices and Diagnostics segment increased 6.5% from 2008. The improved operating profit was due to \$478 million gain from net litigation settlements, favorable product mix, manufacturing efficiencies and cost containment initiatives related to selling, marketing and administrative expenses. This was partially offset by \$321 million in restructuring charges.. In 2008, the operating profit in the Medical Devices and Diagnostics segment increased 49.1% from 2007. The improved operating profit was the result of the \$429 million gain from net litigation settlements, favorable product mix, manufacturing efficiencies and lower IPR&D charges of \$174 million in 2008 versus \$807 million in 2007. Additionally, \$301 million of restructuring charges were recorded in 2007.

**Interest (Income) Expense:** Interest income in 2009 decreased by \$271 million due to lower rates of interest earned despite higher average cash balances. The cash balance, including marketable securities, was \$19.4 billion at the end of 2009, and averaged \$15.6 billion as compared to the \$12.2 billion average cash balance in 2008. The increase in the average cash balance was primarily due to cash generated from operating activities.



Interest expense in 2009 increased by \$16 million due to a higher debt balance. The net debt balance at the end of 2009 was \$14.5 billion as compared to \$11.9 billion at the end of 2008. The higher average debt balance of \$13.5 billion in 2009 versus \$12.9 billion in 2008 was primarily related to funding acquisitions and investments and the purchase of the Company's Common Stock under the ongoing Common Stock repurchase program announced on 9 July 2007.

Interest income in 2008 decreased by \$91 million due to lower rates of interest earned despite higher average cash balances. The cash balance, including marketable securities, was \$12.8 billion at the end of 2008, and averaged \$12.2 billion as compared to the \$6.6 billion average cash balance in 2007. The increase in the average cash balance was primarily due to cash generated from operating activities. Interest expense in 2008 increased by \$139 million due to a higher debt balance. In the second half of 2007 the Company converted some of its short-term debt to fixed long-term debt at higher interest rates. The net debt balance at the end of 2008 was \$11.9 billion as compared to \$9.5 billion at the end of 2007. The higher debt balance in 2008 was primarily due to the purchase of the Company's Common Stock under the ongoing Common Stock repurchase program announced on July 9, 2007 and to fund acquisitions.

Interest income in 2007 decreased by \$377 million due to lower average cash balances. The decline in the average cash balance was primarily due to the acquisition of the Consumer Healthcare business of Pfizer Inc. on December 20, 2006.

Interest expense in 2007 increased by \$233 million as compared to prior year due to a higher average debt balance. The net debt balance at the end of 2007 was \$9.5 billion as compared to \$6.6 billion at the end of 2006. The higher debt balance in 2007 was due to the debt associated with the acquisition of the Consumer Healthcare business of Pfizer Inc. and the Common Stock repurchase program announced in 2007.

**Provision For Taxes On Income:** The worldwide effective income tax rate was 22.1% in 2009, 23.5% in 2008 and 20.4% in 2007. The 2009 tax rate decreased as compared to 2008 due to increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions. The 2008 tax rate increased as compared to 2007 due to increases in taxable income in higher tax jurisdictions relative to taxable income in lower jurisdictions. In addition, the 2007 tax rate benefited from a one-time gain of \$267 million related to a business restructuring of certain international subsidiaries.

## 10 Liquidity and Capital Resources<sup>25</sup>

### 10.1 Cash Flows<sup>26</sup>

Please refer to Section 9.1 of this Registration Document.

### 10.2 Borrowings<sup>27</sup>

The components of long-term debt are as follows:

(Dollars in Millions)	Effective		Effective		Effective	
	2009	Rate%	2008	Rate%	2007	Rate%
3% Zero Coupon	\$188	3.00	183	3.00%	178	3.00

<sup>25</sup> Item 10 of Annex I of the Regulation.

<sup>26</sup> Item 10.1 of Annex I of the Regulation.

<sup>27</sup> Item 10.2 of Annex I of the Regulation.

Convertible Subordinated Debentures due 2020						
4.95% Debentures due 2033	500	4.95	500	4.95	500	4.95
3.80% Debentures due 2013	500	3.82	500	3.82	500	3.82
6.95% Notes due 2029	294	7.14	294	7.14	294	7.14
6.73% Debentures due 2023	250	6.73	250	6.73	250	6.73
6.625% Notes due 2009	-	-	199	6.80	199	6.80
5.55% Debentures due 2017	1,000	5.55	1,000	5.55	1,000	5.55
5.95% Notes due 2037	995	5.99	995	5.99	995	5.99
5.50% Notes due 2024 (500MM GBP 1.6189) <sup>(2)</sup> /(500MM GBP 1.4759) <sup>(3)</sup>	803 <sup>(2)</sup>	5.71	731 <sup>(3)</sup>	5.71	989 <sup>(3)</sup>	5.71
4.75% Notes due 2019 (1B Euro 1.4382) <sup>(2)</sup> /(1B Euro 1.4000) <sup>(3)</sup>	1,429 <sup>(2)</sup>	5.35	1,390 <sup>(3)</sup>	5.35	1,447 <sup>(3)</sup>	5.35
5.15% Debentures due 2012	599	5.18	599	5.18	599	5.18
5.86% Debentures due 2038	700	5.86	700	5.86	-	-
5.15% Debentures due 2018	898	5.15	898	5.15	-	-
Other (Includes Industrial Revenue Bonds)	101		102	-	132	-
	8,257 <sup>(4)</sup>	5.42 <sup>(1)</sup>	8,341 <sup>(4)</sup>	5.46 <sup>(1)</sup>	7,083 <sup>(4)</sup>	5.47 <sup>(1)</sup>
Less current portion	34		221		9	
	<u>\$8,223</u>		<u>8,120</u>		<u>7,074</u>	

(1) Weighted average effective rate.

(2) Translation rate at 3 January 2010.

(3) Translation rate at 28 December 2008.

(4) The excess of the fair value over the carrying value of debt was \$0.8 billion in 2009 and \$1.4 billion in 2008.

Fair value of the non-current debt was estimated using market prices, which were corroborated by quoted broker prices in active markets.

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2009, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates \$10 billion which expires 23 September 2010. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material.

On 28 July 2000, ALZA Corporation, a subsidiary of the Company, completed a private offering of the 3% Zero Coupon Convertible Subordinated Debentures, which were issued at a price of \$551.26 per \$1,000 principal amount at maturity. Under the terms of the 3% Debentures, holders are entitled to convert their debentures into approximately 15.0 million shares of Johnson & Johnson stock at a price of \$40.102 per share. Approximately 11.4 million shares have been issued as of 3 January 2010, due to voluntary conversions by note holders. At the option of the holder, the 3% Debentures may be repurchased by the Company on 28 July 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may also redeem any or all of the 3% Debentures after 28 July 2003 at the issue price plus accreted original issue discount.

Throughout 2009 the Company continued to have access to liquidity through the commercial paper market. Short-term borrowings and the current portion of long-term debt amounted to approximately \$6.3 billion at the end of 2009, of which \$5.8 billion was raised under the Commercial Paper Program. The remainder represents principally local borrowing by international subsidiaries.

The Company filed a shelf registration with the Securities and Exchange Commission that became effective 11 March 2008 which enables the Company to issue an unlimited aggregate principal amount in debt securities and warrants to purchase debt securities.

Aggregate maturities of long-term obligations commencing in 2008 are:

<b>(Dollars in Millions)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>After 2014</b>
	\$34	35	615	507	9	7,057

Please also refer to the Consolidated Balance Sheet in Section 19 of this Registration Document.

### **10.3 Capital Resources : Financing and Market Risk**

The Company uses financial instruments to manage the impact of foreign exchange rate changes on cash flows. Accordingly, the Company enters into forward foreign exchange contracts to protect the value of certain foreign currency assets and liabilities and to hedge future foreign currency transactions primarily related to product costs. Gains or losses on these contracts are offset by the gains or losses on the underlying transactions. A 10% appreciation of the U.S. Dollar from the 3 January 2010, market rates would increase the unrealized value of the Company's forward contracts by \$296 million. Conversely, a 10% depreciation of the U.S. Dollar from the 3 January 2010, market rates would decrease the unrealized value of the Company's forward contracts by \$361 million. In either scenario, the gain or loss on the forward contract would be offset by the gain or loss on the underlying transaction and, therefore, would have no impact on future anticipated earnings and cash flows.

The Company hedges the exposure to fluctuations in currency exchange rates, and the effect on certain assets and liabilities in foreign currency, by entering into currency swap contracts. A 1% change in the spread between U.S. and foreign interest rates on the Company's interest rate sensitive financial instruments would either increase or decrease the unrealized value of the Company's swap contracts by approximately \$185 million. In either scenario, at maturity, the gain or loss on the swap contract would be offset by the gain or loss on the underlying transaction and therefore would have no impact on future anticipated cash flows.

The Company does not enter into financial instruments for trading or speculative purposes. Further, the Company has a policy of only entering into contracts with parties that have at least an "A" (or equivalent) credit rating. The counterparties to these contracts are major financial institutions and there is no significant concentration of exposure with any one counterparty. Management believes the risk of loss is remote.

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2009, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates \$10 billion, which expires 23 September 2010. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreement are not material.

Total borrowings at the end of 2009 and 2008 were \$14.5 billion and \$11.9 billion, respectively. The increase in borrowings between 2009 and 2008 was a result of financing general corporate purposes and

the continuation of the Common Stock repurchase program announced in 2007. In 2009, net cash (cash and current marketable securities, net of debt) was \$4.9 billion compared to net cash of \$1.0 billion in 2008. Total debt represented 22.3% of total capital (shareholders' equity and total debt) in 2009 and 21.8% of total capital in 2008. Shareholders' equity per share at the end of 2009 was \$18.37 compared with \$15.35 at year-end 2008, an increase of 19.7%.

Johnson & Johnson continues to be one of a few industrial companies with a Triple A credit rating. A summary of borrowings can be found in Note 7 to the Consolidated Financial Statements.

A summary of borrowings can be found in Note 7 of Section 19.1.2.

#### 10.4 Contractual Obligations and Commitments

The Company has contractual obligations, primarily lease, debt and unfunded retirement plans, with no other significant obligations. To satisfy these obligations, the Company will use cash from operations. The following table summarizes the Company's contractual obligations and their aggregate maturities as of 31 January 2010 (see Notes 7, 10 and 16 to the Consolidated Financial Statements for further details):

<i>(Dollars in Millions)</i>	<b>Operating Leases</b>	<b>Long-term Debt Obligations<sup>(1)</sup></b>	<b>Unfunded Retirement Plans</b>	<b>Total</b>
2010	\$178	34	66	278
2011	150	35	65	250
2012	128	615	69	812
2013	103	507	73	683
2014	87	9	76	172
After 2014	94	7,057	474	7,625
<b>Total</b>	<b>\$740</b>	<b>8,257</b>	<b>823</b>	<b>9,820</b>

(1) Amounts do not include interest expense

#### 11 Research and development<sup>28</sup>

Research and development activities represent a significant part of the Company's business. These expenditures relate to the development of new products, improvement of existing products, technical support of products and compliance with governmental regulations for the protection of consumers and patients. Worldwide costs of research activities, excluding in-process research and development charges, were as follows:

<b>(Dollars in Millions)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Research and development expense	\$6,986	7,577	7,680
Percent (decrease)/increase over the prior year	(7.8)%	(1.3)	7.8
Percent of sales	11.3%	11.9	12.6

Research and development expense as a percent of sales for the Pharmaceutical segment was 20.4% for 2009, 20.7% for 2008 and 21.2% for 2007. Research and development expense as a percent of sales for the Medical Devices and Diagnostics segment was 7.5% for 2009, 8.0% for 2008 and 8.5% for 2007.

<sup>28</sup> Item 11 of Annex I of the Regulation.

Research and development expense as a percent of sales for the Consumer segment was 4.0% for 2009 and 3.9% for 2008 and 2007.

In 2009 and 2008, the reduction in the Pharmaceutical research and development spending was primarily due to increased efficiencies in Pharmaceutical research and development activities.

**Purchased In-Process Research and Development:** In 2009, in accordance with U.S. GAAP for business combinations, purchased in-process research and development (IPR&D) is no longer expensed but capitalized and tested for impairment. The Company capitalized \$1.7 billion of IPR&D in 2009, primarily associated with the acquisitions of Cougar Biotechnology, Inc. and substantially all of the assets and rights of Elan's Immunotherapy program.

In 2008, the Company recorded a charge for IPR&D of \$181 million before and after tax related to the acquisitions of Amic AB, SurgRx, Inc., HealthMedia, Inc. and Omrix Biopharmaceuticals, Inc. HealthMedia, Inc, a privately held company that creates web-based behavior change interventions, accounted for \$7 million before tax of the IPR&D charges and was included in the operating profit of the Consumer segment. The IPR&D charges for all of the following acquisitions were included in the operating profit of the Medical Devices and Diagnostics segment. Amic AB, a Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings (outside the physical facilities of the clinical laboratory), accounted for \$40 million before tax of the IPR&D charges. SurgRx, Inc., a privately held developer of the advanced bipolar tissue sealing system used in the ENSEAL® family of devices, accounted for \$7 million before tax of the IPR&D charges. Omrix Biopharmaceuticals, Inc., a fully integrated biopharmaceutical company that develops and markets biosurgical and immunotherapy products, accounted for \$127 million before tax of the IPR&D charges.

In 2007, the Company recorded a charge for IPR&D of \$807 million before and after tax related to the acquisition of Conor Medsystems, Inc. The IPR&D charge was included in the operating profit of the Medical Devices and Diagnostics segment.

## 12 Trend information<sup>29</sup>

Please refer to Section 9.2 of this Registration Document.

## 13 Administrative, management, and supervisory bodies and senior management<sup>30</sup>

### 13.1 Board of Directors

Eleven individuals currently serve as members of the Company's Board of Directors. All individuals nominated for election to the board must meet general criteria for consideration. A list of these general criteria can be reviewed on Johnson & Johnson's website: <http://www.investor.jnj.com/governance/principles.cfm>.

As at the date of this Registration Document, the Board of Directors was composed of the following persons:

#### **MARY SUE COLEMAN, Ph.D., President, University of Michigan**

Dr. Coleman was elected to the Board of Directors in 2003 and is a member of the Audit Committee and the Science & Technology Advisory Committee. She has served as President of the University of Michigan since August 2002, after having served as President of the University of Iowa from 1995 to July 2002. In addition to her current position as President, Dr. Coleman is a professor of biological chemistry

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<sup>29</sup> Item 12 of Annex I of the Regulation.

<sup>30</sup> Item 14 of Annex I of the Regulation.

in the University of Michigan Medical School and a professor of chemistry in the University of Michigan College of Literature, Science and the Arts. Prior to 1995, Dr. Coleman served as Provost and Vice President for Academic Affairs at the University of New Mexico, Vice Chancellor for Graduate Studies & Research and Associate Provost and Dean of Research at the University of North Carolina at Chapel Hill, and a member of the biochemistry faculty and an administrator at the Cancer Center of the University of Kentucky in Lexington. Elected to the National Academy of Sciences' Institute of Medicine in 1997, Dr. Coleman is a Fellow of the American Academy of Arts and Sciences and the American Association for the Advancement of Science. Dr. Coleman is a Director of Meredith Corporation and a Trustee of the John S. and James L. Knight Foundation and the Gerald R. Ford Foundation. **JAMES G. CULLEN, Retired President and Chief Operating Officer, Bell Atlantic Corporation**

Mr. Cullen was elected to the Board of Directors in 1995 and is the Presiding Director of the Board, Chairman of the Audit Committee and a member of the Nominating & Corporate Governance Committee. Mr. Cullen retired as President and Chief Operating Officer of Bell Atlantic Corporation (communications) in 2000. He had assumed those positions in 1998, after having been Vice Chairman since 1995 and, prior to that, President since 1993. He was President and Chief Executive Officer of Bell Atlantic-New Jersey, Inc. from 1989 to 1993. He is a Director of Neustar, Inc., Prudential Financial, Inc. and Eisenhower Medical Center and a Director and non-executive Chairman of Agilent Technologies, Inc.

**IAN E. L. DAVIS, Former Worldwide Managing Director of McKinsey & Company**

Mr. Davis was appointed to the Board of Directors in July 2010 and is a member of the Audit Committee and the Public Policy Advisory Committee. Mr. Davis is currently Managing Director Emeritus of McKinsey, having served as Worldwide Managing Director from 2003 until 2009. In his more than 30 years at McKinsey, he has served as a consultant to a range of global organizations across the public, private and not-for-profit sectors. Prior to becoming Chairman and Managing Director, he was Managing Partner of McKinsey's practice in the United Kingdom and Ireland. His experience includes oversight for McKinsey clients and services in Asia, Europe, the Middle East and Africa, as well as an expertise in the consumer products and retail industries. Mr. Davis is a Director of Teach for All, a global network of independent social enterprises working to expand educational opportunities in their nations; serves on the International Advisory Committee of the King Abdullah Petroleum Studies and Research Centre; a member of the President's Council at the University Tokyo; and a non-executive director of global energy group, BP plc.

**MICHAEL M. E. JOHNS, M.D., Chancellor, Emory University**

Dr. Johns was elected to the Board of Directors in 2005 and is a member of the Compensation & Benefits Committee and the Science & Technology Advisory Committee. He has served since October 2007 as Chancellor of Emory University. From 1996 to 2007, Dr. Johns served as Executive Vice President for Health Affairs and Chief Executive Officer of the Robert W. Woodruff Health Sciences Center of Emory University. As the Executive Vice President for Health Affairs, he oversaw Emory University's widespread academic and clinical programs in health sciences and led strategic planning initiatives for both patient care and research. In addition, from 1996 to 1997, he served as the Chairman of the Board of Emory Healthcare, the largest health care system in Georgia. From 1990 to 1996, Dr. Johns served as Dean of the Johns Hopkins School of Medicine and Vice President of the Medical Faculty at Johns Hopkins University. Dr. Johns is Past Chair of the Council of Teaching Hospitals, a fellow of the American Association for the Advancement of Science and a member of the Institute of Medicine. He is a member of the editorial board of the *Journal of the American Medical Association* (JAMA) and chairs the Publication Committee of the journal *Academic Medicine*. Dr. Johns is a Director of Genuine Parts Company and AMN Healthcare Services, Inc.

**SUSAN L. LINDQUIST, Ph.D., Member and Former Director, Whitehead Institute for Biomedical Research; Professor of Biology, Massachusetts Institute of Technology**

Dr. Lindquist was elected to the Board of Directors in 2004 and is a member of the Science & Technology Advisory Committee and the Public Policy Advisory Committee. She is a member of the Whitehead Institute, a non-profit, independent research and educational institution, a Professor of Biology at the Massachusetts Institute of Technology and an Investigator of the Howard Hughes Medical Institute. Dr. Lindquist served as Director of the Whitehead Institute from 2001 to 2004. Previously she was affiliated with the University of Chicago where she was the Albert D. Lasker Professor of Medical Sciences in the Department of Molecular Genetics and Cell Biology. Dr. Lindquist was elected to the American Academy of Arts and Sciences in 1996, the National Academy of Sciences in 1997, the American Philosophical Society in 2003 and the Institute of Medicine in 2006. She received the Novartis/Drew Award for Biomedical Research in 2000, the Dickson Prize in Medicine in 2002, the Sigma Xi William Procter Prize for Academic Achievement in 2006, the Nevada Silver Medal for Scientific Achievement in 2007, and both the Genetics Society of America Medal and the Centennial Medal of the Harvard University Graduate School of Arts and Sciences in 2008. She is a member of the Scientific Advisory Boards of the Stowers Institute for Medical Research, the Institut für Molekulare Biotechnologie GmbH, and the External Advisory Board of the Chicago Biomedical Consortium. She is also a Co-Founder of FoldRx Pharmaceuticals, Inc., a private biotechnology start-up company.

**ANNE M. MULCAHY, Retired Chairman and Chief Executive Officer Xerox Corporation**

Ms. Mulcahy was appointed to the Board of Directors in October 2009, and is a member of the Compensation & Benefits Committee and the Nominating & Corporate Governance Committee. Ms. Mulcahy retired as Chairman of Xerox Corporation (business equipment and services) in May of 2010 and Chief Executive Officer of Xerox Corporation in July 2009, a position she held for eight years. Prior to serving as CEO, Ms. Mulcahy was President and Chief Operating Officer of Xerox. She has also served as president of Xerox's General Markets Operations, which created and sold products for reseller, dealer and retail channels. During a career at Xerox that began in 1976, Ms. Mulcahy has also served as Vice President for Human Resources with responsibility for compensation, benefits, human resource strategy, labor relations, management development and employee training; and Vice President and Staff Officer for Customer Operations, covering South America and Central America, Europe, Asia and Africa, and China. Ms. Mulcahy is a Director of Citigroup, Inc., and The Washington Post.

**LEO F. MULLIN, Retired Chairman and Chief Executive Officer, Delta Air Lines, Inc.**

Mr. Mullin was elected to the Board of Directors in 1999 and is a member of the Audit Committee and Chairman of the Public Policy Advisory Committee. Mr. Mullin retired as Chief Executive Officer of Delta Air Lines, Inc. (air transportation) in December 2003 and Chairman in April 2004, after having served as Chief Executive Officer of Delta since 1997 and Chairman since 1999. Mr. Mullin currently serves as a Senior Advisor, on a part-time basis, to Goldman Sachs Capital Partners, a private equity fund group. Mr. Mullin was Vice Chairman of Unicom Corporation and its principal subsidiary, Commonwealth Edison Company, from 1995 to 1997. He was an executive of First Chicago Corporation from 1981 to 1995, serving as that company's President and Chief Operating Officer from 1993 to 1995, and as Chairman and Chief Executive Officer of American National Bank, a subsidiary of First Chicago Corporation, from 1991 to 1993. Mr. Mullin is a Director of ACE Limited and Education Management Corporation and is a member of both The Business Council and the Advisory Board of the Carter Center. He is currently Chairman of the Board of the Juvenile Diabetes Research Foundation (JDRF) and served as interim Chief Executive Officer of JDRF from July through December 2008.

**WILLIAM D. PEREZ, Senior Advisor, Greenhill & Co., Inc.; Retired President and Chief Executive Officer, Wm. Wrigley Jr. Company**

Mr. Perez was elected to the Board of Directors in 2007 and is the Chairman of the Nominating and Corporate Governance Committee and a member of the Compensation & Benefits Committee. Mr. Perez is currently a Senior Advisor at Greenhill & Co., Inc., (investment banking). Mr. Perez served as

President and Chief Executive Officer for the Wm. Wrigley Jr. Company (confectionary and chewing gum) from 2006 to 2008. Before joining Wrigley, Mr. Perez served as President and Chief Executive Officer of Nike, Inc. Previously, he spent 34 years with S.C. Johnson & Son, Inc., including eight years as its President and Chief Executive Officer. Mr. Perez is a Director of the Boys & Girls Club of Chicago and is a Trustee for Cornell University and Northwestern Memorial Hospital. He serves on the boards of the Whirlpool Corporation and Campbell Soup Company.

**CHARLES PRINCE, Chairman, Sconset Group, LLC; Senior Counselor, Albright Capital Management LLC; Retired Chairman and Chief Executive Officer, Citigroup Inc.**

Mr. Prince was elected to the Board of Directors in 2006 and is the Chairman of the Compensation & Benefits Committee and is a member of the Nominating & Corporate Governance Committee. Mr. Prince is currently Chairman of Sconset Group, LLC and a Senior Counselor for Albright Capital Management LLC, a Washington, D.C. based investment firm. Mr. Prince served as Chief Executive Officer of Citigroup Inc. (financial services) from 2003 to 2007 and as Chairman from 2006 to 2007. Previously he served as Chairman and Chief Executive Officer of Citigroup's Global Corporate and Investment Bank from 2002 to 2003, Chief Operating Officer from 2001 to 2002, and Chief Administrative Officer from 2000 to 2001. Mr. Prince began his career as an attorney at U.S. Steel Corporation in 1975, and in 1979 joined Commercial Credit Company (a predecessor company to Citigroup) where he held various management positions until 1995, when he was named Executive Vice President. Mr. Prince is a Director of Xerox Corporation and a member of the Council on Foreign Relations and The Business Council.

**DAVID SATCHER, M.D., Ph.D., Director, Center of Excellence on Health Disparities, Director, Satcher Health Leadership Institute and Poussaint-Satcher-Cosby Chair in Mental Health, Morehouse School of Medicine**

Dr. Satcher was elected to the Board of Directors in 2002 and is Chairman of the Science & Technology Advisory Committee and a member of the Public Policy Advisory Committee. Dr. Satcher assumed his current post at Morehouse School of Medicine in 2004 and served as the School's Interim President from 2004 until 2006 and Director of the School's National Center for Primary Care from 2002 through 2004. In 2002, Dr. Satcher completed his four-year term as the 16th Surgeon General of the United States. He also served as the U.S. Assistant Secretary for Health from 1998 to 2001. From 1993 to 1998, Dr. Satcher served as Director of the Centers for Disease Control and Prevention and Administrator of the Agency for Toxic Substances and Disease Registry. Dr. Satcher served as President of Meharry Medical College in Nashville, Tennessee, from 1982 to 1993. Dr. Satcher is a fellow of the American Academy of Family Physicians, the American College of Preventive Medicine and the American College of Physicians. He has received numerous honorary degrees and awards, including the Jimmy and Rosalynn Carter Award for Humanitarian Contributions to the Health of Humankind, the New York Academy of Medicine Lifetime Achievement Award and the National Association of Mental Illness Distinguished Service Award. Dr. Satcher is a Director of MetLife, Inc., and serves on the boards of Action for Healthy Kids, Community Foundation of Greater Atlanta, Kaiser Family Foundation, Save the Children and the United Way of Atlanta.

**WILLIAM C. WELDON, Chairman, Board of Directors and Chief Executive Officer; Chairman, Executive Committee**

Mr. Weldon was elected to the Board of Directors and named Vice Chairman of the Board in 2001 and assumed his current responsibilities in 2002. Mr. Weldon joined the Company in 1971, and served in several sales, marketing and international management positions before becoming President of Ethicon Endo-Surgery in 1992 and Company Group Chairman of Ethicon Endo-Surgery in 1995. He was appointed to the Executive Committee and named Worldwide Chairman, Pharmaceuticals Group, in 1998. Mr. Weldon is a Director of J.P. Morgan Chase & Co. Mr. Weldon is a member of The Business Council and the Sullivan Alliance to Transform America's Health Profession. He is a Trustee of



Quinnipiac University and serves on the Liberty Science Center Chairman's Advisory Council. Mr. Weldon also serves as Chairman of the CEO Roundtable on Cancer.

For the purpose of the Registration Document the address of the Directors is: One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933, USA.

None of the members of the Board of Directors have been the subject of any convictions in relation to fraudulent offences nor have they been associated with any bankruptcies, receiverships or liquidations. None of the members of the Board of Directors have been the subject of any official public incrimination and/or sanctions by a statutory or regulatory authority or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

The members of the Board must comply with conflict of interest rules that have been established by the Company and which are set out in the "*Code of Business Conduct & Ethics for the Members of the Board of Directors and Executive Officers*". These rules can be consulted on the Company's website: [www.jnj.com](http://www.jnj.com).

The Board of Directors of the Company has determined that the following directors, comprising all of the non-employee directors, should be deemed "independent" under the listing standards of the New York Stock Exchange, as well as in the assessment of the Board: Dr. Coleman, Mr. Cullen, Mr. Davis, Dr. Johns, Mr. Perez, Dr. Lindquist, Ms. Mulcahy, Mr. Mullin, Mr. Prince and Dr. Satcher. In order to assist the Board in making this determination, the Board has adopted "Standards of Independence" as part of the Company's Principles of Corporate Governance, which are available on the Company's website at [www.investor.jnj.com/governance](http://www.investor.jnj.com/governance). These Standards identify material relationships that a director may have with the Company which would interfere with the director's ability to exercise independent judgment. Each of the directors identified above is deemed to meet the standards set forth in those Standards of Independence.

### **13.2 Corporate Officers of the Company**

**- William C. Weldon**

Chairman, Board of Directors  
Chief Executive Officer  
Chairman, Executive Committee

**- Dominic J. Caruso**

Vice President, Finance  
Chief Financial Officer  
Executive Committee

**- Alex Gorsky**

Worldwide Chairman  
Medical Devices & Diagnostics Group  
Executive Committee

**- Stephen J. Cosgrove**

Corporate Controller

**- Laverne H. Council**

Vice President  
Chief Information Officer

**- Russell C. Deyo**

Vice President, General Counsel  
Executive Committee

- **Colleen A. Goggins**  
Worldwide Chairman  
Consumer Group  
Executive Committee

- **Raymond C. Jordan**  
Vice President,  
Public Affairs & Corporate Communications

- **Sherilyn S. McCoy**  
Worldwide Chairman,  
Pharmaceuticals Group  
Executive Committee

- **John A. Papa**  
Treasurer

- **Brian D. Perkins**  
Vice President, Corporate Affairs

- **Douglas K. Chia**  
Secretary  
Assistant General Counsel

## 14 Remuneration and benefits<sup>31</sup>

### Compensation Arrangements for Named Executive Officers

Following is a description of the compensation arrangements that have been approved by the Compensation & Benefits Committee of the Board of Directors of Johnson & Johnson (the "Compensation Committee") on 8 February 2010 for the Company's Chief Executive Officer, Chief Financial Officer and the other three most highly compensated executive officers in 2009 (the "Named Executive Officers").

#### *Annual Base Salary:*

The Compensation Committee has approved the following base salaries, effective 22 February 2010, for the Named Executive Officers:

William C. Weldon, Chairman/CEO	\$ 1,860,000
Dominic J. Caruso, Vice President, Finance; CFO	\$ 753,900
Russell C. Deyo, Vice President, General Counsel	\$ 873,100
Colleen A. Goggins, Worldwide Chairman, Consumer Group	\$ 827,200
Sherilyn S. McCoy, Worldwide Chairman, Pharmaceuticals Group	\$ 785,900

#### *Performance Bonus:*

The Compensation Committee has approved the following bonus performance payments for performance in 2009 (paid in the form of 85% cash and 15% Company Common Stock as determined by the Compensation Committee):

W.C. Weldon	\$ 3,600,000
D.J. Caruso	\$ 1,004,000

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<sup>31</sup> Item 15 of Annex I of the Regulation.

R.C. Deyo	\$ 1,164,000
C.A. Goggins	\$ 1,007,000
S.S. McCoy	\$ 1,205,000

*Stock Option and Restricted Share Unit Grants:*

The Compensation Committee has approved the following stock option and Restricted Share Unit ("RSU") grants under the Company's 2005 Long-Term Incentive Plan (the "LTI Plan"). The stock options were granted at an exercise price of \$62.62, at the "fair market value" (calculated as the average of the high and low prices of the Company's Common Stock on the New York Stock Exchange) on 8 February 2010. The options will become exercisable on 9 February 2013 and expire on 7 February 2020. The RSUs will vest on 9 February 2013, upon which, the holder, if still employed by the Company on such date, will receive one share of the Company's Common Stock for each RSU.

W.C. Weldon	586,873 stock options	48,906 RSUs
D.J. Caruso	119,770 stock options	9,981 RSUs
R.C. Deyo	131,747 stock options	10,979 RSUs
C.A. Goggins	134,159 stock options	11,180 RSUs
S.S. McCoy	143,724 stock options	11,977 RSUs

*Non-Equity Incentive Plan Awards:*

The Compensation Committee has approved the following non-equity incentive plan awards in recognition of performance during 2009 under the Company's Certificate of Long-Term Performance ("CLP") program. Vested awards are not paid out until the earlier of ten years from the date of grant or retirement or other termination of employment. As of the grant date, the defined present value per CLP was \$4.69. The CLP unit value will vary over time based on the performance of the Company.

W.C. Weldon	1,471,215 CLPs
D.J. Caruso	383,795 CLPs
R.C. Deyo	319,830 CLPs
C.A. Goggins	383,795 CLPs
S.S. McCoy	469,085 CLPs

Due to the change in the planning basis of CLP awards from a vesting-based approach under the Certificates of Long-term Compensation Plan (the "CLC Plan") to a grant-based approach under the new CLP Plan, which replaced the CLC Plan effective February 2010, certain executives were adversely impacted. The Committee approved selected one-time CLP awards to transition these executives to the new CLP Plan:

D.J. Caruso	148,400 CLPs
R.C. Deyo	426,440 CLPs
C.A. Goggins	211,430 CLPs

*Equity Compensation for Non-Employee Directors*

Each Non-Employee Director receives non-retainer equity compensation in the first quarter of each year under the LTI Plan in the form of shares of restricted Common Stock having a fair market value of \$100,000 on the grant date. Accordingly, each Non-Employee Director was granted 1,596 shares of restricted Common Stock under the LTI Plan on 8 February 2010. The restricted shares will become freely transferable on 8 February 2012.

#### Directors compensation in 2009

The following table provides information concerning the compensation of the Company's Non-Employee Directors for 2009. Directors who are employees of the Company receive no additional compensation for their services as Directors or as members of Board committees. For a complete understanding of the table, please read the footnotes and the narrative disclosures that follow the table.

A	B	C	D	E
<u>Name</u>	<u>Fees Earned or Paid in Cash(\$)</u>	<u>Stock Awards(\$)</u>	<u>All Other Compensation(\$)</u>	<u>Total(\$)</u>
M. S. Coleman	\$110,000	\$99,978	\$ 20,000	\$229,978
J. G. Cullen	130,000	99,978	-	229,978
M. M. E. Johns	110,000	99,978	20,000	229,978
A. G. Langbo	120,000	99,978	12,500	232,478
S. L. Lindquist	110,000	99,978	1,700	211,678
A. M. Mulcahy	19,355 <sup>(1)</sup>	60,640	-	79,995
L. F. Mullin	120,000	99,978	20,000	239,978
W. D. Perez	110,000	99,978	20,000	229,978
C. Prince	120,000	99,978	-	219,978
D. Satcher	120,000	99,978	20,000	239,978

<sup>(1)</sup> Pro rated for partial service year as committee Chairman.

#### *Fees Earned or Paid in Cash (Column B)*

In 2009, each Non-Employee Director received an annual fee of \$100,000 for his or her service as a member of the Company's Board of Directors, except Ms. Mulcahy who received a prorata amount for partial year service. In addition, Non-Employee Directors received an annual fee of \$5,000 for service on a Board committee, or \$15,000 if he or she was Chairman of the committee. The Presiding Director was paid an additional annual fee of \$10,000. Non-Employee Directors were eligible to receive meeting fees of \$1,500 per day if they attended a committee meeting held on a day other than a Board meeting day. Meeting fees were not paid for participation in telephonic committee meetings.

#### *Stock Awards (Column C)*

Each Non-Employee Director receives non-retainer equity compensation in the first quarter of each year under the LTI Plan in the form of shares of restricted Common Stock having a value of \$100,000 on the grant date. Accordingly, each Non-Employee Director was granted 1,714 shares of restricted Common Stock under the LTI Plan in February 2009, except Ms. Mulcahy who joined the Board in October 2009, and 1,596 shares of restricted Common Stock in February 2010. The restricted shares become freely transferable on the third anniversary of the grant date. (In addition, each Non-Employee Director receives a one-time grant of 1,000 shares of unrestricted Common Stock upon first becoming a member

of the Board, which Ms. Mulcahy received in October 2009. All figures in Column C represent the grant date fair value, computed in accordance with U.S. GAAP.

The aggregate number of stock options outstanding for each Non-Employee Director is indicated in the table below. The compensation costs for all of these options were recognized by the Company for financial reporting purposes prior to fiscal 2006. The Company ceased granting stock options to Non-Employee Directors after February 2004.

<u>Name</u>	<u>Options (#)</u>
M. S. Coleman	7,600
J. G. Cullen	24,050
M. M. E. Johns	-
A. G. Langbo	24,050
S. L. Lindquist	7,600
A. M. Mulcahy	-
L. F. Mullin	24,050
W. D. Perez	-
C. Prince	-
D. Satcher	13,900

*All Other Compensation (Column D)*

Amounts in Column D reflect contributions made under the Company's charitable matching gift program. Non-Employee Directors are eligible to participate in the Company's charitable matching gift program for employees, pursuant to which the Company will contribute, on a two-to-one basis, up to \$20,000 per year per employee or Non-Employee Director to educational and certain other charitable institutions.

*Deferred Fee Plan for Non-Employee Directors*

Under the Deferred Fee Plan for Non-Employee Directors, a Non-Employee Director may elect to defer payment of all or a portion of his or her fees until or beyond termination of his or her directorship. Deferred fees earn additional amounts based on a hypothetical investment in the Company's Common Stock. (Non-Employee Directors who have served on the Board since prior to January 1, 1996 instead may elect to "invest" deferred fees into CLCs under the CLC Plan up to the time of termination of his/her directorship. Currently, no Directors have elected this option.) All Common Stock equivalent units held in each Non-Employee Director's Deferred Fee Account receive dividend equivalents in the same amount and at the same time as dividends on the Company's Common Stock.

*Additional Arrangements*

The Company pays for or provides (or reimburses Directors for out-of-pocket costs incurred for) transportation, hotel, food and other incidental expenses related to attending Board and committee meetings or participating in director education programs and other director orientation or educational meetings.

**15 Board practices<sup>32</sup>**

**General**

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<sup>32</sup> Item 16 of Annex I of the Regulation.

The Board holds the ultimate authority of Johnson & Johnson, except to the extent that shareholders are granted certain powers under Johnson & Johnson's Certificate of Incorporation and By-Laws. The Board appoints senior management of Johnson & Johnson, to whom conduct of Johnson & Johnson's business and operations is delegated. The Board then provides oversight of management. In order to assist it in fulfilling its obligations, the Board has formed committees.

On an on-going basis throughout the year, at meetings of the Board and Committees of the Board, management of Johnson & Johnson and Board members discuss the strategic direction and major developments of the various businesses in which Johnson & Johnson is engaged.

All directors are elected annually by the shareholders. The period during which each of the Directors has served office is specified in the Director's biography above under section 13 of this Registration Document.

The Board of Directors of Johnson & Johnson has adopted a Code of Business Conduct & Ethics for the Members of the Board of Directors and Executive Officers (as defined under the regulations of the Securities and Exchange Commission) of Johnson & Johnson. The Code can be accessed via Johnson & Johnson's website: [www.jnj.com](http://www.jnj.com).

### **Committees of the Board of Directors**

The Johnson & Johnson Board of Directors has a standing Audit Committee, Compensation & Benefits Committee and Nominating & Corporate Governance Committee. Other committees include the Finance Committee, Public Policy Advisory Committee and Science & Technology Advisory Committee.

#### **Audit Committee**

The Audit Committee, comprised entirely of independent Directors, helps the Board oversee the Company's accounting and reporting practices. It recommends independent public accountants for appointment by the Board and reviews their performance; monitors the adequacy of internal accounting practices, procedures and controls; and reviews all significant changes in accounting policies.

#### **Compensation & Benefits Committee**

The Compensation & Benefits Committee, comprised entirely of independent Directors, establishes the Company's executive compensation philosophy and principles and approves the annual compensation and long-term incentives for the Company's directors and executive officers. The Committee also reviews the philosophy and policies of the non-Board Management Compensation Committee, which determines management compensation and establishes perquisites and other compensation policies for non-executive employees. Additionally, the Committee oversees the management of the various retirement, pension, long-term incentive, savings, health and welfare plans that cover the Company's employees.

#### **Finance**

The Finance Committee exercises the management authority of the Board during the intervals between Board meetings. The Finance Committee is comprised of the Chairman and Presiding Director of the Board.

#### **Nominating & Corporate Governance**

The Nominating & Corporate Governance Committee, comprised entirely of independent Directors, is responsible for overseeing corporate governance matters, reviewing possible candidates for Board membership and recommending nominees for election. The Committee is also responsible for overseeing the process for performance evaluations of the Board and its committees. Additionally, the Committee reviews the Company's management succession plans and executive resources.

## Public Policy

The Public Policy Advisory Committee reviews the Company's policies, programs and practices on public health issues regarding the environment and the health and safety of employees. The Committee also reviews the Company's governmental affairs and policies and other public policy issues facing the Company. The Committee advises and makes recommendations to the Board on these issues as appropriate. The Public Policy Advisory Committee is comprised of independent Directors and the Company's General Counsel and Vice Presidents for Corporate Affairs, Government Affairs and Policy, and Worldwide Operations.

## Science & Technology

The Science & Technology Advisory Committee, comprised of independent Directors and the Company's Vice President, Science and Technology, advises the Board on scientific matters, including major internal projects, interaction with academic and other outside research organizations, and the acquisition of technologies and products.

The chart below details the composition of the committees of Johnson & Johnson Board of Directors. Committee descriptions and charters are also available on Johnson & Johnson's website: [www.jnj.com](http://www.jnj.com).

	<b>Audit</b>	<b>Compensation &amp; Benefits</b>	<b>Finance</b>	<b>Nominating &amp; Corporate Governance</b>	<b>Public Policy</b>	<b>Science &amp; Technology</b>
Mary Sue Coleman, Ph. D.	Member					Member
James G. Cullen	Chairman		Member	Member		
Ian E. L. Davis	Member				Member	
Michael M.E. Johns, M.D.		Member				Member
Susan L. Lindquist, Ph. D.					Member	Member
Anne M. Mulcahy		Member		Member		
Leo F. Mullin	Member				Chairman	
William D. Perez		Member		Chairman		
Charles Prince		Chairman		Member		
David Satcher, M.D., Ph. D.					Member	Chairman
William C. Weldon			Chairman			

## Corporate Governance

The Company complies with the U.S. Corporate Governance Standards of the New York Stock Exchange, Inc. and has adopted a Corporate Governance policy set out in the "Johnson & Johnson Principles of Corporate Governance". These principles can be consulted on Johnson & Johnson's website: [www.jnj.com](http://www.jnj.com).

## 16 Employees<sup>33</sup>

### 16.1 Numbers<sup>34</sup>

The operating companies of Johnson & Johnson currently employ approximately 114,000 people worldwide. In 2009, they employed approximately 115,500, in 2008, 117,000, and in 2007, 119,200 employees.

### 16.2 Shareholdings and stock options<sup>35</sup>

The following table sets forth information regarding beneficial ownership of the Company's Common Stock for each Director and certain executive officer named in the Prospectus and by all Directors and executive officers as a group. Each of the individuals/groups listed below is the owner of less than 1% of the Company's outstanding shares. Because they serve as co-trustees of two trusts which hold stock for the benefit of others, Messrs. Weldon and Deyo are deemed to "control" an additional 7,425,821 shares of the Company's stock in which they have no economic interest. In addition to such shares, the Directors and executive officers as a group own/control a total of 946,553 shares. In the aggregate, these 8,372,374 shares represent less than 1% of the shares outstanding. All stock ownership is as of February 23, 2010 (except shares held in the Company's Savings Plans, which are included as of January 29, 2010).

Name	Number of Common Shares <sup>(1)</sup>	Common Stock Equivalent Units <sup>(2)</sup>	Shares Under Exercisable Options <sup>(3)</sup>
Dominic J. Caruso	18,019	6,708	191,915
Mary Sue Coleman	11,159	10,777	7,600
James G. Cullen	76,022	29,671	24,050
Russell C. Deyo	151,544	-	867,424
Colleen A. Goggins	106,828	17,027	761,653
Michael M.E. Johns	10,397	8,235	-
Arnold G. Langbo	10,190	51,492	24,050
Susan L. Lindquist	10,588	9,000	7,600
Sherilyn S. McCoy	70,800	-	187,781
Anne M. Mulcahy	2,596	-	-
Leo F. Mullin	17,394	9,559	24,050
William D. Perez	16,929	4,662	-
Charles Prince	18,252	5,006	-
David Satcher	10,337	6,179	13,900
William C. Weldon	411,819	-	2,934,698
All directors and executive officers as a group (16)	946,553 <sup>(4)</sup>	158,316	5,044,721

<sup>33</sup> Item 17 of Annex I of the Regulation.

<sup>34</sup> Item 17.1 of Annex I of the Regulation.

<sup>35</sup> Item 17.2 of Annex I of the Regulation.



- (1) The shares described as "owned" are shares of the Company's Common Stock directly or indirectly owned by each listed person and by members of his or her household and are held individually, jointly or pursuant to a trust arrangement. The Directors and executive officers disclaim beneficial ownership of an aggregate of 95,176 of these shares, including 30,000 shares listed as owned by Mr. Cullen, 13,602 shares listed as owned by Mr. Deyo, 900 shares listed as owned by Mr. Langbo, 17,292 shares listed as owned by Ms. McCoy, 800 shares listed as owned by Mr. Prince, and 32,582 shares listed as owned by Mr. Weldon.
- (2) Includes Common Stock equivalent units credited to Non-Employee Directors under the Company's Deferred Fee Plan for Non-Employee Directors and Common Stock equivalent units credited to the executive officers under the Company's Executive Income Deferral Plan.
- (3) Includes shares under options exercisable on February 23, 2010 and options that become exercisable within 60 days thereafter.
- (4) Includes 44,792 shares pledged as security.

As of 10 March 2010, the following are the only persons known to the Company to be the beneficial owner of five percent or more of any class of the Company's voting securities:

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Common Stock	BlackRock, Inc. 40 East 52 <sup>nd</sup> Street New York, New York 10022	147,267,993 shares	5.34%
	State Street Bank and Trust Company State Street Financial Center One Lincoln Street Boston, Massachusetts 02111	137,505,439 shares	5.0%

### **16.3 Employee Equity Benefits<sup>36</sup>**

#### ***Stock Options***

At 3 January 2010, the Company had 11 stock-based compensation plans. The shares outstanding are for contracts under the Company's 1995 and 2000 Stock Option Plans, the 2005 Long-Term Incentive Plan, the 1997 Non-Employee Director's Plan and the ALZA, Inverness, and Scios Stock Option Plans. During 2009, no options or restricted shares were granted under any of these plans except under the 2005 Long-Term Incentive Plan.

The compensation cost that has been charged against income for these plans was \$628 million, \$627 million and \$698 million for 2009, 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was \$210 million, \$210 million and \$238 million for 2009, 2008 and 2007, respectively. Share-based compensation costs capitalized as part of inventory were insignificant in all periods.

Stock options expire 10 years from the date of grant and vest over service periods that range from six months to five years. All options are granted at the average of the high and low prices of the Company's common stock on the New York Stock Exchange on the date of grant. Under the 2005 Long-Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 139.7 million at the end of 2009.

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<sup>36</sup> Item 17.3 of Annex I of the Regulation.

The Company settles employee stock option exercises with treasury shares. Treasury shares are replenished throughout the year for the number of shares used to settle employee stock option exercises.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. Historical data is used to determine the expected life of the option. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant. The average fair value of options granted was \$8.35, \$7.66 and \$11.67 in 2009, 2008 and 2007, respectively. The fair value was estimated based on the weighted average assumptions of:

	2009	2008	2007
Risk-free rate	2.71%	2.97%	4.78%
Expected Volatility	19.5%	15.0%	14.7%
Expected life	6.0 yrs	6.0 yrs	6.0 yrs
Dividend yield	3.30%	2.90%	2.50%

A summary of option activity under the Plan as of 3 January 2010, 28 December 2008, and 30 December 2007 and changes during the years ending on those dates is presented below:

<b>(Shares in Thousands)</b>	<b>Outstanding Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value (Dollars in Millions)</b>
Shares at 31 December 2006	242,927	\$54.57	\$2,788
Options granted	26,789	65.61	
Options exercised	(33,224)	45.92	
Options cancelled/forfeited	(7,863)	63.00	
Shares at 30 December 2007	228,629	56.83	\$2,411
Options granted	22,428	61.80	
Options exercised	(30,033)	50.27	
Options cancelled/forfeited	(5,525)	61.90	
Shares at 28 December 2008	215,499	58.14	\$597
Options granted	21,576	58.32	
Options exercised	(18,225)	50.97	
Options canceled/forfeited	(6,131)	61.85	
Shares at 3 January 2010	212,719	\$58.66	\$1,310

The total intrinsic value of options exercised was \$184 million, \$506 million, and \$625 million and \$542 million in 2009, 2008 and 2007, respectively. The total unrecognized compensation cost was

\$612 million as of 3 January 2010, \$632 million as of 28 December 2008 and \$652 million as of 30 December 2007. The weighted average period for this cost to be recognized was 1.16 years, 1.06 years and 1.01 years for 2009, 2008 and 2007, respectively.

The following table summarizes stock options outstanding and exercisable on 3 January 2010:

<b>(Shares in Thousands)</b>	<b>Outstanding</b>			<b>Exercisable</b>		
	<b>Exercise Price Range</b>	<b>Options</b>	<b>Average Life<sup>(1)</sup></b>	<b>Average Exercise Price</b>	<b>Options</b>	<b>Average Exercise Price</b>
	\$7.33-\$28.09	104	1.5	\$22.89	104	\$22.89
	\$31.27-\$40.08	131	0.3	35.83	131	35.83
	\$41.26-\$49.86	1,024	1.2	47.09	1,024	47.09
	\$50.52-\$52.11	17,328	0.8	50.70	17,328	50.70
	\$52.13 - \$53.77	22,193	3.1	52.22	22,152	52.22
	\$53.93 - \$54.89	26,155	4.0	53.93	26,156	53.93
	\$55.01 - \$58.25	26,332	2.1	57.30	26,328	57.30
	\$58.33 - \$65.10	63,805	7.7	59.48	21,367	58.48
	\$65.62 - \$68.37	55,647	5.8	65.97	33,759	66.19
		212,719	5.0	\$58.66	148,349	\$57.26

(1) *Average contractual life remaining in years*

Stock options exercisable on 28 December 2008 and 30 December 2007 were 144,962 at an average price of \$56.25 and an average life of 5.3 years and 137,310 at an average price of \$52.33 and an average life of 5.6 years, respectively.

#### **Restricted Share Units**

The Company grants restricted share units with a vesting period of three years. The Company settles employee stock issuance with treasury shares. Treasury shares are replenished throughout the year for the number of shares used for employee stock issuances.

A summary of share activity under the Plan as of 3 January 2010:

<b>(Shares in Thousands)</b>	<b>Outstanding Shares</b>
Shares at 31 December 2006	6,885
Shares granted	8,029
Shares issued	(33)
Shares cancelled/forfeited	(1,220)
Shares at 30 December 2007	13,661
Shares granted	10,105
Shares issued	(40)
Shares cancelled/forfeited	(1,468)
Shares at 28 December 2008	22,258

Shares granted	11,172
Shares issued	(5,714)
Shares canceled/forfeited	(1,392)
Shares at 3 January 2010	<u>26,324</u>

The average fair value of the restricted share units granted was \$52.79, \$56.70 and \$60.86 in 2009, 2008 and 2007, respectively, using the fair market value at the date of grant. The fair value of restricted share units was discounted for dividends, which are not paid on the restricted share units during the vesting period. The fair value of restricted share units settled was \$308.4 million, \$2.5 million and \$1.8 million in 2009, 2008 and 2007, respectively.

## 17 Major shareholders<sup>37</sup>

**17.1** The Company had 181,436 registered shareholders as of 1 October 2010. As of 10 March 2010, the following are the only beneficial owners of five percent or more of any class of the Company's voting securities<sup>38</sup>:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	BlackRock, Inc. 40 East 52 <sup>nd</sup> Street New York, New York 10022	147,267,993 shares	5.34%
	State Street Bank and Trust Company State Street Financial Center One Lincoln Street Boston, Massachusetts 02111	137,505,439 shares	5.0%

The Company's shareholders do not have different voting rights.

**17.2** The Company has no parent company.<sup>39</sup>

**17.3** There are no arrangements, known to the issuer at this time, the operation of which may at a subsequent date result in a change in control of the issuer.<sup>40</sup>

## 18 Related party transactions<sup>41</sup>

For the period beginning January 1, 2009 and ending March 1, 2010, there were no transactions, or currently proposed transactions, in which the Company was or is to be a participant and the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest.

### ***Policies and Procedures.***

<sup>37</sup> Item 18 of Annex I of the Regulation.

<sup>38</sup> Item 18.1 of Annex I of the Regulation.

<sup>39</sup> Item 18.3 of Annex I of the Regulation.

<sup>40</sup> Item 18.4 of Annex I of the Regulation.

<sup>41</sup> Item 19 of Annex I of the Regulation.

The Company's written Policy on Transactions With Related Persons requires the approval or ratification by the Nominating & Corporate Governance Committee for any transaction or series of transactions exceeding \$120,000 in which the Company is a participant and any related person has a material interest. Related persons would include the Company's Directors and executive officers and their immediate family members and persons sharing their households. It would also include persons controlling more than 5% of the Company's outstanding Common Stock.

Under the Company's Principles of Corporate Governance and Code of Business Conduct & Ethics for Members of the Board of Directors and Executive Officers, all Directors and executive officers of the Company have a duty to report to the Chairman, Vice Chairman or the Presiding Director potential conflicts of interest, including transactions with related persons. Management has established procedures for monitoring transactions that could be subject to approval or ratification under the Policy.

Once a related person transaction has been identified, the Committee will review all of the relevant facts and circumstances and approve or disapprove of the entry into the transaction. The Committee will take into account, among other factors, whether the transaction is on terms no more favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction.

If advance Committee approval of a transaction is not feasible, the transaction will be considered for ratification at the Committee's next regularly scheduled meeting. If a transaction relates to a member of the Committee, that member will not participate in the Committee's deliberations. In addition, the Committee Chairman (or, if the transaction relates to the Committee Chairman, the Presiding Director) may preapprove or ratify any related person transactions involving up to \$1 million.

The following types of transactions have been deemed by the Committee to be pre-approved or ratified, even if the aggregate amount involved will exceed \$120,000:

- compensation paid by the Company for service as a Director or executive officer of the Company.
- transactions with other companies where the related person's only relationship is as a nonexecutive employee, less than 10% equity owner, or limited partner, and the transaction does not exceed the greater of \$1 million or 2% of that company's annual revenues;
- contributions by the Company to charitable organizations where the related person is an employee and the transaction does not exceed the lesser of \$500,000 or 2% of the charitable organization's annual receipts;
- transactions where the related person's only interest is as a holder of Company stock and all holders receive proportional benefits, such as the payment of regular quarterly dividends;
- transactions involving competitive bids;
- transactions where the rates or charges are regulated by law or government authority; and
- transactions involving bank depository, transfer agent, registrar, trustee, or party performing similar banking services.

## **19 Financial information concerning the issuer's assets and liabilities, financial position and profits and losses<sup>42</sup>**

### **19.1 Historical Financial Information<sup>43</sup>**

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<sup>42</sup> Item 20 of Annex I of the Regulation.

### 19.1.1 Consolidated Balance Sheet of Johnson & Johnson

The information for the fiscal years ended 30 December 2007, 28 December 2008 and 3 January 2010 set forth below is derived from, and should be read in conjunction with, the audited annual financial statements of Johnson & Johnson. The audited annual financial statements of Johnson & Johnson for the fiscal years ended 30 December 2007, 28 December 2008 and 3 January 2010 are accessible via the website of Johnson & Johnson at the following address: [www.investor.jnj.com/fin-reports.cfm](http://www.investor.jnj.com/fin-reports.cfm). The Company will provide without charge to each eligible participant, upon the written or oral request of such person, a copy of any or all of these documents. Requests should be directed to: Office of the Secretary, Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933 USA (1-732-524-2455).

#### Consolidated Balance Sheets – Johnson & Johnson and Subsidiaries<sup>44</sup>

On 3 January 2010, 28 December 2008 and 30 December 2007 (Dollars in Millions Except Share and Per Share Data)(Note 1 to the Consolidated Financial Statements – see Section 19 of the Registration Document)

	2009	2008	2007
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 1 and 2)	\$15,810	10,768	7,770
Marketable securities (Notes 1 and 2)	3,615	2,041	1,545
Accounts receivable trade, less allowances for doubtful accounts \$333 (2008, \$268)	9,646	9,719	9,444
Inventories (Notes 1 and 3)	5,180	5,052	5,110
Deferred taxes on income (Note 8)	2,793	3,430	2,609
Prepaid expenses and other receivables	2,497	3,367	3,467
<b>Total current assets</b>	<b>39,541</b>	<b>34,377</b>	<b>29,945</b>
Property, plant and equipment, net (Notes 1 and 4)	14,759	14,365	14,185
Intangible assets, net (Notes 1 and 5)	16,323	13,976	14,640
Goodwill, net (Notes 1 and 5)	14,862	13,719	14,123
Deferred taxes on income (Note 8)	5,507	5,841	4,889
Other assets	3,690	2,634	3,170
<b>Total assets</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>
<b>Liabilities and Shareholders' Equity</b>			

<sup>43</sup> Item 20.1 of Annex I of the Regulation.

<sup>44</sup> The financial information is derived from the audited financial statements of Johnson & Johnson and has to be consulted together with the 2008 Annual Report.

<b>Current liabilities</b>			
Loans and notes payable (Note 7)	<b>\$6,318</b>	<b>3,732</b>	<b>2,463</b>
Accounts payable	5,541	7,503	6,909
Accrued liabilities	5,796	5,531	6,412
Accrued rebates, returns and promotions	2,028	2,237	2,318
Accrued salaries, wages and commissions	1,606	1,432	1,512
Accrued taxes on income	442	417	223
<b>Total current liabilities</b>	<b>\$21,731</b>	<b>20,852</b>	<b>19,837</b>
<hr/>			
Long-term debt (Note 7)	\$8,223	8,120	7,074
Deferred taxes on income (Note 8)	1,424	1,432	1,493
Employee related obligations (Note 9 and 10)	6,769	7,791	5,402
Other liabilities	5,947	4,206	3,829
<b>Total liabilities</b>	<b>\$44,094</b>	<b>42,401</b>	<b>37,635</b>
<hr/>			
<b>Shareholders' equity</b>			
Preferred stock – without par value (authorized and unissued 2,000,000 shares)	-	-	-
Common stock – par value \$1.00 per share (Note 12) (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	\$3,120	3,120	3,120
Accumulated other comprehensive income (Note 13)	(3,058)	(4,955)	(693)
Retained earnings	70,306	63,379	55,280
	70,368	61,544	57,707
Less: common stock held in treasury, at cost (Note 12) (365,522,000 and 350,665,000 shares)	19,780	19,033	14,388
<b>Total shareholders' equity</b>	<b>\$50,588</b>	<b>42,511</b>	<b>43,319</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>

### Consolidated Statements of Earnings – Johnson & Johnson and Subsidiaries

(Dollars in Millions Except Per Share Figures)(Note 1)

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Sales to customers</b>	\$61,897	63,747	61,095
Cost of products sold	18,447	18,511	17,751
Gross profit	43,450	45,236	43,344
Selling, marketing and administrative expenses	19,801	21,490	20,451
Research expense	6,986	7,577	7,680
Purchased in-process research and development (Note 20)	-	181	807
Restructuring (Note 22)	1,073	-	745

Interest income	(90)	(361)	(452)
Interest expense, net of portion capitalized (Note 4)	451	435	296
Other (income) expense, net	(526)	(1,015)	534
	27,695	28,307	30,061
Earnings before provision for taxes on income	15,755	16,929	13,283
Provision for taxes on income (Note 8)	3,489	3,980	2,707
<b>Net earnings</b>	<b>\$12,266</b>	<b>12,949</b>	<b>10,576</b>
<b>Basic net earnings per share (Notes 1 and 15)</b>	<b>\$4.45</b>	<b>4.62</b>	<b>3.67</b>
<b>Diluted net earnings per share (Notes 1 and 15)</b>	<b>\$4.40</b>	<b>4.57</b>	<b>3.63</b>

### Consolidated Statements of Cash Flows – Johnson & Johnson and Subsidiaries

<i>(Dollars in Millions)(Note 1)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>			
Net earnings	\$12,266	\$12,949	10,576
Adjustments to reconcile net earnings to cash flows:			
Depreciation and amortization of property and intangibles	2,774	2,832	2,777
Stock based compensation	628	627	698
Purchased in-process research and development	-	181	807
Intangible asset write-down (NATRECOR®)	-	-	678
Deferred tax provision	(436)	22	(1,762)
Accounts receivable allowances	58	86	22
Changes in assets and liabilities, net of effects from acquisitions:			
Decrease/(increase) in accounts receivable	453	(736)	(416)
Decrease/(increase) in inventories	95	(101)	14
Decrease/(increase) in accounts payable and accrued liabilities	(507)	(272)	2,642
Decrease/(increase) in other current and non-current assets	1,209	(1,600)	(1,578)
Increase in other current and non-current liabilities	31	984	564
<b>Net cash flows from operating activities</b>	<b>\$16,571</b>	<b>\$14,972</b>	<b>15,022</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	(2,365)	(3,066)	(2,942)
Proceeds from the disposal of assets	154	785	457
Acquisitions, net of cash acquired (Note 20)	(2,470)	(1,214)	(1,388)
Purchases of investments	(10,040)	(3,668)	(9,659)
Sales of investments	7,232	3,059	7,988



Other (primary intangibles)	(109)	(83)	(368)
<b>Net cash used by investing activities</b>	<b>(7,598)</b>	<b>(4,187)</b>	<b>(5,912)</b>
<b>Cash flows from financing activities</b>			
Dividends to shareholders	(5,327)	(5,024)	(4,670)
Repurchase of common stock	(2,130)	(6,651)	(5,607)
Proceeds from short-term debt	9,484	8,430	19,626
Retirement of short-term debt	(6,791)	(7,319)	(21,691)
Proceeds from long-term debt	9	1,638	5,100
Retirement of long-term debt	(219)	(24)	(18)
Proceeds from the exercise of stock options/excess tax benefits	882	1,486	1,562
<b>Net cash used by financing activities</b>	<b>(4,092)</b>	<b>(7,464)</b>	<b>(5,698)</b>
Effect of exchange rate changes on cash and cash equivalents	161	(323)	275
Increase in cash and cash equivalents	5,042	2,998	3,687
Cash and cash equivalents, beginning of year (Note 1)	10,768	7,770	4,083
<b>Cash and cash equivalents, end of year (Note 1)</b>	<b>\$15,810</b>	<b>\$10,768</b>	<b>7,770</b>
<b>Supplemental cash flow data</b>			
Cash paid during the year for:			
Interest	\$533	525	314
Income taxes	2,363	4,068	4,099
<b>Supplemental schedule of noncash investing and financing activities</b>			
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	\$541	593	738
Conversion of debt	2	-	9
<b>Acquisitions</b>			
Fair value of assets acquired	\$3,345	\$1,328	1,620
Fair value of liabilities assumed and non-controlling interests	(875)	(114)	(232)
<b>Net cash paid for acquisitions</b>	<b>\$2,470</b>	<b>\$1,214</b>	<b>1,388</b>

## 19.1.2 Notes to Consolidated Financial Statements

### Note 1: Summary of Significant Accounting Principles

#### Principles of Consolidation

The consolidated financial statements include the accounts of Johnson & Johnson and subsidiaries. Intercompany accounts and transactions are eliminated.

#### Description of Johnson & Johnson and Business Segments

The Company had approximately 115,500 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world and its primary focus is on products related to human health and well-being.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. The Consumer segment manufactures and markets a broad range of products used in the baby care, skin care, oral care, wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. These products are marketed to the general public and sold both to distributors and directly to independent and chain retail outlets throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology and virology. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use. The Medical Devices and Diagnostics segment includes a broad range of products used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care and sports medicine products; Ethicon's surgical care, aesthetics and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring and insulin delivery products; Ortho-Clinical Diagnostics' professional diagnostic products and Vistakon's disposable contact lenses.

## **New Accounting Pronouncements**

### **Recently adopted accounting pronouncements**

During the fiscal fourth quarter of 2009, in accordance with U.S. GAAP, the Company adopted the authoritative guidance for employers' disclosures about postretirement benefit plan assets to enhance the disclosure regarding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan, as well as, events in the economy and markets that could have a significant effect on the value of the plan assets. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position. See Note 10 for enhanced disclosures.

During the fiscal third quarter of 2009, the Company adopted The FASB Accounting Standards Codification<sup>TM</sup> (ASC or Codification) and the Hierarchy of Generally Accepted Accounting Principles (GAAP) which establishes the Codification as the sole source for authoritative U.S. GAAP and will supersede all accounting standards in U.S. GAAP, aside from those issued by the SEC. The adoption of the Codification did not have an impact on the Company's results of operations, cash flows or financial position. Since the adoption of the Accounting Standards Codification (ASC) the Company's notes to the consolidated financial statements will no longer make reference to Statement of Financial Accounting Standards (SFAS) or other U.S. GAAP pronouncements.

During the fiscal second quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standards on subsequent events. This pronouncement establishes standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. See Note 23 for related disclosure.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standards on business combinations and non-controlling interests in

Consolidated Financial Statements. These standards aim to improve, simplify, and converge internationally, the accounting for business combinations and the reporting of non-controlling interests in consolidated financial statements. These standards have an impact on the manner in which the Company accounts for acquisitions beginning in the fiscal year 2009. Significant changes include the capitalization of purchased in-process research and development (IPR&D), expensing of acquisition related restructuring actions and transaction related costs and the recognition of contingent purchase price consideration at fair value at the acquisition date. In addition, changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will be recognized in earnings rather than as an adjustment to the cost of acquisition. This accounting treatment for taxes is applicable to acquisitions that occurred both prior and subsequent to the adoption of the standard. Operating profit attributable to non-controlling interests is reported in Other (Income) Expense, net and the related tax impact to the Provision for Taxes. Additionally, equity attributable to non controlling interests is recorded in Other Non-Current liabilities. Non-controlling interests as related to the Company's financial statements are immaterial and therefore, not separately disclosed.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standard related to disclosures about derivative instruments and hedging activities, which enhanced the disclosure regarding the Company's derivative and hedging activities. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position. See Note 6 for enhanced disclosures.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standard on collaborative arrangements related to the development and commercialization of intellectual property. This standard addresses the income statement classification of payments made between parties in a collaborative arrangement. The impact of the adoption of this standard related to all collaboration agreements that existed as of 3 January 2010 and December 28, 2008 was immaterial to the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2009, in accordance with U.S. GAAP, the Company adopted the standard related to defensive intangible assets. This standard applies to acquired intangible assets in situations in which an entity does not intend to actively use the asset but intends to hold the asset to prevent others from obtaining access to the asset, except for intangible assets that are used in research and development activities. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial position.

#### **Recently issued accounting standards - Not adopted as of 3 January 2010**

The FASB issued guidance and amendments to the criteria for separating consideration in multiple-deliverable revenue arrangements. The guidance and amendments are expected to: (a) provide principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated; (b) require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (c) eliminate the use of the residual method and require an entity to allocate the revenue using the relative selling price method. The guidance significantly expands the disclosure requirements for multiple-deliverable revenue arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after 15 June 2010. Early adoption is permitted. The Company adopted this guidance in the first fiscal quarter of 2010. The adoption will not have a

material impact on the Company's results of operations, cash flows or financial position; however, it will expand the disclosures for such arrangements.

The FASB issued a standard to improve financial reporting by enterprises involved with variable interest entities. This statement is effective for the Company beginning with the fiscal year 2010. Earlier application is prohibited. The adoption of this standard will not have a material impact on the Company's results of operations, cash flows or financial position.

### **Cash Equivalents**

The Company considers securities with maturities of three months or less, when purchased, to be cash equivalents.

### **Investments**

Short-term marketable securities are carried at cost, which approximates fair value. Investments classified as available-for-sale are carried at estimated fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive income. Long-term debt securities that the Company has the ability and intent to hold until maturity are carried at amortized cost. Management determines the appropriate classification of its investment in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. The Company periodically reviews its investments in equity securities for impairment and adjusts these investments to their fair value when a decline in market value is deemed to be other than temporary. If losses on these securities are considered to be other than temporary, the loss is recognized in earnings.

### **Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost. The Company utilizes the straight-line method of depreciation over the estimated useful lives of the assets:

Building and building equipment	20-40 years
Land and leasehold improvements	10-20 years
Machinery and equipment	2-13 years

The Company capitalizes certain computer software and development costs, included in machinery and equipment, when incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are amortized over the estimated useful lives of the software, which generally range from 3 to 8 years.

The Company reviews long-lived assets to assess recoverability using undiscounted cash flows. When certain events or changes in operating or economic conditions occur, an impairment assessment may be performed on the recoverability of the carrying value of these assets. If the asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. If quoted market prices are not available, the Company will estimate fair value using a discounted value of estimated future cash flows.

### **Revenue Recognition**

The Company recognizes revenue from product sales when the goods are shipped or delivered and title and risk of loss pass to the customer. Provisions for certain rebates,

sales incentives, trade promotions, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates, the largest being the Medicaid rebate provision, are estimated based on sales terms, historical experience, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third party sell-through and market research data, as well as internally generated information.

Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The returns reserve is based on historical return trends by product and by market as a percent to gross sales. In accordance with the Company's accounting policies, the Company generally issues credit to customers for returned goods. The Company's sales return reserves are accounted for in accordance with U.S. GAAP guidance regarding revenue recognition when right of return exists. Sales return reserves are recorded at full sales value. Sales returns in the Consumer and Pharmaceutical segments are almost exclusively not resalable. Sales returns for certain franchises in the Medical Devices and Diagnostics segment are typically resalable but are not material. The Company rarely exchanges products from inventory for returned products. The sales returns reserve for the total Company has ranged between 1.1% and 1.2% of annual net trade sales during the prior three fiscal reporting years 2007–2009.

Promotional programs, such as product listing allowances and cooperative advertising arrangements, are recorded in the year incurred. Continuing promotional programs include coupons and volume-based sales incentive programs. The redemption cost of consumer coupons is based on historical redemption experience by product and value. Volume-based incentive programs are based on the estimated sales volumes for the incentive period and are recorded as products are sold. The Company also earns service revenue for co-promotion of certain products and includes it in sales to customers. These arrangements are evaluated to determine the appropriate amounts to be deferred.

### **Shipping and Handling**

Shipping and handling costs incurred were \$964 million, \$1,017 million and \$934 million in 2009, 2008 and 2007, respectively, and are included in selling, marketing and administrative expense. The amount of revenue received for shipping and handling is less than 0.5% of sales to customers for all periods presented.

### **Inventories**

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

### **Intangible Assets and Goodwill**

The authoritative literature on U.S. GAAP requires that goodwill and intangible assets with indefinite lives be assessed annually for impairment. The Company completed the annual impairment test for 2009 in the fiscal fourth quarter and no impairment was determined.

Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if a triggering event occurs.

Intangible assets that have finite useful lives continue to be amortized over their useful lives, and are reviewed for impairment when warranted by economic conditions. See Note 5 for further details on Intangible Assets and Goodwill.

### **Financial Instruments**

As required by U.S. GAAP all derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The Company documents all relationships between hedged items and derivatives. The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are: (1) minimize foreign currency exposure's impact on the Company's financial performance; (2) protect the Company's cash flow from adverse movements in foreign exchange rates; (3) ensure the appropriateness of financial instruments; and (4) manage the enterprise risk associated with financial institutions. See Note 6 for additional information on Financial Instruments.

### **Product Liability**

Accruals for product liability claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. As a result of cost and availability factors, effective 1 November 2005, the Company ceased purchasing third-party product liability insurance. Based on the availability of prior coverage, receivables for insurance recoveries related to product liability claims are recorded on an undiscounted basis, when it is probable that a recovery will be realized.

### **Research and Development**

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third-parties in connection with research and development collaborations are expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in other intangibles, net of accumulated amortization.

The Company enters into collaborative arrangements, typically with other pharmaceutical or biotechnology companies, to develop and commercialize drug candidates or intellectual property. These arrangements typically involve two (or more) parties who are active participants in the collaboration and are exposed to significant risks and rewards dependent on the commercial success of the activities. These collaborations usually involve various activities by one or more parties, including research and development, marketing and selling and distribution. Often, these collaborations require upfront, milestone and royalty or profit share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development. Amounts due from collaborative partners related to development activities are generally reflected as a reduction of research and development expense because the performance of contract development services is not central to the

Company's operations. In general, the income statement presentation for these collaborations is as follows:

<b>Nature/Type of Collaboration</b>	<b>Statements of Earnings Presentation</b>
Third-party sale of product	Sales to customers
Royalties/milestones paid to collaborative partner (post-regulatory approval)*	Cost of goods sold
Royalties received from collaborative partner	Other income (expense), net
Upfront payments & milestones paid to collaborative partner (pre-regulatory approval)	Research expense
Research and development payments to collaborative partner	Research expense
Research and development payments received from collaborative partner	Reduction of Research expense

\*Milestones are capitalized as intangible assets and amortized to cost of goods sold over the useful life.

### **Advertising**

Costs associated with advertising are expensed in the year incurred and are included in the selling, marketing and administrative expenses. Advertising expenses worldwide, which are comprised of television, radio, print media and Internet advertising, were \$2.4 billion in 2009, \$2.9 billion in 2008 and \$2.7 billion in 2007.

### **Income Taxes**

The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded with respect to the undistributed portion not intended for repatriation. At 3 January 2010 and 28 December 2008, the cumulative amount of undistributed international earnings were approximately \$32.2 billion and \$27.7 billion, respectively.

Deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities.

### **Net Earnings Per Share**

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock using the treasury stock method.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates are used when accounting for sales discounts, rebates, allowances and incentives, product liabilities, income taxes, depreciation, amortization, employee benefits, contingencies and intangible asset and

liability valuations. For instance, in determining annual pension and post-employment benefit costs, the Company estimates the rate of return on plan assets, and the cost of future health care benefits. Actual results may or may not differ from those estimates.

### Annual Closing Date

The Company follows the concept of a fiscal year, which ends on the Sunday nearest to the end of the month of December. Normally each fiscal year consists of 52 weeks, but every five or six years the fiscal year consists of 53 weeks, as was the case in 2009 and will be the case again in 2014.

### Reclassification

Certain prior period amounts have been reclassified to conform to current year presentation.

### Note 2: Cash, Cash Equivalents and Marketable Securities

**3 January 2010**

<i>(Dollars in Millions)</i>	<b>Amortized Cost</b>	<b>Unrealized Gains/(Losses)</b>	<b>Estimated Fair Value</b>
<b>Current Investments</b>			
Cash	\$2,517	-	2,517
Government Securities and obligations	13,370	1	13,371
Corporate debt securities	426	-	426
Money market funds	1,890	-	1,890
Time deposit	1,222	-	1,222
Total cash, cash equivalents and current marketable securities	\$19,425	1	19,426

**28 December 2008**

<i>(Dollars in Millions)</i>	<b>Amortized Cost</b>	<b>Unrealized Gains/(Losses)</b>	<b>Estimated Fair Value</b>
<b>Current Investments</b>			
Cash	3,276	-	3,276
Government Securities and obligations	7,486	4	7,490
Corporate debt securities	627	1	628
Money market funds	813	-	813
Time deposit	607	-	607
Total cash, cash equivalents	12,809	5	12,814



and current marketable securities

As of 3 January 2010, current marketable securities consist of \$3,434 million and \$181 million of government securities and obligations and corporate debt securities, respectively.

As of 28 December 2008, current marketable securities consist of \$1,663 million, \$342 million and \$36 million of government securities and obligations, corporate debt securities and time deposits, respectively.

Fair value of government securities and obligations and corporate debt securities were estimated using quoted broker prices in active markets.

The Company invests its excess cash in both deposits with major banks throughout the world and other high-quality money market instruments. The Company has a policy of making investments only with commercial institutions that have at least an A (or equivalent) credit rating.

### **Note 3: Inventories**

At the end of 2009 and 2008, inventories were comprised of:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>2008</b>
Raw materials and supplies	\$1,144	839
Goods in process	1,395	1,372
Finished goods	2,641	2,841
	<u>\$5,180</u>	<u>5,052</u>

### **Note 4: Property, Plant and Equipment**

At the end of 2009 and 2008, property, plant and equipment at cost and accumulated depreciation were:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>2008</b>
Land and land improvements	\$714	886
Buildings and building equipment	8,863	7,720
Machinery and equipment	17,153	15,234
Construction in progress	2,521	3,552
	<u>29,251</u>	<u>27,392</u>
Less accumulated depreciation	14,492	13,027
	<u>\$14,759</u>	<u>14,365</u>

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2009, 2008 and 2007 was \$101 million, \$147 million and \$130 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2009, 2008 and 2007 was \$2.1 billion, \$2.0 billion and \$1.9 billion, respectively.

Upon retirement or other disposal of property, plant and equipment, the costs and related amounts of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is recorded in earnings.

**Note 5: Intangible Assets and Goodwill**

At the end of 2009 and 2008, the gross and net amounts of intangible assets and goodwill were:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>2008</b>
<b>Intangible assets with definite lives:</b>		
Patents and trademarks – gross	\$5,697	5,119
Less accumulated amortization	2,177	1,820
Patents and trademarks – net	<b>\$3,520</b>	<b>3,299</b>
Other intangibles – gross	7,808	7,376
Less accumulated amortization	2,680	2,433
Other intangibles – net	<b>\$5,128</b>	<b>4,943</b>
Total intangible assets with definite lives – gross	\$13,505	12,495
Less accumulated amortization	4,857	4,253
Total intangible assets with definite lives - net	<b>\$8,648</b>	<b>8,242</b>
<b>Intangible assets with indefinite lives:</b>		
Trademarks	\$5,938	5,734
Purchased in-process research and development*	1,737	-
Total intangible assets with indefinite lives	<b>\$7,675</b>	<b>5,734</b>
Total intangible assets – net	<b>\$16,323</b>	<b>13,976</b>

\* Purchased in-process research and development will be accounted for as an indefinite-lived intangible asset until the underlying project is completed or abandoned.

Goodwill as of 3 January 2010 and 28 December 2008, as allocated by segment of business is as follows:

<i>(Dollars in Millions)</i>	<b>Consumer</b>	<b>Pharm</b>	<b>Med Dev and Diag</b>	<b>Total</b>
Goodwill at 30 December 2007	\$8,125	964	5,034	14,123
Acquisitions	191	-	286	477
Currency translation/other	(842)	(1)	(38)	(881)
Goodwill at December 28, 2008	\$7,474	963	5,282	13,719
Acquisitions	-	271	401	672
Currency translation/other*	600	10	(139)	471
Goodwill at 3 January 2010	<b>\$8,074</b>	<b>1,244</b>	<b>5,544</b>	<b>14,862</b>

\* Includes reclassification between segments.

The weighted average amortization periods for patents and trademarks and other intangible assets are 17 years and 28 years, respectively. The amortization expense of amortizable assets for the fiscal years ended 3 January 2010, 28 December 2008 and 30 December 2007 was \$675 million, \$788 million and \$844 million before tax, respectively. Certain patents and intangible assets were written down to fair value during fiscal years 2009, 2008 and 2007, with the resulting charge included in amortization expense.

The estimated amortization expense for the five succeeding years approximates \$700 million before tax, per year. Substantially all of the amortization expense is included in cost of products sold.

#### **Note 6: Fair Value Measurements**

During the fiscal first quarter of 2009, in accordance with U.S. GAAP the Company adopted the standard related to disclosures about derivative instruments and hedging activities. This standard requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gain and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

The Company uses forward exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany product and third-party purchases of raw materials denominated in foreign currency. The Company also uses cross currency interest rate swaps to manage currency risk primarily related to borrowings. Both types of derivatives are designated as cash flow hedges. The Company also uses forward exchange contracts to manage its exposure to the variability of cash flows for repatriation of foreign dividends. These contracts are designated as net investment hedges. Additionally, the Company uses forward exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward exchange contracts are not designated as hedges and therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities. The Company does not enter into derivative financial instruments for trading or speculative purposes, or contain credit risk related contingent features or requirements to post collateral. On an ongoing basis the Company monitors counterparty credit ratings. The Company considers credit non-performance risk to be low, because the Company enters into agreements with commercial institutions that have at least an A (or equivalent) credit rating. As of 3 January 2010, the Company had notional amounts outstanding for forward foreign exchange contracts and cross currency interest rate swaps of \$21 billion and \$4 billion, respectively.

As required by U.S. GAAP for derivative instruments and hedging activities, all derivative instruments are to be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The designation as a cash flow hedge is made at the entrance date into the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Gains/losses on net investment hedges are accounted for through the currency translation account and are insignificant. On an ongoing basis, the Company assesses

whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period earnings in other (income) and expense, net, and was insignificant for the fiscal year ended 3 January 2010 and 28 December 2008. Refer to Note 13 for disclosures of movements in Accumulated Other Comprehensive Income.

As of 3 January 2010, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was \$145 million after-tax. For additional information, see Note 13. The Company expects that substantially all of the amount related to foreign exchange contracts will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months excluding interest rate swaps. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative.

The following table is a summary of the activity for the fiscal year ended 3 January 2010 related to designated derivatives as defined in the Codification:

Cash Flow Hedges (Dollars in Millions)	Gain/(Loss) recognized in Accumulated OCI <sup>(1)</sup>	Gain/(Loss) reclassified from Accumulated OCI into income <sup>(1)</sup>	Gain/(Loss) recognized in Other Income/Expense <sup>(2)</sup>
Foreign exchange contracts	\$ (63)	(47) <sup>(A)</sup>	1
Foreign exchange contracts	(173)	70 <sup>(B)</sup>	(1)
Foreign exchange contracts	5	13 <sup>(C)</sup>	-
Cross currency interest rate swaps	241	(16) <sup>(D)</sup>	-
Foreign exchange contracts	28	(6) <sup>(E)</sup>	(12)
<b>Total</b>	<b>\$ 38</b>	<b>14</b>	<b>(12)</b>

(1) Effective portion

(2) Ineffective portion

(A) Included in Sales to customer

(B) Included in Cost of products sold

(C) Included in Research expense

(D) Included in Interest (Income)/Interest Expense, net

(E) Included in Other (Income)/Expense, net

For the fiscal year ended 3 January 2010, a gain of \$21 million was recognized in Other (income)/expense, net, relating to foreign exchange contracts not designated as hedging instruments under the Codification.

During the fiscal first quarter of 2008, in accordance with U.S. GAAP, the Company adopted the standard related to fair value measurements except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, which became effective during the first fiscal quarter of 2009. The effect of adoption on December 29, 2008 of this standard for non-financial assets and liabilities recorded at fair value on a non-recurring basis did not have a material impact on the Company's financial position and results of operations. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. During the fiscal first quarter of 2008, the Company adopted the standard related to fair value option for financial assets and financial liabilities. This standard permits the Company to measure certain financial assets and financial liabilities at fair value. The Company assessed the fair value option made available upon adopting this standard, and has elected not to apply the fair value option to any financial instruments that were not already recognized at fair value.

U.S. GAAP defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described in the table below with level 1 having the highest priority and level 3 having the lowest.

The fair value of a derivative financial instrument (i.e. forward exchange contract, currency swap) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position.

The Company also holds equity investments which are classified as level 1 since they are traded in an active exchange market.

During 2009, the Company acquired substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program through a newly formed company, JANSSEN Alzheimer Immunotherapy (JAI), of which the Company owns 50.1% and Elan owns 49.9%. In addition, the Company purchased approximately 107 million newly issued American Depositary Receipts (ADRs) of Elan, representing 18.4% of Elan's outstanding ordinary shares. As part of this transaction, the Company paid \$885 million to Elan and committed to fund up to \$250 million of Elan's share of research and development spending by JAI. Of this total consideration of \$1,135 million, \$793 million represents the fair value of the 18.4% investment in Elan based on Elan's share price in an actively traded market as of the date of this transaction. The IPR&D related to this transaction was \$679 million and is associated with bapineuzumab, a potential first-in-class treatment that is being evaluated for slowing the progression of Alzheimer's Disease. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 40–50% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 26%. The non-controlling interest related to this transaction was \$590 million, which the Company has recorded in other non-current liabilities.

During 2009, the Company entered into a strategic collaboration with Crucell N.V. which will focus on the discovery, development and commercialization of monoclonal antibodies and vaccines for the treatment and prevention of influenza and other infectious and non-

infectious diseases. In addition, the Company, through its affiliate, purchased approximately 18% of Crucell's outstanding ordinary shares for an aggregate purchase price of \$448 million. Of the total consideration paid, \$329 million represents the fair value of the investment based on Crucell's share price in an actively traded market as of the date of the transaction with the excess recorded to research and development expense in 2009.

The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

The Company's significant financial assets and liabilities measured at fair value as of 3 January 2010 and 28 December 2008 were as follows:

<i>(Dollars in Millions)</i>	<b>Quoted prices in active markets for identical assets Level 1</b>	<b>Significan t other observabl e inputs Level 2</b>	<b>Significan t unobserv able inputs Level 3</b>	<b>2009 Total</b>	<b>2008 Total*</b>
<b>Derivatives designated as hedging instruments:</b>					
<b>Assets:</b>					
Foreign exchange contracts	\$ -	436	-	436	1,238
Cross currency interest rate swaps	-	126**	-	126	110
<b>Total</b>	<b>-</b>	<b>562</b>	<b>-</b>	<b>562</b>	<b>1,348</b>
<b>Liabilities:</b>					
Foreign exchange contracts	-	608	-	608	1,298
Cross currency interest rate swaps	-	571***	-	571	1,033
<b>Total</b>	<b>-</b>	<b>1,179</b>	<b>-</b>	<b>1,179</b>	<b>2,331</b>
<b>Derivatives not designated as hedging instruments:</b>					
<b>Assets:</b>					
Foreign exchange contracts	-	33	-	33	84

<b>Liabilities:</b>					
Foreign exchange contracts	-	40	-	40	47
<b>Other investments</b>	<b>\$1,134</b>	<b>-</b>	<b>-</b>	<b>1,134</b>	<b>41</b>

\* 2008 assets and liabilities are all classified as Level 2 with the exception of other investments of \$41 millions which are classified as Level 1. \*\* Includes \$119 million of non-current assets.

\*\*\* Includes \$517 million of non-current liabilities

See Notes 2 and 7 for financial assets and liabilities held at carrying amount on the Consolidated Balance Sheet.

### Note 7: Borrowings

The components of long-term debt are as follows:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>Eff. Rate%</b>	<b>2008</b>	<b>Eff. Rate%</b>
3% Zero Coupon Convertible Subordinated Debentures due 2020	\$188	3.00%	183	3.00
4.95% Debentures due 2033	500	4.95	500	4.95
3.80% Debentures due 2013	500	3.82	500	3.82
6.95% Notes due 2029	294	7.14	294	7.14
6.73% Debentures due 2023	250	6.73	250	6.73
6.625% Notes due 2009	-	-	199	6.80
5.55% Debentures due 2017	1,000	5.55	1,000	5.55
5.95% Notes due 2037	995	5.99	995	5.99
5.50% Notes due 2024 (500MM GBP 1.6189) <sup>(2)</sup> /(500MM GBP 1.4759) <sup>(3)</sup>	803 <sup>(2)</sup>	5.71	731 <sup>(3)</sup>	5.71
4.75% Notes due 2019 (1B Euro 1.4382) <sup>(2)</sup> /(1B Euro 1.4000) <sup>(3)</sup>	1,429 <sup>(2)</sup>	5.35	1,390 <sup>(3)</sup>	5.35
5.15% Debentures due 2012	599	5.18	599	5.18
5.86% Debentures due 2038	700	5.86	700	5.86
5.15% Debentures due 2018	898	5.15	898	5.15
Other (Includes Industrial Revenue Bonds)	101		102	
	<b>8,257<sup>(4)</sup></b>	<b>5.42<sup>(1)</sup></b>	<b>8,341<sup>(4)</sup></b>	<b>5.46<sup>(1)</sup></b>
Less current portion	34		221	
	<b>\$8,223</b>		<b>\$8,120</b>	

(1) Weighted average effective rate.

- (2) Translation rate at 3 January 2010.
- (3) Translation rate at 28 December 2008.
- (4) The excess of the fair value over the carrying value of debt was \$0.8 billion in 2008 and \$1.4 billion in 2008.

Fair value of the non-current debt was estimated using market prices, which were corroborated by quoted broker prices in active markets.

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2009, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates \$10 billion which expires September 23, 2010. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material.

On 28 July 2000, ALZA Corporation, a subsidiary of the Company, completed a private offering of the 3% Zero Coupon Convertible Subordinated Debentures, which were issued at a price of \$551.26 per \$1,000 principal amount at maturity. Under the terms of the 3% Debentures, holders are entitled to convert their debentures into approximately 15.0 million shares of Johnson & Johnson stock at a price of \$40.102 per share. Approximately 11.4 million shares have been issued as of 3 January 2010, due to voluntary conversions by note holders. At the option of the holder, the 3% Debentures may be repurchased by the Company on 28 July 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may also redeem any or all of the 3% Debentures after 28 July 2003 at the issue price plus accreted original issue discount.

Throughout 2009 the Company continued to have access to liquidity through the commercial paper market. Short-term borrowings and the current portion of long-term debt amounted to approximately \$6.3 billion at the end of 2009, of which \$5.8 billion was borrowed under the Commercial Paper Program. The remainder represents principally local borrowing by international subsidiaries.

The Company filed a shelf registration with the Securities and Exchange Commission that became effective 11 March 2008 which enables the Company to issue an unlimited aggregate principal amount in debt securities and warrants to purchase debt securities.

Aggregate maturities of long-term obligations commencing in 2009 are:

<i>(Dollars in Millions)</i>					
2010	2011	2012	2013	2014	After 2014
\$34	35	615	507	9	7,057

#### **Note 8: Income Taxes**

The provision for taxes on income consists of:

<i>(Dollars in Millions)</i>	2009	2008	2007
Currently payable:			
U.S. taxes	\$2,410	2,334	2,990
International taxes	1,515	1,624	1,479



	3,925	3,958	4,469
Deferred:			
U.S. taxes	187	126	(722)
International taxes	(623)	(104)	(1,040)
	(436)	22	(1,762)
	<b>\$3,489</b>	<b>3,980</b>	<b>2,707</b>

A comparison of income tax expense at the U.S. statutory rate of 35% in 2009, 2008 and 2007, to the Company's effective tax rate is as follows:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
U.S.	\$7,141	6,579	5,237
International	8,614	10,350	8,046
Earnings before taxes on income:	<b>\$15,755</b>	<b>16,929</b>	<b>13,283</b>
Tax rates:			
U.S. statutory rate	35.0%	35.0	35.0
Puerto Rico and Ireland operations	(5.1)	(6.8)	(8.8)
Research and orphan drug tax credits	(0.6)	(0.6)	(0.8)
U.S. state and local	1.8	1.6	2.1
International subsidiaries excluding Ireland	(6.7)	(5.6)	(7.3)
U.S. manufacturing deduction	(0.4)	(0.4)	(0.3)
In process research and development (IPR&D)	0.0	0.4	2.1
U.S. Tax international income	(1.6)	(0.5)	(1.9)
All other	(0.3)	0.4	0.3
Effective tax rate	<b>22.1%</b>	<b>23.5</b>	<b>20.4</b>

The Company has subsidiaries manufacturing in Ireland under an incentive tax rate. In addition, the Company has subsidiaries operating in Puerto Rico under various tax incentive grants. The decrease in the 2009 tax rate was primarily due to increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions. The increase in the 2008 tax rate was mainly attributed to increases in taxable income in higher tax jurisdictions relative to taxable income in lower jurisdictions, as well as a business restructuring of certain international subsidiaries in 2007, resulting in a one-time benefit of \$267 million, which reduced the effective tax rate by 2%.

Temporary differences and carry forwards for 2009 and 2008 are as follows:

<i>(Dollars in Millions)</i>	<b>2009 Deferred Tax</b>		<b>2008 Deferred Tax</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Employee related obligations	\$2,153		\$2,615	
Stock based compensation	1,291		1,296	
Depreciation		(661)		(523)
Non-deductible intangibles		(2,377)		(1,791)
International R&D capitalized for tax	1,989		1,914	
Reserves & liabilities	1,014		688	
Income reported for tax purposes	648		629	
Net operating loss carryforward international	615		393	
Miscellaneous international	1,474	(110)	964	(251)
Miscellaneous U.S.	799		1,828	
Total deferred income taxes	<b>\$9,983</b>	<b>(3,148)</b>	<b>\$10,327</b>	<b>(2,565)</b>

The difference between the net deferred tax on income per the balance sheet and the net deferred tax above is included in taxes on income on the balance sheet. The 2009 and 2008 deferred tax Miscellaneous U.S. includes current year tax receivables. The Company has a wholly-owned international subsidiary which has cumulative net losses. The Company believes that it is more likely than not that the subsidiary will realize future taxable income sufficient to utilize these deferred tax assets.

The following table summarizes the activity related to unrecognized tax benefits:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Beginning of year	\$1,978	1,653	1,262
Increases related to current year tax positions	555	545	487
Increases related to prior period tax positions	203	87	77
Decreases related to prior period tax positions	(163)	(142)	(117)
Settlements	(87)	(137)	(14)
Lapse of statute of limitations	(83)	(28)	(42)
End of year	\$2,403	1,978	1,653

The Company had \$2.4 billion and \$2.0 billion of unrecognized tax benefits, as of 3 January 2010 and 28 December 2008, respectively. All of the unrecognized tax benefits of approximately \$2.4 billion at 3 January 2010, if recognized, would affect the Company's annual effective tax rate. The Company conducts business and files tax returns in numerous countries and currently has tax audits in progress with a number of tax authorities. The U.S. Internal Revenue Service (IRS) has completed its audit for the tax years through 2002. In other major jurisdictions where the Company conducts business, the

years remain open generally back to the year 2002 with some jurisdictions remaining open as far back as 1995. The Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next twelve months. The Company believes that it is possible that within the next twelve months, the IRS may complete its audit of the tax years 2003–2005. The close of the audit may result in the reduction of unrecognized tax benefits. The Company is not able to provide a reasonably reliable estimate of the timing of any other future tax payments relating to uncertain tax positions.

The Company classifies liabilities for unrecognized tax benefits and related interest and penalties as long-term liabilities. Interest expense and penalties related to unrecognized tax benefits are classified as income tax expense. During the fiscal year ended 3 January 2010, the Company recognized \$85 million of interest expense and \$30 million of interest income with an after-tax impact of \$36 million expense. For the fiscal year ended 28 December 2008, the Company recognized \$106 million of interest expense with an after tax impact of \$69 million. For the fiscal year ended December 30, 2007, the Company recognized \$58 million of interest expense and \$42 million of interest income with an after-tax impact of \$10 million expense. The total amount of accrued interest was \$309 million and \$227 million in 2009 and 2008, respectively.

#### **Note 9: Employee Related Obligations**

At the end of 2009 and 2008, employee related obligations recorded on the Consolidated Balance Sheet were:

<i>(Dollars in Millions)</i>	<b>2009</b>	<b>2008</b>
Pension benefits	\$2,792	4,382
Postretirement benefits	2,245	2,217
Post-employment benefits	1,504	870
Deferred compensation	790	772
	<hr/> 7,331	<hr/> 8,241
Less current benefits payable	562	450
Employee related obligations	<hr/> \$6,769	<hr/> \$7,791
– long-term		

Prepaid employee related obligations of \$266 million and \$136 million for 2009 and 2008, respectively, are included in other assets on the consolidated balance sheet.

#### **Note 10: Pensions and Other Benefit Plans**

The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, which cover most employees worldwide. The Company also provides postretirement benefits, primarily health care, to all U.S. retired employees and their dependents.

Many international employees are covered by government-sponsored programs and the cost to the Company is not significant.

Retirement plan benefits are primarily based on the employee's compensation during the last three to five years before retirement and the number of years of service. International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts, or reserves are provided.

The Company does not fund retiree health care benefits in advance and has the right to modify these plans in the future.

The Company uses the date of its consolidated financial statements (3 January 2010 and 28 December 2008, respectively) as the measurement date for all U.S. and international retirement and other benefit plans.

In accordance with U.S. GAAP the Company has adopted the recent standards related to employers' accounting for defined benefit pension and other postretirement plans.

Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for 2009, 2008, and 2007 include the following components:

<i>(Dollars in Millions)</i>	<b>Retirement Plans</b>			<b>Other Benefit Plans</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Service cost	\$511	545	597	\$137	142	140
Interest cost	746	701	656	174	166	149
Expected return on plan assets	(934)	(876)	(809)	(1)	(2)	(2)
Amortization of prior service cost	13	10	10	(5)	(4)	(7)
Amortization of net transition asset	1	2	1	-	-	-
Recognized actuarial losses	155	62	186	55	64	66
Curtailments and settlements	(11)	7	5	(1)	-	-
Net periodic benefit cost	\$481	451	646	\$359	366	346

The net periodic benefit cost attributable to U.S. retirement plans was \$286 million, \$220 million and \$379 million in 2009, 2008 and 2007, respectively.

Amounts expected to be recognized in net periodic benefit cost in the coming year for the Company's defined benefit retirement plans and other postretirement plans:

*(Dollars in Millions)*

Amortization of net transition obligation	\$1
Amortization of net actuarial losses	296
Amortization of prior service cost	5

Unrecognized gains and losses for the U.S. pension plans are amortized over the average remaining future service for each plan. For plans with no active employees, they are amortized over the average life expectancy. The amortization of gains and losses for the other U.S. benefit plans is determined by using a 10% corridor of the greater of the market value of assets or the projected benefit obligation. Total unamortized gains and losses in excess of the corridor are amortized over the average remaining future service.

Prior service costs/benefits for the U.S. pension plans are amortized over the remaining future service of plan participants at the time of the plan amendment. Prior service cost/benefit for the other U.S. benefit plans is amortized over the average remaining service to full eligibility age of plan participants at the time of the plan amendment.

The weighted-average assumptions in the following table represent the rates used to develop the actuarial present value of projected benefit obligation for the year listed and also the net periodic benefit cost for the following year.

<i>(Dollars in Million)</i>	Retirement Plans			Other Benefit Plans		
	2009	2008	2007	2009	2008	2007
<b>US Benefit Plans</b>						
Discount rate	6.50%	6.50	6.50	6.50%	6.50	6.50
Expected long-term rate of return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00
Rate of increase in compensation levels	4.50	4.50	4.50	4.50	4.50	4.50
<b>International Benefit Plans</b>						
Discount rate	5.75%	6.00	5.50	6.75%	7.25	6.50
Expected long-term rate of return on plan assets	8.00	8.00	8.25	-	-	-
Rate of increase in compensation levels	4.00	4.00	4.00	4.75	4.50	4.50

The Company's discount rates are determined by considering current yield curves representing high quality, long-term fixed income instruments. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumption is determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

The following table displays the assumed health care cost trend rates, for all individuals:

<b>Health Care Plans</b>	<b>2009</b>	<b>2008</b>
Health care cost trend rate assumed for next year	8.00%	9.00
Rate to which the cost trend rate is assumed to decline (ultimate trend)	5.00%	5.00
Year the rate reaches the ultimate trend rate	2017	2015

A one-percentage-point change in assumed health care cost trend rates would have the following effect:

<b>Health Care Plans</b> <i>(Dollars in Millions)</i>	<b>One-Percentage-Point Increase</b>	<b>One-Percentage-Point Decrease</b>
Total interest and service cost	\$34	\$(28)
Postretirement benefit obligation	315	(254)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2009 and 2008 for the Company's defined benefit retirement plans and other postretirement plans:

<i>(Dollars in Millions)</i>	<b>Retirement Plans</b>		<b>Other Benefit Plans</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Change in Benefit Obligation</b>				
Projected benefit obligation – beginning of year	\$11,923	12,002	\$2,765	2,721
Service cost	511	545	137	142
Interest cost	746	701	174	166
Plan participant contributions	50	60	-	-
Amendments	3	10	-	1
Actuarial (gains) losses	412	(318)	51	(124)
Divestitures & acquisitions	15	-	13	(2)
Curtailments & settlements & restructuring	(3)	(2)	748	-
Benefits paid from plan	(570)	(535)	(313)	(122)
Effect of exchange rates	362	(540)	15	(17)
Projected benefit obligation – end of year*	<b>\$13,449</b>	<b>11,923</b>	<b>\$3,590</b>	<b>2,765</b>
<b>Change in Plan Assets</b>				
Plan assets at fair value – beginning of year	\$7,677	10,469	\$17	29
Actual return (loss) on plan assets	2,048	(2,787)	4	(7)
Company contributions	1,354	978	308	117
Plan participant contributions	50	60	-	-
Settlements	-	(1)	-	-
Benefits paid from plan assets	(570)	(535)	(313)	(122)
Effect of exchange rates	364	(507)	-	-
Plan assets at fair value – end of year	<b>\$10,923</b>	<b>7,677</b>	<b>\$16</b>	<b>\$17</b>
Funded status – end of year*	<b>\$(2,526)</b>	<b>\$(4,246)</b>	<b>\$(3,574)</b>	<b>\$(2,748)</b>
<b>Amounts Recognized in the Company's Balance Sheet consist of the following:</b>				
Non-current assets	\$266	136	\$-	-
Current liabilities	(53)	(45)	(484)	(212)
Non-current liabilities	(2,739)	(4,337)	(3,090)	(2,536)
Total recognized in the consolidated balance sheet – end of year	<b>\$(2,526)</b>	<b>(4,246)</b>	<b>\$(3,574)</b>	<b>(2,748)</b>
<b>Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:</b>				
Net actuarial loss	\$3,415	4,209	\$924	1,006
Prior service cost (credit)	47	43	(23)	(29)

Unrecognized net transition obligation	5	6	-	-
Total before tax effects	<b>\$3,467</b>	<b>4,258</b>	<b>\$901</b>	<b>977</b>
<b>Accumulated Benefit Obligations – end of year*</b>	<b>\$11,687</b>	<b>10,357</b>		

**Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income**

Net periodic benefit cost	<b>\$481</b>	<b>451</b>	<b>\$359</b>	<b>366</b>
Net actuarial loss (gain)	(704)	3,344	48	60
Amortization of net actuarial loss	(134)	(68)	(131)	(65)
Prior service cost	3	10	-	1
Amortization of prior service cost	(13)	(11)	5	6
Effect of exchange rates	57	(102)	2	(1)
Total recognized in other comprehensive income, before tax	<b>\$(791)</b>	<b>3,173</b>	<b>\$(76)</b>	<b>1</b>
Total recognized in net periodic benefit cost and other comprehensive income	<b>\$(310)</b>	<b>3,624</b>	<b>\$283</b>	<b>367</b>

\*The Company does not fund certain plans, as funding is not required. \$1.2 billion of the projected benefit obligation, \$1.2 billion of the underfunded status, for each of the fiscal years 2009 and 2008 relates to the unfunded pension plans. \$1.0 billion and \$0.9 billion of the accumulated benefit obligation for the fiscal years 2009 and 2008, respectively, relates to these unfunded pension plans.

Plans with accumulated benefit obligations in excess of plan assets consist of the following:

(Dollars in Millions)

	Retirement Plans	
	2009	2008
Accumulated benefit obligation	\$(4,065)	(9,885)
Projected benefit obligation	(4,663)	(11,379)
Plan assets at fair value	2,564	7,021

The following table displays the projected future benefit payments from the Company's retirement and other benefit plans:

(Dollars in Millions)

	2010	2011	2012	2013	2014	2015-2019
<b>Projected future benefit payments</b>						
Retirement plans	\$558	553	582	604	636	3,925
Other benefit plans – gross	\$209	198	196	198	197	995
Medicare rebates	(9)	-	-	-	-	-
Other benefit plans – net	\$200	198	196	198	197	995

In 2009, the Company contributed \$839 million and \$515 million to its U.S. and international pension plans, respectively. In addition, the Company funded \$500 million to its U.S. plans in the first two months of 2010.

In 2006, Congress passed the Pension Protection Act of 2006. The Act amended the Employee Retirement Income Security Act (ERISA) for plan years beginning after 2007 and established new minimum funding standards for U.S. employer defined benefit plans. The Company plans to continue to fund its U.S. defined benefit plans to comply with the Act.

International plans are funded in accordance with local regulations. Additional discretionary contributions are made when deemed appropriate to meet the long-term obligations of the plans. For certain plans, funding of is not a common practice as funding provides no economic benefit. Consequently, the Company has several pension plans that are not funded.

The following table displays the projected future minimum contributions to the Company's US and international unfunded retirement plans. These amounts do not include any discretionary contributions that the Company may elect to make in the future:

<i>(Dollars in Millions)</i>	2010	2011	2012	2013	2014	2015-2019
<b>Projected future contributions</b>						
Unfunded U.S. retirement plans	\$34	36	38	40	44	288
Unfunded International retirement plans	\$32	29	31	33	32	186

Each pension plan is overseen by a local committee or board that is responsible for the overall administration and investment of the pension plans. In determining investment policies, strategies and goals, each committee or board considers factors including local pension rules and regulations; local tax regulations; availability of investment vehicles (separate accounts, commingled accounts, insurance funds, etc.); funded status of the plans; ratio of actives to retirees; duration of liabilities; and other relevant factors including diversification, liquidity of local markets and liquidity of base currency. A majority of the Company's pension funds are open to new entrants and are expected to be on-going plans. Permitted investments are primarily liquid and/or listed, with little reliance on illiquid and non-traditional investments such as hedge funds. An asset allocation of 75% equities and 25% fixed income is generally pursued unless local regulations and illiquidity require otherwise.

The Company's retirement plan asset allocation at the end of 2009 and 2008 and target allocations for 2010 are as follows:

	Percent of Plan Assets		Target Allocation
	2009	2008	2010
<b>US Retirement Plans</b>			
Equity securities	76%	70%	75%
Debt securities	24	30	25
Total plan assets	100%	100%	100%



### International Retirement Plans

Equity securities	65%	61%	65%
Debt securities	34	38	34%
Real estate and other	1	1	1
Total plan assets	100%	100%	100%

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of \$16 million and \$17 million at 3 January 2010 and 28 December 2008, respectively.

The fair value of Johnson & Johnson common stock directly held in plan assets was \$469 million (4.3% of total plan assets) at 3 January 2010 and \$416 million (5.4% of total plan assets) at 28 December 2008.

### DETERMINATION OF FAIR VALUE

The Plan has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon models that primarily use, as inputs, market-based or independently sourced market parameters, including yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves.

While the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

### VALUATION HIERARCHY

The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described in the table below with Level 1 having the highest priority and Level 3 having the lowest.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for the investments measured at fair value.

- Short-term investments — Cash and quoted short-term instruments are valued at the closing price or the amount held on deposit by the custodian bank. Other investments are through investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in a market that is not active and classified as Level 2.
- Government and agency securities — A limited number of these investments are valued at the closing price reported on the major market on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. When quoted

market prices for a security are not available in an active market, they are classified as Level 2.

- Debt instruments — A limited number of these investments are valued at the closing price reported on the major market on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified as Level 1.

If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified as Level 2. Level 3 debt instruments are priced based on unobservable inputs.

- Equity securities — Common stocks are valued at the closing price reported on the major market on which the individual securities are traded. Substantially all common stock is classified within Level 1 of the valuation hierarchy.

- Commingled funds — The investments are public investment vehicles valued using the NAV provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Assets in the Level 2 category have a quoted market price in a market that is not active.

- Insurance contracts — The instruments are issued by insurance companies. The fair value is based on negotiated value and the underlying investments held in separate account portfolios as well as considering the credit worthiness of the issuer. The underlying investments are government, asset-backed and fixed income securities. In general, insurance contracts are classified as Level 3 as there are no quoted prices nor other observable inputs for pricing.

- Other assets — Other assets are represented primarily by limited partnerships and real estate investments, as well as commercial loans and commercial mortgages that are not classified as corporate debt. Other assets that are exchange listed and actively traded are classified as Level 1 while inactively traded assets are classified as Level 2. Most limited partnerships represent investments in private equity and similar funds that are valued by the general partners. These, as well as any other assets valued using unobservable inputs, are classified as Level 3.

The following table sets forth the trust investments measured at fair value as of 3 January 2010:

<i>(Dollars in Millions)</i>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total assets</b>
Short-term investment funds	\$91	358	-	449
Government and agency securities	-	1,165	-	1,165
Debt instruments	3	1,145	5	1,153
Equity securities	5,068	58	15	5,141

Commingled funds	-	2,673	26	2,699
Insurance contracts	-	-	32	32
Other assets	31	171	82	284
<b>Trust investments at fair value</b>	<b>\$5,193</b>	<b>5,570</b>	<b>160</b>	<b>10,923</b>

### LEVEL 3 GAINS AND LOSSES

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended 3 January 2010:

<i>(Dollars in Millions)</i>	Debt Instruments	Equity Securities	Commingled Funds	Insurance Contracts	Other Assets	Total Level 3
<b>Balance 28 December 2008</b>	\$7	15	15	29	85	151
Realized gains (losses)	-	-	-	3	-	3
Unrealized gains (losses)	2	(2)	(2)	-	(3)	(5)
Purchases, sales, issuances and settlements, net	(4)	2	13	-	-	11
<b>Balance 3 January 2010</b>	<b>\$5</b>	<b>15</b>	<b>26</b>	<b>32</b>	<b>82</b>	<b>160</b>

### Note 11: Savings Plan

The Company has voluntary 401 (k) savings plans designed to enhance the existing retirement programs covering eligible employees. The Company matches a percentage of each employee's contributions consistent with the provisions of the plan for which he/she is eligible. Total Company matching contributions to the plans were \$163 million, \$166 million and \$169 million in 2009, 2008 and 2007, respectively.

### Note 12: Capital and Treasury Stock

Changes in treasury stock were:

<i>(Dollars in Millions Except Treasury Stock Number of Shares in Thousands)</i>	Treasury Stock	
	Shares	Amount
Balance at 31 December 2006	226,612	\$10,974

Employee compensation and stock option plans	(33,296)	(2,180)
Conversion of subordinated debentures	(194)	(13)
Repurchase of common stock	86,498	5,607
Balance at 30 December 2007	279,620	14,388
Employee compensation and stock option plans	(29,906)	(2,005)
Conversion of subordinated debentures	(19)	(1)
Repurchase of common stock	100,970	6,651
Balance at 28 December 2008	350,665	\$19,033
Employee compensation and stock option plans	(22,161)	(1,377)
Conversion of subordinated debentures	(96)	(6)
Repurchase of common stock	37,114	2,130
Balance at 3 January 2010	365,522	\$19,780

Aggregate shares of Common Stock issued were approximately 3,120 million shares at the end of 2009, 2008 and 2007.

Cash dividends paid were \$1.930 per share in 2009, compared with dividends of \$1.795 per share in 2008 and \$1.620 per share in 2007.

**Note 13: Accumulated Other Comprehensive Income**

Components of other comprehensive income/(loss) consist of the following:

<i>(Dollars in Millions)</i>	<b>Foreign Currency Translation</b>	<b>Gains/(Losses) on Securities</b>	<b>Employee Benefit Plans</b>	<b>Gains/(Losses) on Derivatives &amp; Hedges</b>	<b>Total Accumulated Other Comprehensive Income/(Loss)</b>
31 Dec. 2006	\$(158)	61	(2,030)	9	(2,118)
2007 changes					
Unrealized gain (loss)	-	28	-	(78)	
Net amount reclassified to net earnings	-	(5)	-	24	
Net 2007 changes	786	23	670	(54)	1,425
30 Dec. 2007	\$628	84	(1,360)	(45)	(693)
2008 changes					
Unrealized gain (loss)	-	32	-	94	
Net amount reclassified to net earnings	-	(27)	-	72	

Net 2008 changes	(2,499)	(59)	(1,870)	166	(4,262)
28 Dec. 2008	\$(1,871)	25	(3,230)	121	(4,955)
2009 changes					
Unrealized gain (loss)	-	(52)	-	38	
Net amount reclassified to net earnings	-	(3)	-	(14)	
Net 2009 charges	1,363	(55)	565	24	1,897
3 January 2010	\$(508)	(30)	(2,665)	145	3,058

The tax effect on the unrealized gains/(losses) on the equity securities was income of \$14 million in 2009 and expense of \$14 million and \$46 million in 2008 and 2007, respectively. The tax effect related to employee benefit plans was \$302 million, \$1,090 million and \$349 million in 2009, 2008 and 2007, respectively. The tax effect on the gains/(losses) on derivatives and hedges was expense of \$78 million and \$70 million in 2009 and 2008, respectively, and income of \$24 million in 2007. See Note 6 for additional information relating to derivatives and hedging.

The currency translation adjustments are not currently adjusted for income taxes as they relate to permanent investments in international subsidiaries.

#### **Note 14: International Currency Translation**

For translation of its subsidiaries operating in non-U.S. Dollar currencies, the Company has determined that the local currencies of its international subsidiaries are the functional currencies except those in highly inflationary economies, which are defined as those which have had compound cumulative rates of inflation of 100% or more during the past three years, or where a substantial portion of its cash flows are not in the local currency.

In consolidating international subsidiaries, balance sheet currency effects are recorded as a component of accumulated other comprehensive income. This equity account includes the results of translating all balance sheet assets and liabilities at current exchange rates, except for those located in highly inflationary economies. The translation of balance sheet accounts for highly inflationary economies are reflected in the operating results.

An analysis of the changes during 2009, 2008 and 2007 for foreign currency translation adjustments is included in Note 13.

Net currency transaction and translation gains and losses included in other (income) expense were losses of \$210 million, \$31 million, and \$23 million in 2009, 2008 and 2007, respectively.

#### **Note 15: Earnings Per Share**

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal years ended 3 January 2010, 28 December 2008 and 30 December 2007:

<i>(Shares in Millions Except Per Share Data)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Basic net earnings per share	\$4.45	4.62	3.67
Average shares outstanding – basic	2,759.5	2,802.5	2,882.9
Potential shares exercisable under stock option plans	118.0	179.0	178.6
Less: shares repurchased under treasury stock method	(92.0)	(149.6)	(154.5)
Convertible debt shares	3.6	3.7	3.7
Adjusted average shares outstanding – diluted	2,789.1	2,835.6	2,910.7
Diluted net earnings per share	\$4.40	4.57	3.63

The diluted net earnings per share calculation includes the dilutive effect of convertible debt that is offset by the related reduction in interest expense of \$4 million after tax for years 2009, 2008 and 2007.

Diluted net earnings per share excludes 121 million, 59 million and 64 million shares underlying stock options for 2009, 2008 and 2007, respectively, as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

#### **Note 16: Rental Expense and Lease Commitments**

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately \$322 million in 2009, \$309 million in 2008 and \$302 million in 2007.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at 3 January 2010 are:

<i>(Dollars in Millions)</i>						
<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>After 2014</b>	<b>Total</b>
\$178	150	128	103	87	94	740

Commitments under capital leases are not significant.

#### **Note 17: Common Stock, Stock Option Plans and Stock Compensation Agreements**

##### **STOCK OPTIONS**

At 3 January 2010, the Company had 11 stock-based compensation plans. The shares outstanding are for contracts under the Company's 1995 and 2000 Stock Option Plans, the 2005 Long-Term Incentive Plan, the 1997 Non-Employee Director's Plan and the ALZA, Inverness, and Scios Stock Option Plans. During 2009, no options or restricted shares were granted under any of these plans except under the 2005 Long-Term Incentive Plan.

The compensation cost that has been charged against income for these plans was \$628 million, \$627 million and \$698 million for 2009, 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was \$210 million, \$210 million and \$238 million for 2009, 2008 and 2007,

respectively. Share-based compensation costs capitalized as part of inventory were insignificant in all periods.

Stock options expire 10 years from the date of grant and vest over service periods that range from six months to five years. All options are granted at the average of the high and low prices of the Company's common stock on the New York Stock Exchange on the date of grant. Under the 2005 Long-Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 139.7 million at the end of 2009.

The Company settles employee stock option exercises with treasury shares. Treasury shares are replenished throughout the year for the number of shares used to settle employee stock option exercises.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the money traded Johnson & Johnson options with a life of 2 years. Historical data is used to determine the expected life of the option. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

The average fair value of options granted was \$8.35, \$7.66, and \$11.67 in 2009, 2008, and 2007, respectively. The fair value was estimated based on the weighted average assumptions of:

	2009	2008	2007
Risk-free rate	2.71%	2.97%	4.78%
Expected volatility	19.5%	15.0%	14.7%
Expected life	6.0 yrs	6.0 yrs	6.0 yrs
Dividend yield	3.30%	2.90%	2.50%

A summary of option activity under the Plan as of 31 January 2010, 31 December 2008 and 31 December 2007 and changes during the years ending on those dates is presented below:

<i>(Shares in Thousands)</i>	<b>Outstanding Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value (Dollars in Millions)</b>
Shares at 31 December 2006	242,927	54.57	\$2,788
Options granted	26,789	65.61	
Options exercised	(33,224)	45.92	
Options cancelled/forfeited	(7,863)	63.00	
Shares at 30 December 2007	228,629	56.83	\$2,411
Options granted	22,428	61.80	
Options exercised	(30,033)	50.27	

Options cancelled/forfeited	(5,525)	61.90	
Shares at 28 December 2008	215,499	58.14	\$597
Options granted	21,576	58.32	
Options exercised	(18,225)	50.97	
Options canceled/forfeited	(6,131)	61.85	
Shares at 3 January 2010	<b>212,719</b>	<b>\$58.66</b>	<b>\$1,310</b>

The total intrinsic value of options exercised was \$184 million, \$506 million and \$625 million in 2009, 2008 and 2007, respectively. The total unrecognized compensation cost was \$612 million as of 3 January 2010, \$632 million as of 28 December 2008 and \$652 million as of 30 December 2007. The weighted average period for this cost to be recognized was 1.16 years, 1.06 years and 1.01 years for 2009, 2008 and 2007, respectively.

The following table summarizes stock options outstanding and exercisable at 3 January 2010:

Exercise Price Range	<i>(Shares in Thousands)</i>			Exercisable	
	Outstanding	Average	Average	Options	Average
	Options	Life <sup>(1)</sup>	Exercise Price		Exercise Price
\$7.33-\$28.09	104	1.5	\$22.89	104	\$22.89
\$31.27-\$40.08	131	0.3	35.83	131	35.83
\$41.26-\$49.86	1,024	1.2	47.09	1,024	47.09
\$50.52-\$52.11	17,328	0.8	50.70	17,328	50.70
\$52.13-\$53.77	22,193	3.1	52.22	22,152	52.22
\$53.93-\$54.89	26,155	4.0	53.93	26,156	53.93
\$55.01-\$58.25	26,332	2.1	57.30	26,328	57.30
\$58.33-\$65.10	63,805	7.7	59.48	21,367	58.48
\$65.62-\$68.37	55,647	5.8	65.97	33,759	66.19
	<b>212,719</b>	<b>5.0</b>	<b>\$58.66</b>	<b>148,349</b>	<b>\$57.26</b>

(1) Average contractual life remaining in years.

Stock options exercisable at 28 December 2008 and 30 December 2007 were 144,962 at an average price of \$56.25 and an average life of 5.3 years and 137,310 at an average price of \$52.33 and an average life of 5.6 years, respectively.

## RESTRICTED SHARE UNITS

The Company grants restricted share units with a vesting period of three years. The Company settles employee stock issuance with treasury shares. Treasury shares are replenished throughout the year for the number of shares used for employee stock issuances.

A summary of share activity under the Plan as of 3 January 2010:



<i>(Share in Thousands)</i>	<b>Outstanding Shares</b>
Shares at 31 December 2006	6,885
Shares granted	8,029
Shares issued	(33)
Shares cancelled/forfeited	(1,220)
Shares at 30 December 2007	13,661
Shares granted	10,105
Shares issued	(40)
Shares cancelled/forfeited	(1,468)
Shares at 28 December 2008	22,258
Shares granted	11,172
Shares issued	(5,714)
Shares canceled/forfeited	(1,392)
Shares at 3 January 2010	26,324

The average fair value of the restricted share units granted was \$52.79, \$56.70 and \$60.86 in 2009, 2008 and 2007, respectively, using the fair market value at the date of grant. The fair value of restricted share units was discounted for dividends, which are not paid on the restricted share units during the vesting period. The fair value of restricted share units settled was \$308.4 million, \$2.5 million and \$1.8 million in 2009, 2008 and 2007, respectively.

**Note 18: Segments of Business<sup>(1)</sup> and Geographic Areas**

*(Dollars in Millions)*

		<b>Sales to customers<sup>(2)</sup></b>		
		<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Consumer</b>				
United States		\$6,837	6,937	6,408
International	8,966	9,117	8,085	
Total		<b>15,803</b>	<b>16,054</b>	<b>14,493</b>
<b>Pharmaceutical</b>				
United States		13,041	14,831	15,603
International	9,479	9,736	9,263	
Total		<b>22,520</b>	<b>24,567</b>	<b>24,866</b>
<b>Medical Devices and Diagnostics</b>				
United States		11,011	10,541	10,433
International		12,563	12,585	11,303
Total		<b>23,574</b>	<b>23,126</b>	<b>21,736</b>
<b>Worldwide Total</b>		<b>\$61,897</b>	<b>63,747</b>	<b>61,095</b>

<i>(Dollars in Millions)</i>	Operating Profit			Identifiable Assets		
	2009 <sup>(5)</sup>	2008 <sup>(6)</sup>	2007 <sup>(7)</sup>	2009	2008	2007
Consumer	\$2,475	2,674	2,277	\$24,671	23,765	26,550
Pharmaceutical	6,413	7,605	6,540	21,460	19,544	19,780
Medical Devices and Diagnostics	7,694	7,223	4,846	22,853	20,779	19,978
Total	16,582	17,502	13,663	68,984	64,088	66,308
Less: Expense not allocated to segments <sup>(3)</sup>	827	573	380			
General corporate <sup>(4)</sup>				25,698	20,824	14,646
Worldwide total	<b>\$15,755</b>	<b>16,929</b>	<b>13,283</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>

<i>(Dollars in Millions)</i>	Additions to Property, Plant and Equipment			Depreciation and Amortization		
	2009	2008	2007	2009	2008	2007
Consumer	\$439	499	504	\$513	489	472
Pharmaceutical	535	920	1,137	922	986	1,033
Medical Devices and Diagnostics	1,114	1,251	919	1,124	1,146	1,080
Segments total	2,088	2,670	2,560	2,559	2,621	2,585
General corporate	277	396	382	215	211	192
Worldwide total	<b>\$2,365</b>	<b>3,066</b>	<b>2,942</b>	<b>\$2,774</b>	<b>2,832</b>	<b>2,777</b>

<i>(Dollars in Millions)</i>	Sales to Customers <sup>(2)</sup>			Long-lived Assets <sup>(8)</sup>		
	2009	2008	2007	2009	2008	2007
United States	\$30,889	32,309	32,444	\$22,399	21,674	21,685
Europe	15,934	16,782	15,644	17,347	14,375	15,578
Western Hemisphere excluding U.S.	5,156	5,173	4,681	3,540	3,328	3,722
Asia-Pacific, Africa	9,918	9,483	8,326	1,868	1,898	1,261
Segments total	61,897	63,747	61,095	45,154	41,275	42,246
General corporate				790	785	702
Other non long-lived assets				48,738	42,852	38,006
Worldwide total	<b>\$61,897</b>	<b>63,747</b>	<b>61,095</b>	<b>\$94,682</b>	<b>84,912</b>	<b>80,954</b>

(1) See Note 1 for a description of the segments in which the Company operates.

(2) Export sales are not significant. In 2009, 2008 and 2007, the Company did not have a customer that represented 10% of total revenues.

(3) Amounts not allocated to segments include interest (income) expense, non-controlling interests and general corporate (income) expense.

(4) General corporate includes cash and marketable securities.

(5) Includes \$1,186 million of restructuring expense, comprised of \$369 million, \$496 million, and \$321 million for the Consumer, Pharmaceutical, and Medical Devices and Diagnostics segments, respectively. Includes \$386 million of fourth quarter net litigation gain, comprised of a \$92 million expense in the Pharmaceutical segment and a gain of \$478 million in the Medical Devices and Diagnostics segment.

(6) Includes \$7 million and \$174 million of IPR&D for the Consumer and Medical Devices and Diagnostics segments, respectively. Includes \$379 million of fourth quarter net litigation gain, comprised of a \$50 million expense in the Consumer segment and a gain of \$429 million in the Medical Devices and Diagnostics segment. The Medical Devices and Diagnostics segment also includes \$536 million gain on the divestiture of the Professional Wound Care business of Ethicon, Inc.

(7) Includes \$745 million of restructuring expense, comprised of \$15 million, \$429 million, and \$301 million for the Consumer, Pharmaceutical, and Medical Devices and Diagnostics segments, respectively. The Medical Devices and Diagnostics segment includes \$807 million of IPR&D. The Pharmaceutical segment also includes \$678 million for the write-down of the NATRECOR® intangible asset.

(8) Long-lived assets include property, plant and equipment, net for 2009, 2008 and 2007 of \$14,759, \$14,365 and \$14,185, respectively, and intangible assets and goodwill, net for 2009, 2008 and 2007 of \$31,185, \$27,695 and \$28,763, respectively

#### Note 19: Selected Quarterly Financial Data (Unaudited)

Selected unaudited quarterly financial data for the years 2009 and 2008 are summarized below:

<i>(Dollars in Millions)</i>	<b>2009</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter<sup>(1)</sup></b>
<i>Except Per Share Data</i>				
Segment sales to customers				
Consumer	\$3,711	3,854	3,989	4,249
Pharmaceutical	5,780	5,498	5,249	5,993
Med Devices & Diagnostics	5,535	5,887	5,843	6,309
Total sales	\$15,026	15,239	15,081	16,551
Gross profit	10,775	10,789	10,647	11,239
Earnings before provision for taxes on income	4,643	4,263	4,245	2,604
Net earnings	3,507	3,208	3,345	2,206
Basic net earnings per share	\$1.27	1.16	1.21	0.80
Diluted net earnings per share	\$1.26	1.15	1.20	0.79
<i>(Dollars in Millions)</i>				
<i>Except Per Share Data</i>				
Segment sales to customers				

Consumer	\$4,064	4,036	4,099	3,855
Pharmaceutical	6,429	6,340	6,113	5,685
Med Devices & Diagnostics	5,701	6,074	5,709	5,642
Total sales	\$16,194	16,450	15,921	15,182
Gross profit	11,580	11,699	11,147	10,810
Earnings before provision for taxes on income	4,747	4,375	4,290	3,517
Net earnings	3,598	3,327	3,310	2,714
Basic net earnings per share	\$1.27	1.18	1.19	0.98
Diluted net earnings per share	\$1.26	1.17	1.17	0.97

(1) The fourth quarter of 2009 includes an after-tax charge of \$852 million for restructuring and \$212 million after-tax of income from net litigation.

(2) The second quarter of 2008 includes an after-tax charge of \$40 million for IPR&D.

(3) The fourth quarter of 2008 includes an after-tax charge of \$141 million for IPR&D, \$229 million after-tax of income from net litigation and \$331 million after-tax gain on the divestiture of the Professional Wound Care business of Ethicon, Inc. The gain from the divestiture of the Professional Wound Care business of Ethicon, Inc. was reinvested in the business.

## Note 20: Business Combinations and Divestures

Certain businesses were acquired for \$2,470 million in cash and \$875 million of liabilities assumed and non-controlling interests during 2009. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2009 acquisitions included: Mentor Corporation, a leading supplier of medical products for the global aesthetics market; Cougar Biotechnology, Inc., a development stage biopharmaceutical company with a specific focus on oncology; Finsbury Orthopaedics Limited, a privately held UK-based manufacturer and global distributor of orthopaedic implants; Gloster Europe, a privately held developer of innovative disinfection processes and technologies to prevent healthcare-acquired infections and substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program through a newly formed company, of which the Company owns 50.1% and Elan owns 49.9%.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$2,940 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately \$1,737 million has been identified as the value of IPR&D primarily associated with the acquisitions of Cougar Biotechnology, Inc. and substantially all of the assets and rights of Elan's Alzheimer's Immunotherapy Program. Additionally, approximately \$1,107 million has been identified as the value of other intangible assets, including patents & technology and customer relationships primarily associated with the acquisition of Mentor Corporation.

The IPR&D related to the acquisition of Cougar Biotechnology, Inc. was \$971 million and is associated with abiraterone acetate, a late stage, first-in-class compound for the treatment of prostate cancer. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 60–85% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 23.5%. Refer to Note 6 for information related to the Elan transaction.

Certain businesses were acquired for \$1,214 million in cash and \$114 million of liabilities assumed during 2008. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2008 acquisitions included: Amic AB, a privately held Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings; Beijing Dabao Cosmetics Co., Ltd., a company that sells personal care brands in China; SurgRx, Inc., a privately held developer of the advanced bipolar tissue sealing system used in the ENSEAL® family of devices; HealthMedia, Inc., a privately held company that creates webbased behavior change interventions; LGE Performance Systems, Inc., a privately held company known as Human Performance Institute™, which develops science-based training programs to improve employee engagement and productivity and Omrix Biopharmaceuticals, Inc., a fully integrated biopharmaceutical company that develops and markets biosurgical and immunotherapy products.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$891 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately \$181 million has been identified as the value of IPR&D associated with the acquisitions of Omrix Biopharmaceuticals, Inc., Amic AB, SurgRx, Inc. and HealthMedia, Inc.

The IPR&D charge related to the acquisition of Omrix Biopharmaceuticals, Inc. was \$127 million and is associated with stand-alone and combination biosurgical technologies used to achieve hemostasis. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 60–90% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 14%. As of the end of the 2008 fiscal year, 97.8% of the outstanding shares of Common Stock of Omrix Biopharmaceuticals, Inc. had been tendered by stockholders. Excluding shares that were tendered subject to guaranteed delivery procedures, 90.2% of the outstanding shares of Common Stock had been tendered. On December 30, 2008 the Company completed the acquisition of Omrix Biopharmaceuticals, Inc.

The IPR&D charge related to the acquisition of Amic AB was \$40 million and is associated with point-of-care device and 4CAST Chip technologies. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate applied was 20%.

The IPR&D charge related to the acquisition of SurgRx, Inc. was \$7 million and is associated with vessel cutting and sealing surgical devices. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 90 – 95% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 18%.

The IPR&D charge related to the acquisition of HealthMedia, Inc. was \$7 million and is associated primarily with process enhancements to software technology. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 90% was used to reflect inherent risk. The discount rate applied was 14%.

Certain businesses were acquired for \$1,388 million in cash and \$232 million of liabilities assumed during 2007. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2007 acquisitions included: Conor Medsystems, Inc., a cardiovascular device company, with new drug delivery technology; Robert Reid, Inc., a Japanese orthopedic product distributor; and Maya's Mom, Inc., a social media company.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$636 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately \$807 million has been identified as the value of IPR&D associated with the acquisition of Conor Medsystems, Inc.

The IPR&D charge related to the acquisition of Conor Medsystems, Inc. was \$807 million and is associated with research related to the discovery and application of the stent technology. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate applied was 19%.

Supplemental pro forma information for 2009, 2008 and 2007 in accordance with U.S. GAAP standards related to business combinations, and goodwill and other intangible assets, is not provided, as the impact of the aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position.

With the exception of the divestiture of the Professional Wound Care business of Ethicon, Inc., which resulted in a gain of \$536 million before tax, and is recorded in other (income) expense, net, in 2008, divestitures in 2009, 2008 and 2007 did not have a material effect on the Company's results of operations, cash flows or financial position.

**Note 21: Legal Proceedings**

Please refer to Section 19.7 of the Registration Document.

**Note 22: Restructuring**

In the fourth quarter of 2009, the Company announced global restructuring initiatives designed to strengthen the Company's position as one of the world's leading global health care companies. This program will allow the Company to invest in new growth platforms; ensure the successful launch of its many new products and continued growth of its core businesses; and provide flexibility to adjust to the changed and evolving global environment.

During the fiscal fourth quarter of 2009, the Company recorded \$1.2 billion in related pre-tax charges of which, approximately \$830 million of the pre-tax restructuring charges are expected to require cash payments. The \$1.2 billion of restructuring charges consists of severance costs of \$748 million, asset write-offs of \$362 million and \$76 million related to leasehold and contract obligations. The \$362 million of asset write-offs relate to inventory of \$113 million (recorded in cost of products sold), property, plant and equipment of \$107 million, intangible assets of \$81 million and other assets of \$61 million. Additionally, as part of this program the Company plans to eliminate approximately 7,500 positions of which approximately 700 have been eliminated since the restructuring was announced.

The following table summarizes the severance charges and the associated spending for the fiscal year ended 2009:

<i>(Dollars in Millions)</i>	Severance	Asset Write-Offs	Other	Total
2009 restructuring charge	\$748	362	76	1,186
Current year	(62)	(149)	(28)	(239)

activity				
Reserve balance, 3 January 2010*	\$686	213	48	947

\* Cash outlays for severance are expected to be substantially paid out over the next 12 to 18 months in accordance with the Company's plans and local laws.

For additional information on the restructuring as it relates to the segments, see Note 18.

In the third quarter of 2007, the Company announced restructuring initiatives in an effort to improve its overall cost structure. This action was taken to offset the anticipated negative impacts associated with generic competition in the Pharmaceutical segment and challenges in the drug-eluting stent market. The Company's Pharmaceuticals segment has reduced its cost base by consolidating certain operations, while continuing to invest in recently launched products and its late-stage pipeline of new products. The Cordis franchise has moved to a more integrated business model to address the market changes underway with drug-eluting stents and to better serve the broad spectrum of its patients' cardiovascular needs, while reducing its cost base. The Company accelerated steps to standardize and streamline certain aspects of its enterprise-wide functions such as human resources, finance and information technology to support growth across the business, while also leveraging its scale more effectively in areas such as procurement to benefit its operating companies. Additionally, as part of this program the Company eliminated approximately 4,600 positions. The Company recorded \$745 million in related pre-tax charges during the fiscal third quarter of 2007, of which, approximately \$500 million of the pre-tax restructuring charges are expected to require cash payments. The \$745 million of restructuring charges consists of severance costs of \$450 million, asset write-offs of \$272 million and \$23 million related to leasehold obligations. The \$272 million of asset write-offs relate to property, plant and equipment of \$166 million, intangible assets of \$48 million and other assets of \$58 million. The restructuring initiative announced in 2007 has been completed.

#### **Note 23: Subsequent Events**

On 20 January 2010, the Company completed the acquisition of Acclarent Inc. for a net purchase price of approximately \$785 million. Acclarent Inc. is a medical technology company dedicated to designing, developing and commercializing devices that address conditions affecting the ear, nose and throat.

The Company has performed an evaluation of subsequent events through 1 March 2010, the date the Company issued these financial statements.

### **19.2 Financial statements<sup>45</sup>**

The information set out in section 19.1 has been provided on a consolidated basis. Please refer to that information.

The Annual Report including the financial statements of the Company can be consulted on the Company's website: <http://www.jnj.com/>.

### **19.3 Auditing of historical annual financial information<sup>46</sup>**

<sup>45</sup> Item 20.3 of Annex I of the Regulation.

<sup>46</sup> Item 20.4 of Annex I of the Regulation.

The historical financial information for the fiscal years ended 30 December 2007, 28 December 2008 and 3 January 2010 set forth herein is derived from, and should be read in conjunction with, the audited annual financial statements of Johnson & Johnson. The financial statements of the Company for the financial years ending 30 December 2007, 28 December 2008 and 3 January 2010 have been audited by PricewaterhouseCoopers LLP, New York, New York and are accessible via the website of Johnson & Johnson at the following address: [www.investor.jnj.com/fin-reports.cfm](http://www.investor.jnj.com/fin-reports.cfm). The Company will provide without charge to each eligible participant, upon the written or oral request of such person, a copy of any or all of these documents. Requests should be directed to: Office of the Secretary, Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933 USA (1-732-524-2455).

#### 19.4 Age of latest financial information<sup>47</sup>

The latest financial information included herein is derived from the audited financial information as set out in Annual Report for the fiscal year ended 3 January 2010.

#### 19.5 Interim and other financial information<sup>48</sup>

In this section, the Notes refer to the notes included in the FORM 10-Q (Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended 3 October 2010) of the Company, which is available on the website of the Company ([www.jnj.com](http://www.jnj.com)).

##### 19.5.1 Johnson & Johnson and subsidiaries consolidated balance sheets (Unaudited; Dollars in Millions)

#### Assets

	3 October 2010	3 January 2010
<b>Current assets:</b>		
Cash & cash equivalents	\$ 14,338	\$ 15,810
Marketable securities	7,788	3,615
Accounts receivable, trade, less allowances for doubtful accounts \$360 (2009, \$333)	10,290	9,646
Inventories (Note 2)	5,409	5,180
Deferred taxes on income	2,418	2,793
Prepaid expenses and other receivables	2,474	2,497
<b>Total current assets</b>	<b>42,717</b>	<b>39,541</b>
Property, plant and equipment at cost	29,927	29,251

<sup>47</sup> Item 20.5 of Annex I of the Regulation.

<sup>48</sup> Item 20.6 of Annex I of the Regulation.



Less: accumulated depreciation	(15,567)	(14,492)
Property, plant and equipment, net	14,360	14,759
Intangible assets, net (Note 3)	17,068	16,323
Goodwill, net (Note 3)	15,375	14,862
Deferred taxes on income	5,175	5,507
Other assets	3,552	3,690
<b>Total assets</b>	<b>\$ 98,247</b>	<b>\$ 94,682</b>

### Liabilities and shareholders' equity

	3 October 2010	3 January 2010
<b>Current liabilities:</b>		
Loans and notes payable	\$ 2,843	\$ 6,318
Accounts payable	5,477	5,541
Accrued liabilities	4,333	5,796
Accrued rebates, returns and promotions	2,666	2,028
Accrued salaries, wages and commissions	1,314	1,606
Accrued taxes on income	781	442
<b>Total current liabilities</b>	<b>17,414</b>	<b>21,731</b>
Long-term debt	9,182	8,223
Deferred taxes on income	1,725	1,424
Employee related obligations	6,409	6,769
Other liabilities	6,226	5,947
<b>Total liabilities</b>	<b>40,956</b>	<b>44,094</b>
Shareholders' equity:		
Common stock — par value \$1.00 per share (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	3,120	3,120
Accumulated other comprehensive income (Note 7)	(2,924)	(3,058)
Retained earnings	77,272	70,306
Less: common stock held in treasury, at cost (372,132,000 and 365,522,000 shares)	20,177	19,780
<b>Total shareholders' equity</b>	<b>57,291</b>	<b>50,588</b>

Total liabilities and shareholders' equity

\$ 98,247

\$ 94,682

**19.5.2 Johnson & Johnson and subsidiaries consolidated statements of earnings  
(Unaudited; dollars & shares in millions except per share figures)**

		Fiscal Quarters Ended		
	3 Oct. 2010	Percent to Sales	27 Sept. 2009	Percent to Sales
Sales to customers (Note 9)	\$ 14,982	100.0%	\$ 15,081	100.0%
Cost of products sold	4,594	30.7	4,434	29.4
Gross profit	10,388	69.3	10,647	70.6
Selling, marketing and administrative expenses	4,709	31.4	4,767	31.6
Research expense	1,657	11.1	1,617	10.7
Interest income	(13)	(0.1)	(28)	(0.2)
Interest expense, net of portion capitalized	108	0.7	142	0.9
Other (income)expense, net	(292)	(2.0)	(96)	(0.6)
Earnings before provision for taxes on income	4,219	28.2	4,245	28.2
Provision for taxes on income (Note 5)	802	5.4	900	6.0
NET EARNINGS	\$ 3,417	22.8%	\$ 3,345	22.2%
NET EARNINGS PER SHARE (Note 8)				
Basic	\$ 1.24		\$ 1.21	
Diluted	\$ 1.23		\$ 1.20	
CASH DIVIDENDS PER SHARE	\$ 0.54		\$ 0.49	
AVG. SHARES OUTSTANDING				
Basic	2,751.6		2,756.3	
Diluted	2,786.4		2,793.0	

		Fiscal Nine Months Ended		
	3 Oct. 2010	Percent to Sales	27 Sept. 2009	Percent to Sales
Sales to customers (Note 9)	\$ 45,943	100.0%	\$ 45,346	100.0%
Cost of products sold	13,752	29.9	13,135	29.0
Gross profit	32,191	70.1	32,211	71.0

Selling, marketing and administrative expenses	14,244	31.0	14,172	31.3
Research expense	4,862	10.6	4,773	10.5
Interest income	(83)	(0.2)	(78)	(0.2)
Interest expense, net of portion capitalized	317	0.7	358	0.8
Other (income)expense, net	(1,868)	(4.0)	(165)	(0.4)
Earnings before provision for taxes on income	14,719	32.0	13,151	29.0
Provision for taxes on income (Note 5)	3,327	7.2	3,091	6.8
<b>NET EARNINGS</b>	<b>\$ 11,392</b>	<b>24.8%</b>	<b>\$ 10,060</b>	<b>22.2%</b>
<b>NET EARNINGS PER SHARE (Note 8)</b>				
Basic	\$ 4.14		\$ 3.64	
Diluted	\$ 4.08		\$ 3.61	
<b>CASH DIVIDENDS PER SHARE</b>	<b>\$ 1.57</b>		<b>\$ 1.44</b>	
<b>AVG. SHARES OUTSTANDING</b>				
Basic	2,754.2		2,760.0	
Diluted	2,792.0		2,787.9	

## 19.6 Dividend policy<sup>49</sup>

On 9 July 2007, the Company announced that its Board of Directors approved a stock repurchase program, authorizing the Company to buy back up to \$10.0 billion of the Company's Common Stock. The repurchase program has no time limit and may be suspended for periods or discontinued at any time. Any shares acquired will be available for general corporate purposes. The Company funds the share repurchase program through a combination of available cash and debt. As of 3 October 2010, the Company repurchased an aggregate of 152,422,148 shares of Johnson & Johnson Common Stock under the current repurchase program at a cost of \$9.6 billion. In addition, the Company has an annual program to repurchase shares for use in employee stock and incentive plans.

The Company increased its dividend in 2009 for the 47th consecutive year. Cash dividends paid were \$1.930 per share in 2009, compared with dividends of \$1.795 per share in 2008 and \$1.620 per share in 2007. The dividends were distributed as follows:

	2009	2008	2007
First quarter	\$0.460	0.415	0.375
Second quarter	0.490	0.460	0.415
Third quarter	0.490	0.460	0.415
Fourth quarter	0.490	0.460	0.415

<sup>49</sup> Item 20.7 of Annex I of the Regulation.

Total	\$1.930	1.795	1.620
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On 4 January 2010, the Board of Directors declared a regular cash dividend of \$0.490 per share, payable on 9 March 2010, to shareholders of record as of 23 February 2010. The Company expects to continue the practice of paying regular cash dividends.

On April 22, 2010, the Company's Board of Directors declared a regular cash dividend of \$0.540 per share, payable on June 15, 2010 to shareholders of record as of June 1, 2010. This represented an increase of 10.2% in the quarterly dividend rate and was the 48<sup>th</sup> consecutive year of cash dividend increases.

On July 19, 2010, the Company's Board of Directors declared a regular cash dividend of \$0.540 per share, payable on September 14, 2010 to shareholders of record as of August 31, 2010.

On 21 October 2010, the Board of Directors declared a regular cash dividend of \$0.540 per share, payable on 14 December 2010 to shareholders of record as of 30 November 2010.

The Company expects to continue the practice of paying regular quarterly cash dividends.

## 19.7 Legal proceedings<sup>50</sup>

### Product Liability

The Company's subsidiaries are involved in numerous product liability cases in the United States, many of which concern alleged adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use that accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any product liability results from such cases, it will be substantially covered by existing amounts accrued in the Company's balance sheet and, where available, by third-party product liability insurance.

Multiple products of Johnson & Johnson subsidiaries are subject to numerous product liability claims and lawsuits. There are a significant number of claimants who have pending lawsuits or claims regarding injuries allegedly due to ORTHO EVRA®, RISPERDAL®, LEVAQUIN®, DURAGESIC®, the CHARITÉ™ Artificial Disc, CYPHER® Stent, and ASR™ Hip. These claimants seek substantial compensatory and, where available, punitive damages.

With respect to RISPERDAL®, the Attorneys General of multiple states and the Office of General Counsel of the Commonwealth of Pennsylvania have filed actions seeking reimbursement of Medicaid or other public funds for RISPERDAL® prescriptions written for off-label use, compensation for treating their citizens for alleged adverse reactions to RISPERDAL®, civil fines or penalties, damages for "overpayments" by the state and others, punitive damages, or other relief. The Attorney General of Texas has joined a qui tam action in that state seeking similar relief. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL®. The Attorneys General of more than 40 other states have indicated a potential interest in pursuing similar litigation against the Company's subsidiary, Janssen Pharmaceutica Inc. (Janssen) (now Ortho-McNeil-Janssen Pharmaceuticals Inc. (OMJPI)), and have obtained a tolling agreement staying the running of the statute of limitations while they pursue a coordinated civil investigation of OMJPI regarding potential consumer fraud actions in connection with the marketing of RISPERDAL®. In addition, there are six cases filed by union health plans seeking damages for alleged overpayments for RISPERDAL®, several of which seek certification as class

<sup>50</sup> Item 20.8 of Annex I of the Regulation.

actions. One of these has been dismissed on Summary Judgment. In the case brought by the Attorney General of West Virginia, based on claims for alleged consumer fraud as to DURAGESIC® as well as RISPERDAL®, Janssen (now OMJPI) was found liable and damages were assessed at \$4.5 million. OMJPI filed an appeal. The West Virginia Supreme Court accepted Janssen's appeal from that Judgment and the appeal was argued in September 2010. In September and October 2010 a false claim suit brought under a Louisiana statute was tried. The jury returned a verdict of \$257.7 million in favor of that State's Attorney General and against Janssen and the Company. Post-trial motions challenging the verdict will be filed and if unsuccessful, will be followed by an appeal. The Company believes that it has strong arguments supporting an appeal. Since the Company believes that the potential for an unfavorable outcome is not probable, it has not established a reserve with respect to the verdict. In the Commonwealth of Pennsylvania suit against Janssen, trial commenced in June 2010. The Judge dismissed the case after the close of the plaintiff's evidence. The Commonwealth has filed post-trial motions which are pending. Other cases scheduled for trial are in South Carolina, currently scheduled in February 2011, and Texas scheduled in June 2011.

In August 2010, DePuy Orthopedics, Inc. (DePuy) announced a world-wide voluntary recall of its ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System used in hip replacement surgery. Claims for personal injury have been made against the company. The Company has received limited information to date with respect to potential claims and other costs associated with this recall. Accordingly, a reasonable estimate of any future potential liability cannot be estimated at this time.

### **Patent Litigation**

The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which could potentially adversely affect the ability of those subsidiaries to sell those products, or require the payment of past damages and future royalties.

On January 29, 2010, Cordis Corporation (Cordis) settled a patent infringement action against Boston Scientific Corporation (Boston Scientific) in Delaware Federal District Court accusing its Express2™, Taxus® and Liberte® stents of infringing the Palmaz and Gray patents. Under the terms of the settlement Boston Scientific dropped its lawsuit in which Cordis' Cypher stent was found to have infringed their Jang patent and paid Cordis \$1.0 billion on February 1, 2010. Boston Scientific also agreed to pay Cordis an additional \$725 million plus interest by January 3, 2011. On August 2, 2010, Boston Scientific paid the full \$725 million plus interest. The Company recorded the \$1.7 billion in the fiscal first quarter of 2010. Cordis granted Boston Scientific a worldwide license under the Palmaz and Gray patents and Boston Scientific granted Cordis a worldwide license under the Jang patents for all stents sold by Cordis except the 2.25mm size Cypher.

Cordis has several pending lawsuits in the New Jersey and Delaware Federal District Courts, against Guidant Corporation (Guidant), Abbott Laboratories, Inc. (Abbott), Boston Scientific and Medtronic Ave, Inc. (Medtronic) alleging that the Xience V™ (Abbott), Promus™ (Boston Scientific) and Endeavor® (Medtronic) drug eluting stents infringe several patents owned by or licensed to Cordis. On January 20, 2010, in one of the cases against Boston Scientific, alleging that sales of their Promus™ stent infringed Wright and Falotico patents, the District Court in Delaware found the Wright/Falotico patent invalid for lack of written description and/or lack of enablement. Cordis has appealed this ruling.

In October 2004, Tyco Healthcare Group, LP, (Tyco) and U.S. Surgical Corporation sued Ethicon Endo-Surgery (EES) alleging that several features of EES's harmonic scalpel infringed four Tyco patents. In October 2007, the court granted in part and denied in part cross-motions for summary

judgment. As a result of the opinion, a number of claims have been found invalid and a number have been found infringed. No claim has been found valid and infringed. Trial commenced in December 2007, and the court dismissed the case without prejudice on grounds that Tyco did not own the patents in suit. The dismissal without prejudice was affirmed on appeal. In January 2010, Tyco filed another complaint in the District of Connecticut asserting three of the four patents from the previous suit and adding new products. The case is scheduled to be trial ready by June 2011.

In May 2008, Centocor, Inc. (Centocor) (now Centocor Ortho Biotech Inc. (COBI)) filed a lawsuit against Genentech, Inc. (Genentech) in U.S. District Court for the Central District of California seeking to invalidate the Cabilly II patent. Prior to filing suit, Centocor had a sublicense under this patent from Celltech (who was licensed by Genentech) for REMICADE® and had been paying royalties to Celltech. Centocor has terminated that sublicense and stopped paying royalties. Genentech has filed a counterclaim alleging that REMICADE® infringes its Cabilly II patents. Genentech has dropped all its other claims that the manufacture of REMICADE®, STELARA™, SIMPONI™ and ReoPro® also infringes one of its other patents relating to the purification of antibodies made through recombinant DNA techniques. The court conducted a hearing on Summary Judgment Motions in August 2010. Shortly thereafter the parties settled this case with Centocor receiving license under the Cabilly II patent.

In April 2009, a bench trial was held before the Federal District Court for the Middle District of Florida on the liability phase of CIBA VISION Corporation's (CIBA) patent infringement lawsuit alleging that Johnson & Johnson Vision Care, Inc.'s (JJVC) ACUVUE® OASYS™ lenses infringe three of their Nicholson patents. In August 2009, the District Court found two of these patents valid and infringed and entered judgment against JJVC. JJVC has appealed that judgment to the Court of Appeals for the Federal Circuit. On April 27, 2010, the District Court denied CIBA's motion to permanently enjoin the infringing lenses. Ciba appealed this ruling and its appeal has been consolidated with JJVC's appeal on the merits. If the judgment is upheld on appeal the Court will schedule another trial to determine damages and willfulness and, depending on the outcome of CIBA's appeal, possibly injunctive relief. Ciba has also brought suit against JJVC under its counterparts to the Nicholson patents in various European countries. In Holland and France the patents were found valid and infringed and JJVC has been enjoined from selling Oasys. Both those decisions were appealed. In France the appeal was denied. In Holland the appeal remains pending. CIBA's patents were found to be invalid in Germany, the UK and Austria and CIBA is appealing those decisions.

In May 2009, Abbott Biotechnology Ltd. (Abbott) filed a patent infringement lawsuit against Centocor (now COBI) in the United States District Court for the District of Massachusetts. The suit alleges that Centocor's SIMPONI™ product, a human anti-TNF alpha antibody, infringes Abbott's '394 patent (the Salfeld patent). The case was stayed pending the resolution of an arbitration filed by Centocor directed to its claim that it is licensed under the '394 patent. In June 2010, the Arbitrator ruled that Centocor did not have a license to the patents-in-suit. The matter will proceed before the District Court of Massachusetts on the issues of infringement and validity of the Abbott patents.

In August 2009, Abbott GmbH & Co. (Abbott GmbH) and Abbott Bioresearch Center filed a patent infringement lawsuit against Centocor (now COBI) in the United States District Court for the District of Massachusetts. The suit alleges that COBI's STELARA™ product infringes two U.S. patents assigned to Abbott GmbH. In August 2009, COBI filed a complaint for a declaratory judgment of non-infringement and invalidity of the Abbott GmbH patents in the United States District Court for the District of Columbia. On the same date, also in the United States District Court for the District of Columbia, COBI filed a Complaint for Review of a Patent Interference Decision granting priority of invention on one of the two asserted patents to Abbott GmbH. In

August 2009, Abbott GmbH and Abbott Laboratories Limited brought a patent infringement suit in Canada alleging that STELARA™ infringes Abbott GmbH's Canadian patent. The cases filed by COBI in the District of Columbia have been transferred to the District of Massachusetts.

In August 2009, Bayer Healthcare LLC (Bayer) filed suit against COBI in Massachusetts District Court alleging infringement by COBI's SIMPONI™ product of its patent relating to human anti-TNF antibodies. Bayer has also filed suit under its European counterpart to these patents in Germany and the Netherlands. The court in the Netherlands held the Dutch patent invalid in a parallel case Bayer brought against Abbott.

In June 2009, Centocor's (now COBI) lawsuit alleging that Abbott's HUMIRA® anti-TNF alpha product infringes Centocor's '775 patent went to trial in Federal District Court in the Eastern District of Texas. On June 28, 2009 a jury returned a verdict finding the patent valid and willfully infringed, and awarded Centocor damages of approximately \$1.7 billion. A bench trial on Abbott's defenses, of inequitable conduct and prosecution laches, was held in August 2009, and the District Court decided these issues in favor of Centocor. All of Abbott's post trial motions have been denied except that the District Court granted Abbott's motion to overturn the jury finding of willfulness. Judgment in the amount of \$1.9 billion was entered in favor of Centocor in December 2009 and Abbott filed an appeal to the Court of Appeals for the Federal Circuit, therefore the Company has not reflected any of the \$1.9 billion in its consolidated financial statements. The oral argument on appeal was held on November 2, 2010. Centocor has also filed a new lawsuit in the Eastern District of Texas seeking damages for infringement of the '775 patent attributable to sales of HUMIRA® subsequent to the jury verdict in June 2009.

The following chart summarizes various patent lawsuits concerning products of the Company's subsidiaries that have yet to proceed to trial:

<b>J&amp;J Product</b>	<b>Company</b>	<b>Patents</b>	<b>Plaintiff/ Patent Holder</b>	<b>Court</b>	<b>Trial Date* *</b>	<b>Date Filed</b>
CYPHER® Stent	Cordis	Wall	Wall	E.D. TX	Q2/11	11/07
CYPHER® Stent	Cordis	Saffran	Saffran	E.D. TX	Q1/11	10/07
Blood Glucose Meters and Strips	Lifescan	Wilsey	Roche Diagnostics	D. DE	*	11/07
REMICADE®, ustekinumab, golimumab, ReoPro®	Centocor/ COBI	Cabilly II	Genentech	C.D. CA	*	05/08
SIMPONI™	Centocor/ COBI	Salfeld	Abbott Laboratories	MA	*	05/09
SIMPONI™	Centocor/ COBI	Boyle	Bayer Healthcare	MA	*	08/09
STELARA™	Centocor/ COBI	Salfeld	Abbott GmbH	MA	*	08/09

\* Trial date to be scheduled.

\*\* Q reflects the Company's fiscal quarter.



### **Litigation against filers of abbreviated new drug applications (ANDAs)**

The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications (ANDAs) seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering those products. These ANDAs typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event the subsidiary of the Company involved is not successful in these actions, or the statutory 30-month stay expires before a ruling from the District Court is obtained, the firms involved will have the ability, upon FDA approval, to introduce generic versions of the product at issue resulting in very substantial market share and revenue losses for the product of the Company's subsidiary.

As noted in the following chart, 30-month stays expired during 2009, and will expire in 2010, 2011 and 2012 with respect to ANDA challenges regarding various products:

Brand Name	Patent/NDA	Generic	Trial	Date	30-Month	
Product	Holder	Challenger	Court	Date**	Filed	Stay Expiration
CONCERTA®	Ortho-McNeil-Janssen	Andrx	D. DE	Q4/07	09/05	None
18, 27, 36 and 54 mg controlled release tablet	ALZA	KUDCO	D.DE	*	01/10	05/12
LEVAQUIN®	Ortho-McNeil	Lupin	D. NJ	*	10/06	03/09
250, 500, 750 mg tablet						
ORTHO TRI-CYCLEN® LO	Ortho-McNeil					
0.18 mg/0.025 mg, 0.215 mg/		Watson	D. NJ	*	10/08	03/11
0.025 mg and 0.25 mg/		Sandoz	D. NJ	*		10/11
0.025 mg		Lupin	D. NJ	*	01/10	06/12
ULTRAM ER®100, 200, 300 mg tablet	Ortho-McNeil/Biovail	Par	D. DE	Q2/09	05/07	09/09
					06/07	11/09
					10/07	03/10

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ULTRAM ER® 100, 200, 300 mg tablet	Ortho- McNeil/Biov ail	Impax	D. DE		08/08	01/11
					11/08	03/11

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ULTRAM ER® 100, 200, 300 mg tablet	Ortho- McNeil/Biov ail	Paddock	D.DRD. Minn.	*	09/09	01/12
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ULTRAM ER® 100, 200, 300 mg tablet	Ortho- McNeil/Biov ail	Cipher	D. DE	*	10/09	03/12
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ULTRAM ER® 100, 200, 300 mg tablet	Ortho- McNeil/Biov ail	Lupin	D. DE	*	01/10	06/12
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\* Trial date to be scheduled.

\*\* Q reflects the Company's fiscal quarter.

In October 2008, the Company's subsidiary Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) filed suit in Federal District Court in New Jersey against Watson Laboratories, Inc. (Watson) in response to Watson's ANDA regarding ORTHO TRI-CYCLEN® LO. In June 2009, OMJPI filed suit in Federal District Court in New Jersey against Sandoz Laboratories, Inc. (Sandoz) in response to Sandoz's ANDA regarding ORTHO TRI-CYCLEN® LO. The Sandoz and Watson cases have been consolidated. In September 2010, OMJPI entered into a settlement agreement with Sandoz.

In January 2010, the Company's subsidiary OMJPI filed suit in Federal District Court in New Jersey against Lupin Ltd. and Lupin Pharmaceuticals, Inc. (collectively "Lupin") in response to Lupin's ANDA regarding ORTHO TRI-CYCLEN® LO. The Lupin case has been consolidated with the Watson case (discussed above).

In the action by McNEIL-PPC, Inc. (McNeil-PPC) and ALZA Corporation (ALZA) against Andrx Corporation (Andrx) with respect to its ANDA challenge to the CONCERTA® patents, a five-day non-jury trial was held in the Federal District Court in Delaware in December 2007. In March 2009, the court ruled that one CONCERTA® patent would not be infringed by Andrx's proposed generic product and that the patent was invalid because it was not enabled. The court dismissed without prejudice Andrx's declaratory judgment suit on a second patent for lack of jurisdiction. McNeil-

PPC and ALZA filed an appeal in May 2009. The appeals court heard argument on February 3, 2010. On April 26, 2010, the court of appeals affirmed the judgment of the district court that the patent is invalid because it is not enabled. The court did not reach the issue of infringement.

ALZA and OMJPI filed suit in Federal District Court in Delaware against Kremers-Urban, LLC and KUDCO Ireland, Ltd. (KUDCO) in January 2010 in response to KUDCO's ANDA challenge regarding CONCERTA® tablets. In its notice letter, KUDCO contends that two ALZA patents for CONCERTA® are invalid and not infringed by a KUDCO generic.

In the action against Lupin Pharmaceuticals, Inc. (Lupin) regarding its ANDA concerning LEVAQUIN®, Lupin contended that the U.S. Patent and Trademark Office improperly granted a patent term extension to the patent that Ortho-McNeil (now Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI)) licenses from Daiichi Pharmaceuticals, Inc. (Daiichi). Lupin alleged that the active ingredient in LEVAQUIN® was the subject of prior marketing, and therefore was not eligible for the patent term extension. Lupin conceded validity and that its product would violate the patent if marketed prior to the expiration of the original patent term. Summary judgment against Lupin was granted in May 2009 and Lupin appealed. Oral argument was held in September 2009. In May 2010, the Court of Appeals affirmed the judgment of the trial court in favor of Ortho-McNeil and Daiichi that the patent term extension covering LEVAQUIN®(levofloxacin) is valid. Thereafter, Lupin requested rehearing en banc, which was denied.

In the ULTRAM® ER actions, Ortho-McNeil Pharmaceutical, Inc. (Ortho-McNeil) (now OMJPI), filed lawsuits (each for different dosages) against Par Pharmaceuticals, Inc. and Par Pharmaceuticals Companies, Inc. (Par) in May, June and October 2007 on two Tramadol ER formulation patents owned by Purdue Pharma Products L.P. (Purdue) and Napp Pharmaceutical Group Ltd. (Napp). OMJPI also filed lawsuits (each for different dosages) against Impax Laboratories, Inc. (Impax) on a Tramadol ER formulation patent owned by Purdue and Napp in August and November 2008. Purdue, Napp and Biovail Laboratories International SRL (Biovail) (the NDA holder) joined as co-plaintiffs in the lawsuits against Par and Impax, but Biovail and OMJPI were subsequently dismissed for lack of standing. The trial against Par took place in April 2009. In August 2009, the Court issued a decision finding the patents-in-suit invalid. Purdue has appealed that decision. In November 2009, the case against Impax was stayed with the consent of all parties. In September and October 2009, respectively, Purdue filed suits against Paddock Laboratories, Inc. (Paddock) and Cipher Pharmaceuticals Inc. (Cipher) on its Tramadol ER formulation patents. In June 2010, the Federal Circuit Court affirmed the District Court's decision in the Par case. The case against Cipher Impax and Paddock were dismissed based on the collateral estoppel effect of the Par decision.

In January 2010, Purdue filed a suit against Lupin Ltd. (Lupin) on its Tramadol ER formulation patents.

### **General litigation**

In September 2004, plaintiffs in an employment discrimination litigation initiated against the Company in 2001 in Federal District Court in New Jersey moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the U.S., who were employed at any time from November 1997 to the present. Plaintiffs seek monetary damages for the period 1997 through the present (including punitive damages) and equitable relief. The Court denied plaintiffs' class certification motion in December 2006 and their motion for reconsideration in April 2007. Plaintiffs sought to appeal these decisions and, in April 2008, the Court of Appeals ruled that plaintiffs' appeal of the denial of class certification was untimely. In July 2009, plaintiffs filed a motion for certification of a modified class, which the Company opposed. The district court

heard oral argument on plaintiffs' motion in July 2010. The court subsequently ruled by denying plaintiffs' motion for certification of the modified class.

In September 2009, Centocor Ortho Biotech Products, L.P. (COBI) intervened in an inventorship dispute between Kansas University Center for Research (KUCR) involving certain U.S. Government-owned VELCADE® formulation patents. KUCR brought this action against the U.S. government in the District of Kansas seeking to add two Kansas University scientists to the patents. The U.S. government licensed the patents (and their foreign counterparts) to Millennium Pharmaceuticals, Inc., who in turn sublicensed the patents (and their foreign counterparts) to COBI for commercial marketing outside the U.S. If KUCR succeeds in its co-inventorship claim and establishes co-ownership in the U.S. VELCADE® formulation patents, there is a potential for the same issue to arise with respect to the foreign counterparts of the patents. If KUCR is successful, this may adversely affect COBI's license rights in those countries. In May 2010, the parties reached an agreement to resolve the disputes in this case and will submit the inventorship issue to arbitration, and the case has been stayed pending the arbitration. If KUCR wins the arbitration, the parties will request that the Court issue an order to correct inventorship on the relevant patents; if the U.S. Government, COBI, and MPI prevail, the case will be dismissed with prejudice.

In February 2009, Basilea Pharmaceutica AG (Basilea) brought an arbitration against the Company and various affiliates alleging that the Company breached the 2005 License Agreement for Cefto-biprole by, among other things, failing to secure FDA approval of the cSSSI (skin) indication and allegedly failing to properly develop the pneumonia indication. Basilea is seeking to recover significant damages and a declaration that the Company materially breached the agreement. Post hearing briefs have been submitted and a decision is expected in the fourth quarter 2010.

In May 2009, COBI commenced an arbitration proceeding before the American Arbitration Association against Schering-Plough Corporation and its subsidiary Schering-Plough (Ireland) Company (collectively, Schering-Plough). COBI and Schering-Plough are parties to a series of agreements (the Distribution Agreements) that grant Schering-Plough the exclusive right to distribute the drugs REMICADE® and SIMPONI™ worldwide, except within the United States, Japan, Taiwan, Indonesia, and the People's Republic of China (including Hong Kong) (the "Territory"). COBI distributes REMICADE® and SIMPONI™, the next generation treatment, within the United States. In the arbitration, COBI seeks a declaration that the agreement and merger between Merck & Co., Inc. (Merck) and Schering-Plough constitutes a change of control under the terms of the Distribution Agreements that permits COBI to terminate the Agreements. The termination of the Distribution Agreements would return to COBI the right to distribute REMICADE® and SIMPONI™ within the Territory. Schering-Plough has filed a response to COBI's arbitration demand that denies that it has undergone a change of control. The arbitrators were selected and the evidentiary portion of the hearing was concluded in October 2010. Oral argument is scheduled for late 2010. A decision is expected during the first half of 2011.

In December 2009, the State of Israel (Sheba Medical Center) filed suit against the Company's subsidiary, Omrix, and its affiliates. In the lawsuit, the State claims that an employee of a government-owned hospital was the inventor on several patents related to fibrin glue technology, that he developed while he was a government employee. The State claims that he had no right to transfer any intellectual property to Omrix because it belongs to the State. The State is seeking damages plus royalty on QUIXIL™ and EVICEL™ or, alternatively, transfer of the patents to the State.

Average Wholesale Price (AWP) Litigation — Johnson & Johnson and several of its pharmaceutical subsidiaries, along with numerous other pharmaceutical companies, are

defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price (AWP) for the drugs at issue. Many of these cases, both federal actions and state actions removed to federal court, have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in Federal District Court in Boston, Massachusetts. The plaintiffs in these cases include classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP.

The MDL Court identified classes of Massachusetts-only private insurers providing "Medi-gap" insurance coverage and private payers for physician-administered drugs where payments were based on AWP ("Class 2" and "Class 3"), and a national class of individuals who made co-payments for physician-administered drugs covered by Medicare ("Class 1"). A trial of the two Massachusetts-only class actions concluded before the MDL Court in December 2006. In June 2007, the MDL Court issued post-trial rulings, dismissing the Johnson & Johnson defendants from the case regarding all claims of Classes 2 and 3, and subsequently of Class 1 as well. Plaintiffs appealed the Class 1 judgment and, in September 2009, the Court of Appeals vacated the judgment and remanded for further proceedings in the District Court. AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. Two state cases against certain of the Company's subsidiaries have been set for trial: Idaho in October 2011, and Kentucky in January 2012. In addition, the state of Pennsylvania commenced trial in Commonwealth Court in October 2010. Other state cases are likely to be set for trial in the coming year.

In April 2010, a lawsuit was filed in the United States District Court for the Northern District of California. The complaint alleges that the Company, together with co-defendant Omnicare, Inc. and other unidentified companies or individuals, engaged in a conspiracy to restrain trade and in unlawful, unfair and fraudulent business acts or practices in violation of California Business and Professions Code. The Company filed a motion to dismiss. Plaintiffs then filed an amended complaint. The Company has moved to dismiss the amended complaint. A hearing on the Company's motion to dismiss is scheduled for December 2010.

Johnson & Johnson has been named the nominal defendant in six shareholder derivative lawsuits in the U.S. District Court for the District of New Jersey on behalf of Company shareholders against certain current and former directors and officers of the Company derivatively on behalf of the Company: Calamore v. Coleman et. al., filed April 21, 2010; Carpenters Pension Fund of West Virginia v. Weldon, et. al., filed May 5, 2010; Feldman v. Coleman, et. al., filed May 6, 2010; Hawaii Laborers Pension Fund v. Weldon, et. al., filed May 14, 2010; Ryan v. Weldon, et. al., filed June 18, 2010; and Minneapolis Firefighters' Relief Association, NECA-IBEW Pension Trust Fund, and NECA-IBEW Welfare Trust Fund v. Weldon, et. al., filed June 24, 2010. These actions were consolidated on August 17, 2010 into one lawsuit: In re Johnson & Johnson Shareholder Derivative Litigation. An amended consolidated complaint is expected to be filed in November 2010. Additionally, Johnson & Johnson has been named the nominal defendant in a shareholder derivative lawsuit in New Jersey Superior Court on behalf of Company shareholders against certain current and former directors and officers of the Company derivatively on behalf of the Company: Wolin v. Johnson & Johnson, filed September 23, 2010. Each of these shareholder derivative actions is similar in its claims and collectively they assert a variety of alleged breaches of fiduciary duties, including, among other things, that the defendants allegedly engaged in, approved of, or failed to remedy or prevent defective medical devices, improper pharmaceutical rebates, improper off-label marketing of pharmaceutical and medical device products, violations of current good manufacturing practice regulations that resulted in product recalls, and failed to

disclose the aforementioned alleged misconduct in the Company's filings under the Securities Exchange Act of 1934. Each complaint seeks a variety of relief, including monetary damages and corporate governance reforms. Motions to consolidate these shareholder derivative actions are pending.

On July 27, 2010, a complaint was filed by a shareholder of the Company in New Jersey Superior Court, Chancery Division, Middlesex County (Lipschutz v. Johnson & Johnson) seeking to compel inspection of Company books and records with respect to certain product recalls and various manufacturing plants. This lawsuit was dismissed on October 7, 2010.

#### **Other**

In July 2003, Centocor (now COBI), a Johnson & Johnson subsidiary, received a request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Subsequent requests for documents have been received from the U.S. Attorney's Office. Both the Company and Centocor have responded to these requests for documents and information.

In December 2003, Ortho-McNeil (now OMJPI) received a subpoena from the U.S. Attorney's Office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX® (topiramate). In the fiscal second quarter of 2010, OMJPI entered into a settlement agreement resolving the federal government's investigation. The settlement includes total payments of \$81.5 million plus interest, an amount previously reserved. As one part of the resolution, Ortho-McNeil Pharmaceutical, LLC, a subsidiary of OMJPI, has agreed to plead guilty to a single misdemeanor violation of the Food, Drug and Cosmetic Act and to pay a \$6.1 million criminal fine. OMJPI denies it engaged in any wrongful conduct, beyond acknowledging the limited conduct of Ortho-McNeil Pharmaceutical, LLC, that is the basis of the misdemeanor plea. The balance of the total settlement amount is a civil payment, part of which was paid to the federal government and part of which was paid or set aside for payment to states for their Medicaid programs.

In January 2004, Janssen (now OMJPI) received a subpoena from the Office of the Inspector General of the U.S. Office of Personnel Management seeking documents concerning sales and marketing of, any and all payments to physicians in connection with sales and marketing of, and clinical trials for, RISPERDAL® (risperidone) from 1997 to 2002. Documents subsequent to 2002 have also been requested. An additional subpoena seeking information about marketing of and adverse reactions to RISPERDAL® was received from the U.S. Attorney's Office for the Eastern District of Pennsylvania in November 2005. Subpoenas seeking testimony from various witnesses before a grand jury have also been received. Janssen is cooperating in responding to ongoing requests for documents and witnesses. The government is continuing to actively investigate this matter. In February 2010, the government served Civil Investigative Demands seeking additional information relating to sales and marketing of RISPERDAL® and sales and marketing of INVEGA®. Discussions are ongoing in an effort to resolve potential criminal and civil litigation arising from these matters. Whether a resolution can be reached and on what terms is uncertain.

In September 2004, Ortho Biotech Inc. (Ortho Biotech) (now COBI), received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to the sales and marketing of PROCRIT® (Epoetin alfa) from 1997 to the present, as well as to dealings with U.S. Oncology Inc., a healthcare services network for oncologists. Ortho Biotech (now COBI) has responded to the subpoena.

In November 2007, the Attorney General of the Commonwealth of Massachusetts issued a Civil Investigative Demand to DePuy seeking information regarding financial relationships between a

number of Massachusetts-based orthopedic surgeons and providers and DePuy. DePuy has responded to Massachusetts' additional requests.

In July 2005, Scios Inc. (Scios), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to the sales and marketing of NATRECOR®. Scios responded to the subpoena. In early August 2005, Scios was advised that the investigation would be handled by the U.S. Attorney's Office for the Northern District of California in San Francisco. Additional requests for documents have been received and responded to and former Scios employees have testified before a grand jury in San Francisco. The qui tam complaints were unsealed on February 19, 2009. The U.S. government has intervened in one of the qui tam actions, and filed a complaint against Scios and the Company in June 2009. Scios and Johnson & Johnson filed a motion to dismiss the qui tam complaint filed by the government, and that motion was denied. The criminal investigation is continuing and discussions are underway in an effort to settle this matter. Whether a settlement can be reached and on what terms is uncertain.

In September 2005, the Company received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to sales and marketing of eight drugs to Omnicare, Inc., (Omnicare) a manager of pharmaceutical benefits for long-term care facilities. The Company's subsidiaries involved responded to the subpoena. Several employees of the Company's pharmaceutical subsidiaries were subpoenaed to testify before a grand jury in connection with this investigation. In April 2009, the Company was served with the complaints in two civil qui tam cases related to marketing of prescription drugs to Omnicare, Inc. On January 15, 2010, the government filed a complaint intervening in the cases. The complaint asserts claims under the federal False Claims Act and a related state law claim in connection with the marketing of several drugs to Omnicare. The complaints allege that Johnson & Johnson provided Omnicare, Inc. with rebates and other alleged kickbacks, and in so doing, caused Omnicare to file false claims with Medicaid and other government programs. Subsequently, the Commonwealth of Massachusetts, Virginia, and Kentucky, and the States of California and Indiana intervened in the action. The Company's motion to dismiss the government's and relators' complaints, the government's and relators' oppositions, and the Company's reply brief have been filed. A hearing on the Company's motion to dismiss was held on October 7, 2010. The court has not ruled on the motion.

In February 2006, the Company received a subpoena from the U.S. Securities & Exchange Commission (SEC) requesting documents relating to the participation by several Johnson & Johnson subsidiaries in the United Nations Iraq Oil for Food Program. The subsidiaries are cooperating with the SEC and U.S. Department of Justice (DOJ) in producing responsive information.

In February 2007, the Company voluntarily disclosed to the DOJ and the SEC that subsidiaries outside the United States are believed to have made improper payments in connection with the sale of medical devices in two small-market countries, which payments may fall within the jurisdiction of the Foreign Corrupt Practices Act (FCPA). In the course of continuing dialogues with the agencies, other issues potentially rising to the level of FCPA violations in additional markets have been brought to the attention of the agencies by the Company. The Company has provided and will continue to provide additional information to the DOJ and SEC, and will cooperate with the agencies' reviews of these matters. Law enforcement agencies of a number of other countries are also pursuing investigations of matters voluntarily disclosed by the Company to the DOJ and SEC. Discussions are underway in an effort to resolve these matters, and the Iraq Oil for Food matter referenced above, but whether agreement can be reached and on what terms is uncertain.



In May 2007, the New York State Attorney General issued a subpoena seeking information relating to the marketing and safety of PROCRI<sup>®</sup>. The Company has responded to these requests.

In April 2007, the Company received two subpoenas from the Office of the Attorney General of the State of Delaware. The subpoenas seek documents and information relating to nominal pricing agreements. For purposes of the subpoenas, nominal pricing agreements are defined as agreements under which the Company agreed to provide a pharmaceutical product for less than ten percent of the Average Manufacturer Price for the product. The Company responded to these requests.

In March 2008, the Company received a letter request from the Attorney General of the State of Michigan. The request seeks documents and information relating to nominal price transactions. The Company responded to the request.

In June 2008, the Company received a subpoena from the United States Attorney's Office for the District of Massachusetts relating to the marketing of biliary stents by the Company's Cordis subsidiary. Cordis is cooperating in responding to the subpoena. A False Claims Act complaint was filed in Dallas relating to similar issues. The U.S. Department of Justice and several states have declined to intervene at this time. A motion to dismiss the Texas qui tam case is pending.

In April 2009, the Company received a HIPPA subpoena from the U.S. Attorney's Office for the District of Massachusetts (Boston) seeking information regarding the Company's financial relationship with several psychiatrists. The Company has responded to this request.

In April 2009, Ortho-Clinical Diagnostics, Inc. (OCD) received a grand jury subpoena from the U.S. Department of Justice, Antitrust Division, requesting documents and information for the period beginning September 1, 2000 through the present, pertaining to an investigation of alleged violations of the antitrust laws in the blood reagents industry. The Company is in the process of complying with the subpoena. In the weeks following the public announcement that OCD had received a subpoena from the Antitrust Division, multiple class action complaints were filed. The various cases were consolidated for pre-trial purposes in the Eastern District of Pennsylvania.

In May 2009, the New Jersey Attorney General issued a subpoena to DePuy Orthopaedics, Inc., seeking information regarding the financial interest of clinical investigators who performed clinical studies for DePuy Orthopaedics, Inc. and DePuy Spine, Inc. DePuy Orthopaedics has responded to these requests.

In May 2010, the Company received a letter from the United States House of Representatives' Committee on Oversight and Government Reform ("Committee") requesting information and documents regarding the April 2010 recall of various infants' and children's liquid products by McNeil Consumer Healthcare. The Company produced documents and other information in response to these requests. In May 2010, the Committee conducted a public hearing. Thereafter, the Company received additional information requests from the Committee, including requests regarding the recall of certain Motrin products by McNeil Consumer Healthcare. The Company produced documents and other information in response to these requests. The Committee held another public hearing on September 30, 2010, and the Company continues to cooperate fully with the Committee's ongoing information requests.

In addition, McNeil Consumer Healthcare, and certain affiliates including Johnson & Johnson ("the Companies"), received grand jury subpoenas from the United States Attorney's Office for the Eastern District of Pennsylvania requesting documents broadly relating to recent recalls of various products of McNeil Consumer Healthcare, and the FDA inspections of the Fort Washington,

Pennsylvania and Lancaster, Pennsylvania manufacturing facilities. The Companies are cooperating with the United States Attorney's Office in responding to these subpoenas.

The Companies have also received Civil Investigative Demands (CID) from multiple State Attorneys General Offices broadly relating to the McNeil recall issues. The Companies continue to produce documents in response to these CIDs and otherwise cooperate with these inquiries.

Furthermore, a lawsuit was filed by a shareholder in the United States District Court for the District of New Jersey: *Monk v. Johnson & Johnson*. The complaint seeks class certification based upon the anti-fraud provisions of the federal securities laws related to the McNeil manufacturing facilities. More specifically, this complaint alleges that the Companies and certain individuals, including officers and employees, failed to disclose that a number of manufacturing facilities were failing to maintain current good manufacturing practices (cGMPs) and, as a result, the price of the Company's stock has declined significantly.

Multiple complaints seeking class action certification related to the McNeil recalls have been filed in the United States District Court for the Eastern District of Pennsylvania, the Northern District of Illinois, the Central District of California, and the Southern District of Ohio. These consumer complaints allege generally that purchasers of McNeil's children's medicines are owed money damages and penalties because they paid premium prices for defective medications rather than less expensive alternative medications. Each complaint seeks certification of a nation-wide class of purchasers of children's medicines. On October 8, 2010, the Judicial Panel on Multidistrict Litigation consolidated these consumer complaints: *Haviland v. McNeil* (E.D. Pa.); *Smith v. McNeil* (N.D. Ill.); *Burrell v. McNeil* (N.D. Ill.); *DeGroot v. McNeil* (N.D. Ill.); *Michaud v. McNeil*, (N.D. Ill.); *Nguyen v. McNeil* (N.D. Ill.); *Roberson v. McNeil* (N.D. Ill.); *Rivera v. Johnson & Johnson* (C.D. Cal.) for pretrial proceedings in the United States District Court for the Eastern District of Pennsylvania. Defendants have requested that the more recently filed case of *Coleman v. McNeil* (S.D. Ohio) be transferred to that same court.

In recent years the Company has received numerous requests from a variety of United States Congressional Committees to produce information relevant to ongoing congressional inquiries. It is the Company's policy to cooperate with these inquiries by producing the requested information.

With respect to all the above matters, the Company and its subsidiaries are vigorously contesting the allegations asserted against them and otherwise pursuing defenses to maximize the prospect of success. The Company and its subsidiaries involved in these matters continually evaluate their strategies in managing these matters and, where appropriate, pursue settlements and other resolutions where those are in the best interest of the Company.

The Company is also involved in a number of patent, trademark and other lawsuits incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the Company's opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial condition, although the resolution in any reporting period of one or more of these matters could have a material impact on the Company's results of operations and cash flows for that period.

## **19.8 Significant change in the Company's financial or trading position**

There has been no material adverse change in the financial or trading position of the Company since the latest financial information. No significant change has occurred since the preparation of the Quarterly financial information included in Section 19.5 of this Registration Document.

## 20 Additional information<sup>51</sup>

### 20.1 Share Capital<sup>52</sup>

Article 4 of the Company's Restated Certificate of Incorporation specifies that "The aggregate number of shares of all classes of stock which the Corporation has authority to issue is Four Billion Three Hundred Twenty Two Million (4,322,000,000), divided into Two Million (2,000,000) shares of Preferred Stock without par value and Four Billion Three Hundred Twenty Million (4,320,000,000) shares of Common Stock of the par value of One Dollar (\$1.00) each. The shares of any class of stock of the Corporation may be issued from time to time in such manner and for such lawful consideration as may from time to time be fixed by the Board of Directors and, in the case of shares of Preferred Stock, the Board of Directors shall have discretion to determine what portion of the consideration received for such shares to allocate to capital surplus".

On 3 October 2010 the Shareholders' equity of the Company was as follows:

- i. Preferred stock – without par value: authorized and unissued: 2,000,000 shares
- ii. Common stock – par value \$1.00 per share: authorized 4,320,000,000 shares; and issued 3,119,843,000 shares

As of 3 October 2010, the Company held 373,037,595 shares of common stock in treasury shares.

The following is an overview of the changes in recent history in the total number of Issued Shares and Capital Stock:

#### Common Stock

Date	Aggregate Number of Issued Shares		Capital (Par Value)	
	Amount of Increase/ Decrease (thousands of shares)	Balance (thousands of shares)	Amount of Increase/ Decrease (million \$)	Balance (million \$)
31 December 2000	-	1,534,921	-	1,535
22 May 2001	1,534,921	3,069,842	1,535	3,070 (Note 1)
30 December 2001	50,000	3,119,842	50	3,120 (Note 2)
30 December 2007	[rounded up]	3,119,843	-	3,120

Note 1: On 22 May 2001, the 2-for-1 stock split declared by the Board of Directors on 26 April 2001 became effective.

Note 2: Stock issued due to business combinations (consideration in shares of acquisitions).

### 20.2 Memorandum and Articles of Association<sup>53</sup>

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<sup>51</sup> Item 21 of Annex I of the Regulation.

<sup>52</sup> Item 21.1 of Annex I of the Regulation.

<sup>53</sup> Item 21.2 of Annex I of the Regulation.

### **20.2.1 General**

Article 3 of the Restated Certificate of Incorporation states:

*"The purpose for which the Corporation is organized is: To engage in any activity within the purposes for which corporations may be organized under the New Jersey Business Corporation Act."*

The Restated Certificate of Incorporation and the Company's By-laws spell out the specific provisions relating to the Board of Directors and the specific Committees of the Company. The Restated Certificate of Incorporation and the By-laws can be consulted on the Company's website: [www.investor.jnj.com/governance/cdocument.cfm](http://www.investor.jnj.com/governance/cdocument.cfm).

Eleven individuals currently serve as members of the Johnson & Johnson Board of Directors. All individuals nominated for election to the board must meet general criteria for consideration.

The Board holds the ultimate authority of the Company, except to the extent that shareholders are granted certain powers under the Company's Certificate of Incorporation and By-Laws. The Board appoints senior management of the Company, to whom conduct of the Company's business and operations is delegated. The Board then provides oversight of management. In order to assist it in fulfilling its obligations, the Board has formed committees.

On an on-going basis throughout the year, at meetings of the Board and Committees of the Board, management of the Company and Board members discuss the strategic direction and major developments of the various businesses in which the Company is engaged.

The Johnson & Johnson Board of Directors has a standing Audit Committee, Compensation & Benefits Committee and Nominating & Corporate Governance Committee. Other committees include the Finance Committee, Public Policy Committee and Science and Technology Committee.

Further information with respect to the most relevant Committees can be found under section 15 of this Registration Document.

The Company's Certificate of Incorporation specifies in its Article 4 the designations, preferences and voting and other rights of and restrictions and limitations of the Company's Preferred Stock and Common Stock.

### **20.2.2 Rights of Common Shareholders in the Company**

#### **(a) Number, Election, Vacancy and Removal of Directors**

The Johnson & Johnson certificate of incorporation and the Johnson & Johnson by-laws provide that the total number of Johnson & Johnson directors will be not less than 9 or more than 18, as determined by the Johnson & Johnson board of directors from time to time. Johnson & Johnson currently has 11 directors. All directors are elected at each annual meeting of shareholders to serve until the next annual meeting. The Johnson & Johnson by-laws do not provide for cumulative voting in the election of directors. The Johnson & Johnson by-laws provide that vacancies on the Johnson & Johnson board of directors will be filled by appointment made by a majority vote of the remaining directors. The Johnson & Johnson certificate of incorporation and the Johnson & Johnson by-laws provide that directors may be removed, with cause, by a majority vote of the shareholders.

(b) Amendments to Charter Documents

Under New Jersey law, a proposed amendment to a corporation's certificate of incorporation requires approval by its board of directors and an affirmative vote of a majority of the votes cast by the holders of shares entitled to vote on the amendment, unless a specific provision of New Jersey law or the corporation's certificate of incorporation provides otherwise. The Johnson & Johnson certificate of incorporation provides that if any class or series of shares is entitled to vote thereon as a class, the affirmative vote of a majority of the votes cast in each class is required.

(c) Amendments to By-laws

Under New Jersey law, the Johnson & Johnson certificate of incorporation and the Johnson & Johnson by-laws, the Johnson & Johnson by-laws generally may be amended or repealed in whole or in part by the shareholders at a regular or special meeting of the shareholders or by the Johnson & Johnson board of directors at a regular or special meeting of the board of directors, if notice of the proposed amendment is contained in the notice of such meeting, except that a by-law adopted or amended by the Johnson & Johnson board of directors may be superseded by shareholder action and that shareholder action may pre-empt any further action by the Johnson & Johnson board of directors with respect to that by-law provision.

(d) Action by Written Consent

Under New Jersey law, any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting, without prior notice and without a vote, upon the written consent of shareholders who would have been entitled to cast the minimum number of votes which would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting; provided, however, that in case of an annual meeting of shareholders for the election of directors, any consent in writing must be unanimous.

(e) Notice of Shareholder Actions

New Jersey law and the Johnson & Johnson by-laws provide that written notice of the time, place and purpose or purposes of every meeting of shareholders must be given not less than 10 nor more than 60 days before the date of the meeting, either personally or by mail, telegram or telex, to each shareholder of record entitled to vote at the meeting. The Johnson & Johnson by-laws further provide that the only matters that may be considered and acted upon at an annual meeting of shareholders are those matters brought before the meeting:

- through the notice of meeting
- by the Johnson & Johnson board of directors or
- by a shareholder of record entitled to vote at the meeting.

Generally, the Johnson & Johnson by-laws require a shareholder who intends to bring matters before an annual meeting to provide advance notice of such intended action not less than 120 days prior to the date of the proxy statement

relating to the prior year's annual meeting. The notice must contain a brief description of the business desired to be brought before the meeting and must identify any personal or other material interest of the shareholder in such proposed business. The person presiding at the meeting will have the discretion to determine whether any item of business was brought before such meeting in compliance with the above procedures.

(f) Special Shareholder Meetings

Under the Johnson & Johnson by-laws, a special meeting of the shareholders may be called at any time by the chairman of the Johnson & Johnson board of directors, a vice-chairman of the Johnson & Johnson board of directors, the chairman of the executive committee, a vice-chairman of the executive committee, the president or by a majority of the Johnson & Johnson board of directors, and may be held on the business day and place stated in the notice of the meeting. A special meeting of the shareholders may also be called, upon written request to the secretary, and subject to certain conditions.

On 14 January 2008, the board of directors of Johnson & Johnson approved an amendment to Section 2 of Article I of the Company's amended By-Laws to permit record holders of at least 25% of the outstanding shares of stock of the Company entitled to vote to cause a special meeting of shareholders to be held. The amendment further provides that, if the Company's Board of Directors determines in good faith that the business specified in the shareholders' request will be included in an upcoming annual meeting of shareholders within 90 days after receipt of the request, the special meeting will not be held. Previously, the Company's shareholders were not empowered to cause a special meeting of shareholders to be held, except as provided by New Jersey law.

In addition, New Jersey law provides that holders of not less than 10% of all shares entitled to vote at a meeting may apply to the New Jersey Superior Court to request that a special meeting of the shareholders be called for good cause shown. At such a meeting, the shareholders present in person or by proxy will constitute a quorum for the transaction of business described in such order.

(g) Shareholder Inspection Rights; Shareholder Lists

Under New Jersey law, a shareholder who has been a shareholder for at least six months or who holds, or is authorized in writing by holders of, at least 5% of the outstanding shares of any class or series of stock of a corporation has the right, for any proper purpose and upon at least five days written notice, to inspect in person or by agent or attorney the minutes of the proceedings of the corporation's shareholders and its record of shareholders. Irrespective of the period such shareholder has held his, her or its stock or the amount of stock such shareholder holds, a court may, upon proof of proper purpose, compel production for examination by the shareholder of the books and records of account, minutes and record of shareholders of Johnson & Johnson.

(h) Limitation of Personal Liability and Indemnification of Directors and Officers

Under New Jersey law, a corporation may indemnify a director or officer against his or her expenses and liabilities in connection with any proceeding involving

the director or officer by reason of his or her being or having been a director or officer, other than a proceeding by or in the right of the corporation, if:

- the director or officer acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and
- with respect to any criminal proceeding, the director or officer had no reasonable cause to believe his or her conduct was unlawful.

The Johnson & Johnson certificate of incorporation provides that, to the full extent permitted under New Jersey law, no director or officer of Johnson & Johnson will be personally liable to Johnson & Johnson or its shareholders for damages for breach of any duty owed to Johnson & Johnson or its shareholders.

The Johnson & Johnson by-laws provide that to the full extent permitted under New Jersey law, Johnson & Johnson will indemnify any person who was or is involved in any manner in any threatened, pending or completed investigation, claim, action, suit or proceeding, whether civil, criminal, administrative, arbitrative, legislative or investigative, or who is threatened with being so involved, by reason of the fact that he or she is or was a director or officer of Johnson & Johnson or, while serving as a director or officer of Johnson & Johnson, is or was at the request of Johnson & Johnson also serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expenses (including attorneys' fees), judgments, fines, penalties, excise taxes and amounts paid in settlement actually and reasonably incurred in connection with such proceeding.

Johnson & Johnson enters into indemnification agreements with its directors and officers and enters into insurance agreements on its own behalf.

(i) Dividends

The Johnson & Johnson certificate of incorporation provides that the Johnson & Johnson board of directors may from time to time declare dividends on its outstanding shares in accordance with New Jersey law.

The Company shall make payments of dividends to the stockholders in accordance with the resolution of the Board of Directors. Record date for the payment of dividends shall be determined by the Board of Directors, and the dividends will be paid to the stockholders of record on such date.

(j) Conversion

Holders of Johnson & Johnson common stock have no rights to convert their shares into any other securities.

(k) Shareholder Rights Plan

Johnson & Johnson does not have a rights plan. New Jersey law, however, endorses share rights or options issued by New Jersey corporations that, among other things, include conditions precluding holders of a specified percentage of outstanding shares of a corporation from exercising such share

rights or options or which invalidate the share rights or options beneficially owned by such holders and their transferees.

(I) Voting Rights; Required Vote for Authorization of Certain Actions

Each holder of Johnson & Johnson common stock is entitled to one vote for each share held of record and may not cumulate votes for the election of directors.

*Merger or Consolidation.* Under New Jersey law, the consummation of a merger or consolidation of a New Jersey corporation organized prior to 1 January 1969, such as Johnson & Johnson, requires the approval of such corporation's board of directors and the affirmative vote of two-thirds of the votes cast by the holders of shares of the corporation entitled to vote thereon; however, no such approval and vote are required if such corporation is the surviving corporation and

- such corporation's certificate of incorporation is not amended
- the shareholders of the surviving corporation whose shares were outstanding immediately before the effective date of the merger will hold the same number of shares, with identical designations, preferences, limitations, and rights, immediately after and
- the number of voting shares and participation shares outstanding after the merger will not exceed by 40% the total number of voting or participating shares of the surviving corporation before the merger.

Similarly, a sale of all or substantially all of such corporation's assets other than in the ordinary course of business, or a voluntary dissolution of such corporation, requires the approval of such corporation's board of directors and the affirmative vote of two-thirds of the votes cast by the holders of shares of such corporation entitled to vote thereon.

*Business Combinations.* Under New Jersey law, no New Jersey corporation may engage in any "business combination" with any interested shareholder (generally, a 10% or greater shareholder) for a period of five years following such interested shareholder's stock acquisition, unless such business combination is approved by the board of directors of such corporation prior to the stock acquisition.

Under New Jersey law, "business combination" includes:

- any merger or consolidation of a resident domestic corporation or one of its subsidiaries:
- with an interested shareholder or
- with any corporation which is, or would be after such merger or consolidation, an affiliate or associate of an interested shareholder
- any transfer or other disposition to or with an interested shareholder or any affiliate or associate of an interested shareholder of at least 10% of (1) the assets, (2) the outstanding shares or (3) the earning power or income, on a consolidated basis, of such resident domestic corporation and



- other specified self-dealing transactions between such resident domestic corporation and an interested shareholder or any affiliate or associate thereof.

In addition, no resident domestic corporation may engage, at any time, in any business combination with any interested shareholder of such corporation other than:

- a business combination approved by the board of directors of such corporation prior to the stock acquisition
- a business combination approved by the affirmative vote of the holders of two-thirds of the voting stock not beneficially owned by such interested shareholder at a meeting called for such purpose or
- a business combination in which the interested shareholder meets certain fair price criteria.

(m) Other Corporate Constituencies

New Jersey law provides that in determining whether a proposal or offer to acquire a corporation is in the best interest of the corporation, a board of directors may, in addition to considering the effects of any action on shareholders, consider (1) the effects of the proposed action on the corporation's employees, suppliers, creditors and customers, (2) the effects on the community in which the corporation operates and (3) the long-term as well as short-term interests of the corporation and its shareholders, including the possibility that those interests may be served best by the continued independence of the corporation. New Jersey law also provides that if, based on those factors, a board determines that the offer is not in the best interest of the corporation it may reject the offer.

(n) Dissenters' Rights

Under New Jersey law, shareholders have the right to dissent from any plan of merger or consolidation to which the corporation is a party, and to demand payment for the fair value of their shares. However, unless the certificate of incorporation otherwise provides, New Jersey law provides that shareholders do not have a right to dissent from any plan of merger or consolidation with respect to shares (1) of a class or series which is listed on a national securities exchange or is held of record by not less than 1,000 holders; or (2) for which, pursuant to the plan of merger or consolidation, such shareholder will receive (x) cash, (y) shares, obligations or other securities which, upon consummation of the merger or consolidation, will either be listed on a national securities exchange or held of record by not less than 1,000 holders, or (z) cash and such securities. In addition, New Jersey law provides that, unless the certificate of incorporation provides otherwise, shareholders of a surviving corporation do not have the right to dissent from a plan of merger if the merger did not require for its approval the vote of such shareholders. In addition, unless a corporation's

certificate of incorporation provides otherwise, New Jersey law provides that shareholders do not have a right to dissent from any sale, lease, exchange or other disposition of all or substantially all of the assets of a corporation (1) with respect to shares of a class or series which is listed on a national securities exchange or is held of record by not less than 1,000 holders; (2) from a transaction pursuant to a plan of dissolution of the corporation which provides for distribution of substantially all of its net assets to shareholders in accordance with their respective interests within one year after the date of such transaction, where such transaction is wholly for (x) cash or (y) shares, obligations or other securities which, upon consummation of the plan of dissolution, will either be listed on a national securities exchange or held of record by not less than 1,000 holders, or (z) cash and such securities; or (3) from a sale pursuant to an order of a court having jurisdiction.

Johnson & Johnson's certificate of incorporation and bylaws are silent as to dissenters' rights.

(o) Entry in the Record of Shareholders

Shares to be newly issued will be registered on the record of stockholders of the Company in the name of stockholders thereof.

(p) Procedures for the Transfer of Shares

Shares of stock of the Company shall be transferred on the books of the Company only (1) upon presentation and surrender of the appropriate certificate by the registered holder of such shares in person or by his or her duly authorized attorney or by a person presenting proper evidence of succession, assignment or authority to transfer such shares and, in any of such cases, cancellation of a certificate or of certificates for an equivalent number of shares or (2) in the case of uncertificated shares upon receipt of proper transfer instructions from the registered holder of such shares or from a duly authorized attorney or upon presentation of proper evidence of succession, assignment or authority to transfer such shares.

(q) Notice to the Share Owners

The Company shall give notices to stockholders by sending such notices to their addresses as described on the record of stockholders.

## 21 Material contracts<sup>54</sup>

None.

## 22 Third party information and statement by experts and declarations of any interest<sup>55</sup>

This Registration Document does not contain third party information or statements by experts.

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<sup>54</sup> Item 22 of Annex I of the Regulation.

<sup>55</sup> Item 23 of Annex I of the Regulation.

## **23 Documents on display<sup>56</sup>**

For the life of this Registration Document the following documents (or copies thereof), may be inspected at the Company's website ([www.jnj.com](http://www.jnj.com)):

- (a) the Restated Certificate of Incorporation of the Company as well as its By Laws;
- (b) the Company's filings with the US Securities and Exchange Commission ("SEC") ;
- (c) the Company's Annual Reports and Proxy Statements.

The Company will provide without charge to each eligible participant, upon the written or oral request of such person, a copy of any or all of these documents. Requests should be directed to: Office of the Secretary, Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933 USA (1-732-524-2455).

## **24 Information on holdings<sup>57</sup>**

Please refer to the list of principal global affiliates in section 7 of this Registration Document.

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<sup>56</sup> Item 24 of Annex I of the Regulation.

<sup>57</sup> Item 25 of Annex I of the Regulation.

### 3. SECURITIES NOTE<sup>58</sup>

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<sup>58</sup> This Section is established in accordance with the Schedule set out in Annex III –“*Minimum disclosure requirements for the Share Securities Note (schedule)*” of the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ L 149, 30.4.2004), Corrigendum, Official Journal L 215, 16/06/2004 (the “**Regulation**”). Correspondence with each Item in Annex III is indicated in the footnotes.

## 1 Persons responsible<sup>59</sup>

The management of Johnson & Johnson, a corporation incorporated for an unlimited duration under the laws of the State of New Jersey, USA. (hereinafter referred to as the “**Company**”), with its principal place of business at One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933 (Telephone 732-524-0400) is responsible for the information given in this Securities Note<sup>60</sup>. The Company confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Securities Note is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.<sup>61</sup>

## 2 Risk factors<sup>62</sup>

The Company may from time to time make certain forward-looking statements in publicly-released materials, both written and oral. Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management’s plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words such as “plans”, “expects”, “will”, “anticipates”, “estimates” and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company’s strategy for growth, product development, regulatory approvals, market position and expenditures.

Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from the Company’s expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, the Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.

Some important factors that could cause the Company’s actual results to differ from the Company’s expectations in any forward-looking statements are as follows:

- Economic factors, including inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Competitive factors, including technological advances achieved and patents attained by competitors as well as new products introduced by competitors;
- Challenges to the Company’s patents by competitors or allegations that the Company’s products infringe the patents of third parties, which could potentially affect the Company’s competitive position and ability to sell the products in question and require the payment of past damages and future royalties. In particular, generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company’s key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event that the Company is not successful in defending the resulting lawsuits, generic versions of the product at issue will be introduced, resulting in very substantial market share and revenue losses;

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<sup>59</sup> Item 1 of Annex III of the Regulation.

<sup>60</sup> Item 1.1 of Annex III of the Regulation.

<sup>61</sup> Item 1.2 of Annex III of the Regulation.

<sup>62</sup> Item 2 of Annex III of the Regulation.

- Financial distress and bankruptcies experienced by significant customers and suppliers that could impair their ability, as the case may be, to purchase the Company's products, pay for products previously purchased or meet their obligations to the Company under supply arrangements;
- The impact on political and economic conditions due to terrorist attacks in the U.S. and other parts of the world or U.S. military action overseas, as well as instability in the financial markets which could result from such terrorism or military actions;
- Interruptions of computer and communication systems, including computer viruses, that could impair the Company's ability to conduct business and communicate internally and with its customers;
- Health care changes in the U.S. and other countries resulting in pricing pressures, including the continued consolidation among health care providers, trends toward managed care and health care cost containment, the shift towards governments becoming the primary payers of health care expenses and government laws and regulations relating to sales and promotion, reimbursement and pricing generally;
- Government laws and regulations, affecting U.S. and foreign operations, including those relating to securities laws compliance, trade, monetary and fiscal policies, taxes, price controls, regulatory approval of new products, licensing and patent rights, and possible drug reimportation legislation;
- Competition in research, involving the development and the improvement of new and existing products and processes, is particularly significant and results from time to time in product and process obsolescence. The development of new and improved products is important to the Company's success in all areas of its business;
- Challenges and difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and abroad, gain and maintain market approval of products and the possibility of encountering infringement claims by competitors with respect to patent or other intellectual property rights which can preclude or delay commercialization of a product;
- Significant litigation adverse to the Company including product liability claims, patent infringement claims, and antitrust claims;
- The health care industry has come under increased scrutiny by U.S. government agencies and state attorneys general and resulting investigations and prosecutions carry the risk of significant civil and criminal penalties, including debarment from government business;
- Product efficacy or safety concerns, whether or not based on scientific evidence, resulting in product withdrawals, recalls, regulatory action on the part of the FDA (or foreign counterparts) or declining sales;
- The impact of business combinations, including acquisitions and divestitures, both internally for the Company and externally in the pharmaceutical, medical device and health care industries; and
- Issuance of new or revised accounting standards by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, the U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board.

The foregoing list sets forth many, but not all, of the factors that could impact upon the Company's ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties. The Company has identified the factors on this list as permitted by the U.S. Private Securities Litigation Reform Act of 1995.

### 3 Key information<sup>63</sup>

- 3.1 In the Company's opinion, the working capital of the Company is sufficient for the Company's present operational requirements.<sup>64</sup>
- 3.2 The capitalization and indebtedness of Johnson & Johnson:  
Please refer to the Registration Document.
- 3.3 The purposes of the offer of the Johnson & Johnson Executive Bonus Plan (the "Plan") is to attract and retain highly qualified individuals as executives, to obtain from each the best possible performance and to underscore to them the importance of achieving business objectives.<sup>65</sup>
- 3.4 The purpose of the Plan is to align the interests of the participants with those of the shareholders of the Company by allowing the participants to receive part of their bonus payments in the form of shares of Common Stock.<sup>66</sup>
- 3.5 The Plan is attached in Annex I to this Securities Note. Any capitalized terms not defined herein shall have the meanings ascribed to them in the Plan.

### 4 Information concerning the securities to be offered<sup>67</sup>

- 4.1 The securities offered under the Plan are shares of Common Stock of Johnson & Johnson. If an Eligible Employee elects to receive shares of Common Stock pursuant to the terms of the Plan, the source of shares of Common Stock shall be determined by the Management Compensation Committee of the Company (the "Committee") and may consist of authorized but unissued shares, treasury shares or shares acquired on the open market, or any combination thereof. Any shares issued as a result of such election shall not be issued pursuant to the terms of Johnson & Johnson's Long-Term Incentive Plan ("LTIP") and shall not be subject to the terms of the LTIP.

By contrast, if the Committee determines that all or part of an Award shall be paid in shares of Common Stock, such shares shall be paid from the aggregate number of shares of Common Stock authorized to be issued under the LTIP as in effect from time to time. In this case, the source of shares of Common Stock shall be determined by the Compensation & Benefits Committee of the Board of Directors of the Company and may consist of authorized but unissued shares, treasury shares or shares acquired on the open market, or any combination thereof.

The shares of Common Stock offered have a par value of US\$1.00 per share. The trading symbol on the New York Stock Exchange is "JNJ"<sup>68</sup>.

- 4.2 The securities have been created in accordance with the laws that govern the Company, i.e. under the laws of the State of New Jersey, USA.

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<sup>63</sup> Item 3 of Annex III of the Regulation.

<sup>64</sup> Item 3.1 of Annex III of the Regulation.

<sup>65</sup> Item 3.3 of Annex III of the Regulation.

<sup>66</sup> Item 3.4 of Annex III of the Regulation.

<sup>67</sup> Item 4 of Annex III of the Regulation.

<sup>68</sup> Item 4.1 of Annex III of the Regulation.

All questions pertaining to the construction, interpretation, regulation, validity, and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of New Jersey without giving effect to conflict of laws principles, except to the extent superseded by US federal law.<sup>69</sup>

- 4.3** Each share of Common Stock issued or transferred pursuant to the Plan shall be evidenced by an interest in such share registered in the name of the applicable Eligible Employee on the books and records of the Company or its designee (or by a physical certificate if such a certificate is issued with respect to such share).<sup>70</sup>
- 4.4** The currency of the issue is in principle US \$. However, the obligations of the Company to deliver awards under the terms of the Plan in cash or shares of Common Stock shall be subject to currency and other restrictions imposed by any government.<sup>71</sup>
- 4.5** An Eligible Employee shall have no rights as a holder of shares of Common Stock with respect to Awards under the Plan unless and until interests in, or certificates evidencing, shares of Common Stock are issued or transferred to such Eligible Employee.

The holders of Common Stock of the Company shall be entitled to one vote per share of Common Stock on all matters which may be submitted to the holders of Common Stock of the Company.

No holder of any stock of the Company of any class now or hereafter authorized shall have any right as such holder (other than such right, if any, as the Company's Board of Directors in its discretion may determine) to purchase, subscribe for or otherwise acquire any shares of stock of the Company of any class now or hereinafter authorized, or any part-paid receipts or allotment certificates in respect of any such shares, or any securities convertible into or exchangeable for any such shares, or any warrants or other instruments evidencing rights or options to subscribe for, purchase or otherwise acquire any such shares, whether such shares, receipts, certificates, securities, warrants or other instruments be unissued or issued and thereafter acquired by the Company.

The Company's Board of Directors shall have the power in its discretion to declare and pay dividends upon the shares of stock of the Company of any class out of any assets of the Company lawfully available for the payment of dividends.<sup>72</sup>

- 4.6** There is currently no intention to issue any new shares under the Plan.<sup>73</sup>
- 4.7** In the case the Management Compensation Committee of the Company decides to issue new shares, the expected issue date of the new securities is 10 January 2011.<sup>74</sup>
- 4.8** No Award or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution. Once interests in, or certificates evidencing, shares of Common Stock are issued or transferred to an Eligible Employee, such shares of Common Stock may be freely transferred, assigned, pledged, or otherwise subjected to lien, subject to the

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<sup>69</sup> Item 4.2 of Annex III of the Regulation.

<sup>70</sup> Item 4.3 of Annex III of the Regulation.

<sup>71</sup> Item 4.4 of Annex III of the Regulation.

<sup>72</sup> Item 4.5 of Annex III of the Regulation.

<sup>73</sup> Item 4.6 of Annex III of the Regulation.

<sup>74</sup> Item 4.7 of Annex III of the Regulation.



restrictions imposed by the United States Securities Act of 1933, Section 16 of the Securities Exchange Act of 1934, and the Company's Insider Trading policy, as such policy may be amended from time to time.<sup>75</sup>

- 4.9** There are no mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities.<sup>76</sup>
- 4.10** No takeover bids by third parties in respect of Johnson & Johnson's equity have occurred during the last financial year and the current financial year.<sup>77</sup>
- 4.11** The Company shall have the right to deduct from all Awards paid in cash any federal, state, local, or foreign taxes required by law to be withheld with respect to such Awards and, with respect to Awards paid in shares of Common Stock, to require the payment (through withholding from the Eligible Employee's salary or otherwise) of any such taxes; provided that, except as otherwise determined by the Committee, all such taxes shall be withheld, to the extent permissible and practicable, from the portion of such Award that is payable in cash before it is withheld or paid from any other source.<sup>78</sup>

## **5 Terms and conditions of the offer<sup>79</sup>**

### **5.1 Conditions, offer statistics, expected timetable and action required to apply for the offer<sup>80</sup>**

- 5.1.1** This Securities Note concerns the offer of shares of Common Stock of the Company in accordance with the terms and conditions of the Plan. Annex 1 to this Securities Note contains the Plan document.

Subject to the terms and conditions of the Plan, the Committee may, from time to time, select from all Eligible Employees those to whom Awards shall be granted for each Year and shall determine the nature, size, and terms of each Award.

Eligible Employees are being asked to make a choice under the Plan because they are eligible to receive an Award. Making a choice does not mean that an employee will receive an Award. Decisions on who will receive Awards for 2010 and the amount of any such Awards will be finalized and approved by the Compensation and Benefits Committee of the Company's Board of Directors at its meeting on 10 January 2011. The choice the Eligible Employee makes under the Plan will be given effect only if that employee actually receives an Award for 2010.

The Awards generally reflect the level of individual contributions and competitive practice and may vary according to location and/or business unit.

The primary basis for the Award is individual performance during the year. If the performance is considered above average or outstanding, the Award will be adjusted accordingly, while unsatisfactory performers will receive no Award.

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<sup>75</sup> Item 4.8 of Annex III of the Regulation.

<sup>76</sup> Item 4.9 of Annex III of the Regulation.

<sup>77</sup> Item 4.10 of Annex III of the Regulation.

<sup>78</sup> Item 4.11 of Annex III of the Regulation.

<sup>79</sup> Item 5 of Annex III of the Regulation.

<sup>80</sup> Item 5.1 of Annex III of the Regulation.

In addition to individual performance, Awards are also based on Company-wide performance. Award pools are adjusted to reflect Company performance for the year based upon agreed to goals and objectives.

The example below illustrates how Awards are adjusted based on Company performance:

Employee Planned Award X Company performance = Final Award e.g.  $50,000 \times 1.05 = 52,500$ ;

where 50,000 is the Employee Planned Award and 1.05 (105%) is the performance factor of the relevant company (in our example, the company performed better than the target and Awards were adjusted upward by 5 per cent).

The Johnson & Johnson approach to determining Awards continues to support the link between business results and rewards.

- 5.1.2 The amount of the offer will be up to 18,087,269 shares of Johnson & Johnson Common Stock.

The stock price that will be used to convert a portion of the Award value into shares of Johnson & Johnson Common Stock will be determined as follows:

The stock price is equal to the average of the highest and lowest trading price of the Johnson & Johnson Common Stock on 10 January 2011 on the New York Stock Exchange.

- 5.1.3 The Plan was approved by the Committee on 30 August 2005. The Plan became effective as of 1 September 2005, and shall remain in effect until such time as it is terminated by the Committee.

The Plan is offered to the Eligible Employees as from 6 December 2010. The offer shall close on 31 December 2010 (the "Offer").

The application process relating to an Award is set out in Section 5 of the Plan.

- 5.1.4 The Committee may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards granted prior to the date of such termination or amendment except to the extent that the Committee reasonably determines that such termination or amendment is necessary or appropriate to comply with applicable law (including the provisions of the US Internal Revenue Code of 1986, as amended from time to time, and the regulations thereunder) or the rules and regulations of any stock exchange on which Common Stock is listed or quoted. Notwithstanding the foregoing, unless the Company's shareholders have first approved the amendment, no amendment to the Plan shall be effective if shareholder approval of the amendment is required by either applicable law or the rules of the principal securities exchange on which shares of Common Stock are traded.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination, exchange of shares or other change in corporate structure affecting any class of Common Stock, the Committee shall make such adjustments to the class and aggregate number of shares to be delivered under the Plan as the Committee may determine to be appropriate.

5.1.5 Once an Eligible Employee has made his choice during the Offer, it is not possible to reduce the subscription.

5.1.6 Eligible Employees will have the choice to subscribe for shares of Common Stock of the Company for up to 20% of their granted Award (pre-tax), if any, subject to the terms and conditions of the Plan.

5.1.7 **After the close of the Offer it is not possible to withdraw from the Offer.**

## 5.2 Plan of distribution and allotment<sup>81</sup>

5.2.1 The securities are only offered to Johnson & Johnson's Eligible Employees, excluding Executive Committee Members and the Corporate Controller. The offer is made in various jurisdictions but no separate tranche has been or is being reserved for shares.

5.2.2 No major shareholders or members of the Company's Executive Committee can subscribe in the offer, and no person can subscribe for more than five per cent of the offer.

5.2.3 Managers will notify their employees of their Award amounts. Employees will be notified of the number of shares by electronic confirmation from the Payroll Department.

No dealing is allowed before the notification is made.

## 5.3 Pricing<sup>82</sup>

5.3.1 The Eligible Employees can choose to convert between 0 and 20 percent of their pre-tax cash Award into Common Stock of the Company and receive the rest in cash (subject to the withholding taxes on the full Award amount). The percentage the Eligible Employee elects to convert to stock must be in five percent increments, e.g., 0%, 5%, 10%, 15% or 20%.

EXAMPLE:

Assume that an individual receives an Award of \$50,000 and the company stock price on the date of payment of the stock portion is \$60. The five scenarios illustrated below would be the available choices. Fractional shares will not be issued. Any fractional share value will be paid in cash.

Percentage in Stock	Percentage in Cash	Stock Dollar Value	Cash Value	Number of Shares
0%	100%	\$0	\$50,000	0
5%	95%	\$2,500	\$47,500	41
10%	90%	\$5,000	\$45,000	83
15%	85%	\$7,500	\$42,500	125
20%	80%	\$10,000	\$40,000	166

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<sup>81</sup> Item 5.2 of Annex III of the Regulation.

<sup>82</sup> Item 5.3 of Annex III of the Regulation.

If the Eligible Employee receives an Award and chooses to have a portion paid in stock, the stock portion must meet the minimum issuance requirement of 15 shares. If the 15 share minimum is not met, he will receive the entire Award in cash.

The choice an Eligible Employee has made will be given effect only if he is actively employed on 10 January 2011 and he actually receives an Award for 2010. If an Eligible Employee terminates employment prior to 10 January 2011, any Award that he may be awarded will be paid to him entirely in cash, without regard to the choice that was made.

If an Eligible Employee does not make a choice, he will receive 100 percent of his Award in cash. All choices are irrevocable, and no changes to selections will be allowed once the election period has closed.

The Company has the right at any time to disregard the choice and pay any Award solely in cash.

If on 10 January 2011, the average of the highest and lowest stock price of Johnson & Johnson common stock is higher than US\$ 100.00, the choice made by Eligible Employees will be disregarded and Awards will be entirely paid in cash.

**5.3.2** The offer price will be indicated in electronic confirmations based on the average of the highest and lowest exchange rate of the Johnson & Johnson Common Stock as published in the Wall Street Journal.

**5.3.3** No pre-emptive purchase rights exist in respect of the shares of Common Stock offered under the Plan.

#### **5.4 Placing and Underwriting<sup>83</sup>**

Please refer to Section 5 of the Plan relating to Awards.

### **6 Admission to trading and dealing arrangements<sup>84</sup>**

**6.1** The securities offered are listed on the New York Stock Exchange.<sup>85</sup>

**6.2** There are no markets other than the New York Stock Exchange on which, to the knowledge of the Company, securities of the same class of the securities to be offered are already admitted to trading.<sup>86</sup>

### **7 Selling securities holders<sup>87</sup>**

The shares of Common Stock offered under the Plan, are issued or transferred by the Company.

Should you have further questions with respect to the Plan, please contact your regional Human Resources Leader.

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<sup>83</sup> Item 5.4 of Annex III of the Regulation.

<sup>84</sup> Item 6 of Annex III of the Regulation.

<sup>85</sup> Item 6.1 of Annex III of the Regulation.

<sup>86</sup> Item 6.2 of Annex III of the Regulation.

<sup>87</sup> Item 7 of Annex III of the Regulation.

## **SELLING RESTRICTIONS**

The distribution of the Prospectus (or any part thereof) and the offering and sale of the Common Stock in certain jurisdictions may be restricted by law. Persons into whose possession the Prospectus (or any part thereof) comes are required by Johnson & Johnson to inform themselves about and to observe any such restrictions.

### ***United States of America***

This document has not been submitted to the US Securities and Exchange Commission and is not an offer or sale of securities in the United States. Offers and sales to US persons (as such term is defined in Regulation S under the US Securities Act of 1933) are covered by a registration statement filed under the Securities Act dated 8 November 2005.

## ANNEX 1 TO REGISTRATION DOCUMENT

### TRADE MARKS

Johnson & Johnson

2009 Annual Report Trademarks

1-DAY ACUVUE TRUEEYE, disposable siliconehydrogel contact lenses  
ACIPHEX/PARIET (rabeprazole sodium), proton pump inhibitor  
ACTIVE NATURALS, skin care ingredients  
ACTIVE PHOTOBARRIER COMPLEX, sun protection  
ACUVUE TRUEEYE, contact lenses  
AVEENO, skin care products  
BX VELOCITY, stent  
CARTO, provides 3-dimensional view of the heart for treatment of cardiac arrhythmias  
CELLSEARCH, diagnostic test that automates capture and detection of CTCs  
CHARITE, artificial spinal disc  
CLEAN & CLEAR, teen skin care products  
CONCERTA (methylphenidate HCl), extended-release Tablets in the U.S. for adult ADHD  
CYPHER, sirolimus-eluting Coronary Stent  
DURAGESIC (fentanyl transdermal system, sold abroad as DUROGESIC), treatment for chronic pain  
EARTHWARDS, program to encourage development of earth-friendly products  
ENSEAL, bipolar vessel-sealing technology  
EVICEL, fibrin sealant, controls bleeding in surgical procedures.  
FEVERFEW PFE, natural ingredient found in some Aveeno skin care products  
FLEX HD, acellular dermal matrix  
HARMONIC, portfolio of surgical technology  
HELIOPLEX, sun protection for skin  
INTELENCE (etravirine), treatment for HIV  
INVEGA (paliperidone), treatment for schizophrenia  
INVEGA SUSTENNA (paliperidone palmitate), once-monthly dosing for treatment of schizophrenia  
JOHNSON'S, baby line of products  
LE PETIT MARSEILLAIS, French personal cleansing brand  
LEVAQUIN/FLOXIN (levofloxacin/ofloxacin), antibiotics

LISTERINE, oral health products

MEMORYGEL, breast implants

NATRECOR (nesiritide), treatment for acutely decompensated heart failure

NUCYNTA (tapentadol), immediate release tablets for relief of moderate to severe acute pain

OASYS, contact lenses

ORTHO EVRA, (norelgestromin/ethinyl estradiol transdermal system), birth control

ORTHO TRI-CYCLEN LO (norgestimate/ethinyl estradiol), birth control

PINNACLE COMPLETE, acetabular hip system

PREZISTA (darunavir), protease inhibitor, anti-HIV medication

PRILIGY (dapoxetine), sexual health

PROCRIT/EPREX (Epoetin alfa, sold outside the U.S. as EPREX), a biotechnology derived product that stimulates red blood cell production

PROPULSID (cisapride), treatment for heartburn

QUIXIL, surgical sealant

RAZADYNE (galantamine), treatment for Alzheimer's disease

REACH, oral care

REALIZE, adjustable Gastric Band, a device for the treatment of morbid obesity

REMICADE (infliximab), treatment for a number of immune-mediated inflammatory diseases

REOPRO (abciximab), cardiac ischemic complications

RISPERDAL (risperidone), RISPERDAL CONSTA (risperidone long-acting injection), for treatment of the symptoms of schizophrenia

SEDASYS, computer assisted personalized sedation system

SILENT, minimally invasive hip stem

SIMPONI (golimumab), treatment for moderate to severe active rheumatoid arthritis

SKIN ID, personalized acne solution

SPLENDA, sweetener product line

STELARA (ustekinumab), severe plaque psoriasis

SUN CRYSTALS, all natural sweetener

SURGIFLO, hemostatic matrix kit

TOPAMAX (topiramate), migraine prevention treatment

TRU-VU, digital imaging systems to assess skin condition

ULTRAM ER (tramadol), treatment for moderate to severe pain

## ANNEX 2 TO REGISTRATION DOCUMENT

### LIST OF SUBSIDIARIES

Company Name	Country	State/Region
<b>INTERNATIONAL:</b>		
Alza Ireland Limited	Ireland	
Apsis S.A.S.	France	
Beijing Dabao Cosmetics Co., Ltd.	China	
Biosense Webster (Israel) Ltd.	Israel	
Centocor Biologics (Ireland)	Ireland	
Centocor B.V.	Netherlands	
Cilag Advanced Technologies GmbH	Switzerland	
Cilag AG	Switzerland	
Cilag de Mexico, S. de R.L. de C.V.	Mexico	
Cilag GmbH International	Switzerland	
Cilag Holding AG	Switzerland	
Cilag Pharmaceuticals GmbH	Switzerland	
Cordis Cashel	Ireland	
Cordis de Mexico, S.A. de C.V.	Mexico	
Cordis Europa N.V.	Netherlands	
Cordis Medizinische Apparate GmbH	Germany	
DePuy Ace Sarl	Switzerland	
DePuy France S.A.S.	France	
DePuy International Limited	United Kingdom	
DePuy International (Holdings) Limited	United Kingdom	
DePuy (Ireland)	Ireland	
DePuy Mitek Sarl	Switzerland	
DePuy Motion Sarl	Switzerland	
DePuy Orthopadie GmbH	Germany	
DePuy Spine Sarl	Switzerland	
DePuy UK Holdings Limited	United Kingdom	
EES Holdings de Mexico, S. de R. L. de C. V.	Mexico	
Ethicon Ireland	Ireland	
Ethicon PR Holdings	Ireland	
Ethicon Sarl	Switzerland	
Ethicon SAS	France	
Ethicon Women's Health & Urology Sarl	Switzerland	
Ethnor del Istmo S.A.	Panama	
FMS Future Medical System SA	Switzerland	
Gloster Europe SAS	France	



GMED Health Care Limited	Ireland	
High Wycombe Property Management Limited	United Kingdom	
Janssen Alzheimer Immunotherapy	Ireland	
Janssen Alzheimer Immunotherapy (Holding) Limited	Ireland	
Janssen-Cilag AB	Sweden	
Janssen-Cilag A/S	Denmark	
Janssen-Cilag AG	Switzerland	
Janssen-Cilag B.V.	Netherlands	
Janssen-Cilag de Mexico S de R.L. de C.V.	Mexico	
Janssen-Cilag Farmaceutica, Lda.	Portugal	
Janssen-Cilag Farmaceutica Ltda.	Brazil	
Janssen-Cilag GmbH	Germany	
Janssen-Cilag Ltd.	Thailand	
Janssen-Cilag Limited	United Kingdom	
Janssen-Cilag NV	Belgium	
Janssen-Cilag OY	Finland	
Janssen-Cilag Pharmaceutical S.A.C.I.	Greece	
Janssen-Cilag Pharma GmbH	Austria	
Janssen-Cilag Polska, Sp. z o.o.	Poland	
Janssen-Cilag Pty. Ltd.	Australia	
Janssen-Cilag, S.A.	Spain	
Janssen-Cilag, S.A. de C.V.	Mexico	
Janssen-Cilag S.A.S.	France	
Janssen-Cilag S.p.A.	Italy	
Janssen-Cilag s.r.o	Czech Republic	
Janssen Korea Ltd.	Korea	
Janssen-Ortho Inc.	Canada	
Janssen Pharmaceutica NV	Belgium	
Janssen Pharmaceutica (Pty) Limited	South Africa	
Janssen Pharmaceutical K.K.	Japan	
Janssen Pharmaceutical	Ireland	
J-C HealthCare Ltd.	Israel	
JHC Nederland B.V.	Netherlands	
Johnson & Johnson AB	Sweden	
Johnson & Johnson AG	Switzerland	
Johnson & Johnson (China) Investment Co., Ltd.	China	
Johnson & Johnson (China) Ltd.	China	
Johnson & Johnson Consumer France SAS	France	
Johnson & Johnson Consumer Healthcare S.r.l.	Italy	
Johnson & Johnson Consumer Services EAME Ltd.	United Kingdom	
Johnson & Johnson de Argentina S.A.C.e I.	Argentina	
Johnson & Johnson de Colombia S.A.	Colombia	
Johnson & Johnson de Mexico, S.A. de C.V.	Mexico	
Johnson & Johnson del Ecuador S.A.	Ecuador	
Johnson & Johnson del Peru S.A.	Peru	

Johnson & Johnson do Brasil Industria E Comercio de Produtos Para Saude Ltda.	Brazil	
Johnson & Johnson European Treasury Company	Ireland	
Johnson & Johnson Finance Limited	United Kingdom	England
Johnson & Johnson Financial Services GmbH	Germany	
Johnson & Johnson Gesellschaft m.b.H.	Austria	
Johnson & Johnson GmbH	Germany	
Johnson & Johnson Group Holdings G.m.b.H	Germany	
Johnson & Johnson Hellas S.A.	Greece	
Johnson & Johnson Hemisferica S.A.	Puerto Rico	
Johnson & Johnson Holding GmbH	Germany	
Johnson & Johnson (Hong Kong) Limited	Hong Kong	
Johnson & Johnson Inc.	Canada	
Johnson & Johnson Industrial Ltda.	Brazil	
Johnson & Johnson International Financial Services Company	Ireland	
Johnson & Johnson Kft.	Hungary	
Johnson & Johnson K. K.	Japan	
Johnson & Johnson Korea, Ltd.	Korea	
Johnson & Johnson Limitada	Portugal	
Johnson & Johnson Limited	India	
Johnson & Johnson Limited	United Kingdom	England
Johnson & Johnson LLC	Russia	
Johnson & Johnson Luxembourg Finance Company Sarl	Luxembourg	
Johnson & Johnson Management Limited	United Kingdom	England
Johnson & Johnson Medical B.V.	Netherlands	
Johnson & Johnson Medical (China) Ltd.	China	
Johnson & Johnson Medical GmbH	Germany	
Johnson & Johnson Medical Holding S.p.A.	Italy	
Johnson & Johnson Medical Korea Limited	Korea	
Johnson & Johnson Medical Limited	United Kingdom	
Johnson & Johnson Medical Mexico, S.A. de C.V.	Mexico	
Johnson & Johnson Medical NV	Belgium	
Johnson & Johnson Medical Products GmbH	Austria	
Johnson & Johnson Medical (Pty) Limited	South Africa	
Johnson & Johnson Medical Pty Ltd.	Australia	
Johnson & Johnson Medical (Shanghai) Ltd.	China	
Johnson & Johnson Medical S.p.A.	Italy	
Johnson & Johnson Medical (Suzhou) Ltd.	China	
Johnson & Johnson (New Zealand) Limited	New Zealand	

Johnson & Johnson Nordic AB	Sweden	
Johnson & Johnson Pacific Pty. Limited	Australia	
Johnson & Johnson Pakistan (Private) Limited	Pakistan	
Johnson & Johnson (Philippines), Inc.	Philippines	
Johnson & Johnson Poland Sp. z o.o	Poland	
Johnson & Johnson, Prodaja medicinskih in farmacevtskih izdelkov, d.o.o	Slovenia	
Johnson & Johnson (Proprietary) Limited	South Africa	
Johnson & Johnson Pte. Ltd.	Singapore	
Johnson & Johnson Pty. Limited	Australia	
Johnson & Johnson S.A.	Spain	
Johnson & Johnson SDN. BHD.	Malaysia	
Johnson & Johnson S.E. d.o.o.	Croatia	
Johnson & Johnson S.p.A	Italy	
Johnson & Johnson, s.r.o.	Czech Republic	
Johnson & Johnson, s.r.o.	Slovakia	
Johnson & Johnson Swiss Finance Company Limited	United Kingdom	
Johnson & Johnson Taiwan Ltd.	Taiwan	
Johnson & Johnson (Thailand) Ltd.	Thailand	
Johnson & Johnson Vision Care (Ireland)	Ireland	
Laboratoires Polive S.N.C.	France	
Laboratoires Vendome SAS	France	
Latam International Investment Company	Ireland	
Latam Properties Holdings	Ireland	
Lifescan Canada Ltd.	Canada	
Lifescan Scotland Limited	United Kingdom	Scotland
McNeil AB	Sweden	
McNeil Consumer Healthcare GmbH	Germany	
McNeil Consumer Healthcare, S.L.	Spain	
McNeil Denmark ApS	Denmark	
McNeil Esbjerg ApS	Denmark	
McNeil GmbH & Co. oHG	Germany	
McNeil Healthcare (UK) Limited	United Kingdom	England
McNeil Limited	United Kingdom	
McNeil Manufacturing Pty Ltd	Australia	
McNeil Products Limited	United Kingdom	England
McNeil Sante Grand Public, S.A.S.	France	
McNeil SAS	France	
McNeil Sweden AB	Sweden	
Medos International Sarl	Switzerland	
Medos Sarl	Switzerland	
Mentor Medical Systems C.V.	Netherlands	
OBTECH Medical Sarl	Switzerland	
OMJ Ireland	Ireland	
OMJ Manufacturing	Ireland	
OMJ PR Holdings	Ireland	

Omrix Biopharmaceuticals Ltd.	Israel	
Omrix Biopharmaceuticals S.A.	Belgium	
Ortho-Clinical Diagnostics	United Kingdom	
Ortho-Clinical Diagnostics GmbH	Germany	
Ortho-Clinical Diagnostics K.K.	Japan	
Ortho-Clinical Diagnostics NV	Belgium	
Ortho-Clinical Diagnostics S.A.S.	France	
P.T. Johnson & Johnson Indonesia	Indonesia	
Perouse Plastie SAS	France	
Shanghai Johnson & Johnson Pharmaceuticals, Ltd.	China	
Tasmanian Alkaloids Pty. Ltd.	Australia	
Tibotec Pharmaceuticals	Ireland	
Tibotec-Virco Comm. VA	Belgium	
Tibotec-Virco Virology BVBA	Belgium	
Turnbuckle Investment Company	Ireland	
Vania Expansion, S.N.C.	France	
Xian-Janssen Pharmaceutical Ltd.	China	
<b>UNITED STATES:</b>		
Advanced Sterilization Products Services Inc.	United States	New Jersey
Advanced Technologies and Regenerative Medicine, LLC	United States	Delaware
ALZA Corporation	United States	Delaware
ALZA Development Corporation	United States	California
ALZA Land Management, Inc.	United States	Delaware
Animas Corporation	United States	Delaware
Biosense Webster, Inc.	United States	California
Centocor Biologics, LLC	United States	Pennsylvania
Centocor Ortho Biotech Inc.	United States	Pennsylvania
Centocor Ortho Biotech Products, L.P.	United States	New Jersey
Centocor Ortho Biotech Services LLC	United States	New Jersey
Centocor Research & Development, Inc.	United States	Pennsylvania
CNA Development LLC	United States	Delaware
Codman & Shurtleff, Inc.	United States	New Jersey
Conor Medsystems, LLC	United States	Delaware
Cordis Corporation	United States	Florida
Cordis International Corporation	United States	Delaware
Cordis LLC	United States	Delaware
Cougar Biotechnology, Inc.	United States	Delaware
Crescendo Pharmaceuticals Corporation	United States	Delaware
DePuy, Inc.	United States	Delaware
DePuy Mitek, Inc.	United States	Massachusetts
DePuy Orthopaedics, Inc.	United States	Indiana
DePuy Products, Inc.	United States	Indiana
DePuy Spine, Inc.	United States	Ohio
DePuy Spine Sales Limited Partnership	United States	Massachusetts
Diabetes Diagnostics, Inc.	United States	Delaware

Ethicon Endo-Surgery, Inc.	United States	Ohio
Ethicon Endo-Surgery, LLC	United States	Delaware
Ethicon Endo-Surgery Services, L.P.	United States	Texas
Ethicon, Inc.	United States	New Jersey
Ethicon LLC	United States	Delaware
Global Pharmaceutical Supply Group, LLC	United States	Pennsylvania
GUH Corporation	United States	Delaware
Hand Innovations LLC	United States	Delaware
HealthMedia, Inc.	United States	Michigan
Human Performance Institute, Inc.	United States	Florida
Innovational Holdings, LLC	United States	Delaware
ISO Holding Corp.	United States	Delaware
J&J Holdings (Nevada), Inc.	United States	Nevada
Janssen Alzheimer Immunotherapy Research & Development, LLC	United States	Delaware
Janssen Ortho LLC	United States	Delaware
JJHC, LLC	United States	Delaware
JNJ International Investment LLC	United States	Delaware
Johnson & Johnson Consumer Companies, Inc.	United States	New Jersey
Johnson & Johnson Development Corporation	United States	New Jersey
Johnson & Johnson Finance Corporation	United States	New Jersey
Johnson & Johnson Health Care Systems Inc.	United States	New Jersey
Johnson & Johnson International	United States	New Jersey
Johnson & Johnson Japan Inc.	United States	New Jersey
Johnson & Johnson • Merck Consumer Pharmaceuticals Co.	United States	New Jersey
Johnson & Johnson (Middle East) Inc.	United States	New Jersey
Johnson & Johnson Pharmaceutical Research & Development, L.L.C.	United States	New Jersey
Johnson & Johnson Pharmaceutical Services, LLC	United States	New Jersey
Johnson & Johnson Sales and Logistics Company, LLC	United States	New Jersey
Johnson & Johnson Services, Inc.	United States	New Jersey
Johnson & Johnson Urban Renewal Associates	United States	New Jersey
Johnson & Johnson Vision Care, Inc.	United States	Florida
Joint Medical Products Corporation	United States	Delaware
JOM Pharmaceutical Services, Inc.	United States	Delaware
LifeScan, Inc.	United States	California
LifeScan LLC	United States	Delaware
LifeScan Products, LLC	United States	Delaware
LuMend, Inc.	United States	Delaware
McNeil Consumer Healthcare Latin America LLC	United States	Delaware
McNeil Healthcare LLC	United States	Delaware
McNeil LA LLC	United States	Delaware

McNeil Nutritionals, LLC	United States	Delaware
McNEIL-PPC, Inc.	United States	New Jersey
Mentor Minnesota Inc.	United States	Delaware
Mentor Texas L.P.	United States	Delaware
Middlesex Assurance Company Limited	United States	Vermont
Neutrogena Corporation	United States	Delaware
Nitinol Development Corporation	United States	California
Noramco, Inc.	United States	Georgia
OMJ Pharmaceuticals, Inc.	United States	Delaware
OraPharma, Inc.	United States	Delaware
Ortho Biologics LLC	United States	Delaware
Ortho Biotech Holding LLC	United States	Delaware
Ortho-Clinical Diagnostics, Inc.	United States	New York
Ortho-McNeil Finance Co.	United States	Florida
Ortho-McNeil-Janssen Pharmaceuticals, Inc.	United States	Pennsylvania
Patriot Pharmaceuticals, LLC	United States	Pennsylvania
Rutan Realty LLC	United States	New Jersey
Scios Inc.	United States	Delaware
SurgRx, Inc.	United States	Delaware
TERAMed Corporation	United States	Delaware
Therakos, Inc.	United States	Florida
Therapeutic Discovery Corporation	United States	Delaware
The Tylenol Company	United States	New Jersey
TransForm Pharmaceuticals, Inc.	United States	Delaware
Veridex, LLC	United States	Delaware

**ANNEX 1 TO SECURITIES NOTE  
PLAN**

## **Johnson & Johnson Executive Bonus Plan**

### **1. Purposes.**

The purposes of the Johnson & Johnson Executive Bonus Plan (the “Plan”) are to attract and retain highly qualified individuals as executives; to obtain from each the best possible performance; and to underscore to them the importance of achieving business objectives. The Plan, as set forth herein, supersedes prior versions of the Johnson & Johnson Executive Bonus Plan, but it does not replace or amend the Johnson & Johnson Executive Incentive Plan.

### **2. Definitions.**

For purposes of the Plan:

“Award” means (i) a dollar-denominated bonus awarded to an Eligible Employee pursuant to the Plan with respect to a Year and (ii) solely for the purpose set forth in Section 8(a) hereof, any payment identified in Appendix A hereto.

“Board” means the Board of Directors of the Corporation.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Management Compensation Committee of the Corporation.

“Common Stock” means the common stock, par value \$1.00 per share, of the Corporation.

“Corporation” means Johnson & Johnson, a New Jersey corporation.

“Eligible Employee” means an individual who is not an Executive Officer but who, at any time during the Year for which an Award is made, is on the active payroll of (i) the Corporation, (ii) any of the Corporation’s domestic or international subsidiaries and affiliated entities, (iii) a joint venture operation of the Corporation and its subsidiaries and affiliated entities, or (iv) a partner in such a joint venture who is assigned to such joint venture.

“Executive Officer” means the Chairman and any Vice Chairman of the Board and any other officer of the Corporation who has been designated as part of the Office of the Chairman or elected a Member of the Executive Committee of the Corporation.

“Fair Market Value” on any date means the average of the high and low sales prices, on such date, of shares of Common Stock on the principal securities exchange on which such shares are traded or, if there are no such sales on such date, then the average of the high and



low sales prices of such shares on the date or dates that the Committee determines, in its sole discretion, to be appropriate.

“LTIP” means the Johnson & Johnson Long-Term Incentive Plan as in effect from time to time.

“Plan” means the Johnson & Johnson Executive Bonus Plan as set forth herein and as amended from time to time.

“Share Election” means an election by an Eligible Employee in accordance with the provisions of Section 5 hereof to reduce the percentage of the Award for a Year that is payable in cash and to receive, in lieu of any such cash, shares of Common Stock with a Fair Market Value (determined as of a date designated by the Committee) equal to the dollar amount of the Award that the Eligible Employee elects not to receive in cash.

“Year” means the calendar year.

### **3. Administration.**

(a) *Authority of Committee.* The Plan shall be administered by the Committee, which shall have all of the powers vested in it by the terms of the Plan, including the authority (subject to the restrictions imposed by the Plan):

- to select the Eligible Employees to be granted Awards;
- to determine the nature, size, and terms of each Award;
- to determine the time when Awards are to be granted and any conditions that must be satisfied before an Award is granted;
- to determine whether any conditions applicable to an Award have been met; and
- to determine the guidelines and/or procedures for the payment of Awards.

(b) *Interpretation of Plan.* The Committee shall have full power and authority to administer and interpret the Plan and to adopt or establish such rules, regulations, agreements, guidelines, procedures, and instruments that are not inconsistent with the Plan and that, in the Committee’s opinion, may be necessary or advisable for the administration and operation of the Plan. The Committee’s interpretations of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding on all persons, including the Corporation, its subsidiaries, its shareholders, and all Eligible Employees.

(c) *Delegation of Authority.* To the extent not prohibited by law, the Committee may delegate its authority hereunder to one or more of its members or other persons.

(d) *Execution of Documents and Provision of Assistance.* The Committee may designate employees of the Corporation to execute documents on behalf of the Committee or otherwise to assist the Committee in the administration and operation of the Plan.

(e) *Uniformity Not Required.* The terms and conditions that apply to Awards, including, but not limited to, Share Elections, need not be uniform among all Awards, among all Awards of the same type, among all Awards granted to the same Eligible Employee, or among all Awards granted at the same time.

#### **4. Eligibility.**

Subject to the terms and conditions of the Plan, the Committee may, from time to time, select from all Eligible Employees those to whom Awards shall be granted for each Year and shall determine the nature, size, and terms of each Award.

#### **5. Awards.**

(a) *General.* Subject to the provisions of this Section 5, an Award to an Eligible Employee for a Year shall be paid in cash, in shares of Common Stock, or in a combination of cash and shares of Common Stock, as determined by the Committee. Each Award to an Eligible Employee shall be paid entirely in cash unless the Committee requires such Eligible Employee to receive all or part of such Award in shares of Common Stock pursuant to the provisions of this Section 5(a) or such Eligible Employee makes a Share Election with respect to such Award. If the Committee determines that an Eligible Employee shall receive all or part of an Award for a Year in shares of Common Stock, the Eligible Employee may not make a Share Election with respect to any portion of such Award that is payable in cash.

(b) *Share Election.* Subject to the provisions of this Section 5, the Committee may allow an Eligible Employee to elect to reduce the percentage of the Award for a Year that is payable in cash and to receive, in lieu of any such cash, shares of Common Stock with a Fair Market Value (determined as of a date designated by the Committee) equal to the dollar amount of the Award that the Eligible Employee elects not to receive in cash.

(c) *Permissible Elections.* A Share Election with respect to an Award for a Year must designate the percentage of such Award that the Eligible Employee elects to forgo receiving in cash. The Committee may provide that a Share Election shall not be effective unless such Share Election (i) designates a percentage that the Committee permits and (ii) causes the Eligible Employee to receive at least a specified minimum number of shares of Common Stock.

(d) *Election Procedure.* The Committee may require any Share Election to be made in such manner and form and by such date as the Committee shall specify. A Share Election shall become irrevocable on the date specified by the Committee. A Share Election that fails to conform to the requirements specified by the Committee shall have no effect, and any Award for which such Share Election was made shall be paid entirely in cash.

(e) *No Right to Award.* An Eligible Employee shall not be entitled to an Award merely because he or she is allowed to make (or actually makes) a Share Election. Likewise, an Eligible Employee shall not be ineligible for an Award merely because he or she is not allowed to make (or does not make) a Share Election.

(f) *Source of Shares.* If the Committee determines, pursuant to the provisions of Section 5(a) hereof, that all or part of an Award shall be paid in shares of Common Stock, such shares shall be paid from the aggregate number of shares of Common Stock authorized to be issued under the terms of the LTIP and shall be issued in accordance with, and subject to, the terms of the LTIP. By contrast, if an Eligible Employee makes a Share Election, any shares issued as a result of such Share Election shall not be issued pursuant to the LTIP and shall not be subject to the terms of the LTIP.

(g) *Evidence of Interest in Shares.* Each share of Common Stock issued or transferred pursuant to the Plan shall be evidenced by an interest in such share registered in the name of the applicable Eligible Employee on the books and records of the Corporation or its designee (or by a physical certificate if such a certificate is issued with respect to such share).

(h) *Date of Issuance.* The date when interests in, or certificates evidencing, shares of Common Stock are issued or transferred to an Eligible Employee as part of an Award (and therefore the first date when such Eligible Employee may transfer any such shares) may occur after the date on which the Eligible Employee first acquires a beneficial interest in such shares.

## **6. Payment.**

(a) *Discretionary Awards.* An Eligible Employee shall not have any right to an Award until the Award is approved in accordance with the provisions of Section 6(b) hereof.

(b) *Authorization.* An Award may not be paid hereunder until and unless (i) the Committee approves such Award, and (ii) the Compensation and Benefits Committee of the Board approves either such Award or the fund, pool, or reserve from which such Award is to be paid.

(c) *Timing.* If the requirements imposed by the provisions of Section 6(b) hereof are satisfied, then except as otherwise determined by the Committee, each Award for a Year shall be paid after the end of such Year and on or before the March 15th next following the end of such Year.

(d) *Installments.* An Award may be paid in installments. For example, an Eligible Employee may acquire a beneficial interest in the portion of an Award that is payable in shares of Common Stock before the Eligible Employee receives the cash portion of such Award.

## **7. Adjustments.**

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination, exchange of shares or other change in corporate structure affecting any class of Common Stock, the Committee shall make such adjustments to the class and aggregate number of shares to be delivered under the Plan as the Committee may determine to be appropriate.

## **8. Miscellaneous.**

(a) *Other Payments.* Any payment identified in Appendix A hereto shall be treated as an Award solely for the purpose of applying the provisions of Section 5 hereof to such payment; provided that in applying the provisions of Section 5 hereof to any such payment, the Committee shall take into account the provisions of Sections 2, 3, 7, 8, and 9 hereof.

(b) *Rights as Shareholder.* An Eligible Employee shall have no rights as a holder of shares of Common Stock with respect to Awards hereunder unless and until interests in, or certificates evidencing, shares of Common Stock are issued or transferred to such Eligible Employee.

(c) *No Assignment or Transfer.* No Award or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution. Once interests in, or certificates evidencing, shares of Common Stock are issued or transferred to an Eligible Employee, such shares of Common Stock may be freely transferred, assigned, pledged, or otherwise subjected to lien, subject to the restrictions imposed by the Securities Act of 1933, Section 16 of the Securities Exchange Act of 1934, and the Corporation's Insider Trading policy, as such policy may be amended from time to time.

(d) *Withholding Taxes.* The Corporation shall have the right to deduct from all Awards paid in cash any federal, state, local, or foreign taxes required by law to be withheld with respect to such Awards and, with respect to Awards paid in shares of Common Stock, to require the payment (through withholding from the Eligible Employee's salary or otherwise) of any such taxes; provided that, except as otherwise determined by the Committee, all such taxes shall be withheld, to the extent permissible and practicable, from the portion of such Award that is payable in cash before it is withheld or paid from any other source.

(e) *International Employees.* Notwithstanding any provision of the Plan to the contrary, the Committee, in its sole discretion, shall have the power and authority (i) to modify the terms and conditions of the Plan insofar as such terms and conditions govern Awards to Eligible Employees who are employed outside the United States, (ii) to establish subplans and other Award terms, conditions, and procedures to the extent such actions may be necessary or advisable to comply with provisions of the laws and regulations of, and/or to conform to the payroll cycles in, countries other than the United States, and (iii) to designate the foreign exchange rate(s) used to determine the number of shares of Common Stock to be

issued or transferred to an Eligible Employee who is not compensated in United States currency and who receives shares of Common Stock rather than cash pursuant to the provisions of Section 5 hereof.

(f) *Currency and Other Restrictions.* The obligations of the Corporation to deliver Awards in cash or shares of Common Stock shall be subject to currency and other restrictions imposed by any government.

(g) *Limitations on Rights.* Neither the Plan nor any action taken hereunder shall be construed as giving any person any right to be retained in the employ of the Corporation or any of its subsidiaries or affiliates, and the Plan shall not interfere with or limit in any way the right of the Corporation or any of its subsidiaries or affiliates to terminate any person's employment at any time. Except as set forth herein, no employee shall have any claim or right to be granted an Award under the Plan. By accepting an Award, the Eligible Employee acknowledges and agrees that (i) the Award shall be governed exclusively by the terms and conditions of the Plan (and, to the extent provided by Section 5(f) hereof, the LTIP), (ii) Awards are not a constituent part of salary and the Eligible Employee is not entitled, under the terms and conditions of employment or by accepting or being granted Awards under the Plan, to have Awards granted to him or her in the future under the Plan or any other plan, (iii) the value of Awards received under the Plan shall be excluded from the calculation of termination indemnities or other severance payments, and (iv) the Eligible Employee shall seek all necessary approval under, make all required notifications under, and comply with all laws, rules, and regulations applicable to the ownership of shares of Common Stock and currency and exchange laws, rules, and regulations.

(h) *Costs and Expenses.* The cost and expenses of administering the Plan shall be borne by the Corporation and shall not be charged to any Award or to any Eligible Employee.

(i) *Fractional Shares.* Fractional shares of Common Stock shall not be issued or transferred under an Award, but the Committee may direct that cash be paid in lieu of fractional shares or other fractional units or the Committee may round off fractional shares or units, in its discretion.

(j) *Funding of Plan.* The Corporation shall not be required to establish or fund any special or separate account or to make any other segregation of assets to assure the payment of any Award under the Plan.

(k) *Successors.* All obligations of the Corporation under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Corporation, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Corporation.

(l) *Gender and Number.* Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, any feminine term used herein shall include the masculine, and the plural shall include the singular and the singular shall include the plural.

(m) *Severability.* If any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(n) *Requirements of Law.* The granting of Awards and the issuance or transfer of shares of Common Stock under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(o) *Rules of Construction.* Whenever any provision of the Plan refers to any law, rule, or regulation, such provision shall be deemed to refer to the law, rule, or regulation currently in effect and, when and if such law, rule, or regulation is subsequently amended or replaced, to the amended or successor law, rule, or regulation. The term “including” shall be deemed to include the words “including without limitation.”

(p) *Governing Law.* All questions pertaining to the construction, interpretation, regulation, validity, and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of New Jersey without giving effect to conflict of laws principles, except to the extent superseded by federal law.

## **9. Duration.**

(a) *Effective Date and Term.* The Plan was approved by the Committee on August 30, 2005. The Plan became effective as of September 1, 2005, and shall remain in effect until such time as it is terminated by the Committee.

(b) *Termination and Amendment.* The Committee may at any time terminate or from time to time amend the Plan in whole or in part, but no such action shall adversely affect any rights or obligations with respect to any Awards granted prior to the date of such termination or amendment except to the extent that the Committee reasonably determines that such termination or amendment is necessary or appropriate to comply with applicable law (including the provisions of the Code and the regulations thereunder) or the rules and regulations of any stock exchange on which Common Stock is listed or quoted. Notwithstanding the foregoing, unless the Corporation’s shareholders shall have first approved the amendment, no amendment to the Plan shall be effective if shareholder approval of the amendment is required by either applicable law or the rules of the principal securities exchange on which shares of Common Stock are traded.

**APPENDIX A**

**ANNEX 2 TO SECURITIES NOTE**  
**TAX ANALYSIS**



# 1 Austria

## 1.1 Tax analysis: Bonus Plan

The following provides only a brief and general guide to the Austrian income tax and social security consequences of cash payments and the attribution of stock and does not cover all aspects of state and regional tax laws. It is based on Austrian income tax law in effect on 1 September 2010, which is subject to possible change at any time, possibly with retroactive effect. As your (employee's) personal circumstances may lead to a different analysis, you should seek advice based on the particular circumstances from your personal tax advisor.

### 1.1.1 Tax and social security treatment of cash payments

#### (i) Tax treatment

The cash amount received by the eligible participant will be taxable upon receipt as **income from employment at progressive income tax rates** of up to 50%. According to the Austrian legislation so called "extraordinary (or non-recurring) payments" are taxable at a flat rate of 6% in case those payments do not exceed 1/6 of the recurring payments (*Jahressechstel*).

The employer of the eligible participant will withhold wage withholding tax due on the cash payment, and forward the amount withheld to the tax office. Wage withholding tax is fully creditable against the the eligible participant's personal income tax liability. The employer will also report the cash payment to the tax authorities on the annual payroll form of the eligible participant.

#### (ii) Social security treatment

The cash payment will be subject to social security contributions unless the caps of the assessment basis for social security contributions have been exceeded (in 2010: EUR 4,110 monthly for current wages and EUR 8,220 annually for special wage payments).

### 1.1.2 Tax and social security treatment of attribution of shares

#### (i) Tax treatment

The benefit the employee receives from the grant of the shares, i.e. the fair market value of the J&J shares granted upon the date of the acquisition if the shares are granted for free, will be taxable upon acquisition of the shares, as **income from employment at progressive income tax rates** of up to 50%. A favourable tax regime may apply if certain prerequisites are met.

The employer of the eligible participant will withhold wage withholding tax on the taxable amount, and forward the amount withheld to the tax office. Wage withholding tax is fully creditable against the the eligible participant's personal income tax liability. The employer will also report the taxable amount on the annual payroll form of the eligible participant.

**Dividends from the J&J shares are taxed at a flat income tax rate of 25%.**

#### (ii) Social security treatment

The benefit from the grant of shares will be subject to social security contributions unless the caps of the assessment basis for social security contributions have been exceeded (in 2010: EUR 4,110 monthly for current wages and EUR 8,220 annually for special wage payments).

### 1.1.3 Example

#### (i) Assumptions

- Austrian resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- Extraordinary payments already reached threshold (13<sup>th</sup> and 14<sup>th</sup> monthly payment)

#### (ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 0	- € 0
Less : income tax (**)	- € 3,000	- € 2,270
<b>Net bonus</b>	<b>€ 3,000</b>	<b>€ 3,730</b>

(\*) no social security contributions due, as normal threshold has already been reached.

(\*\*) highest tax rate reached (50%) as of taxable income of EUR 60,000 (for single taxpayers). Share award: tax free amount of EUR 1,460 (subject to certain requirements).

### 1.1.4 Tax and social security treatment upon sale of the J&J shares

#### (i) Tax treatment

If shares are sold within 1 year after acquisition (so called speculative transaction), income tax at the regular rates is payable on the capital gains from such sale. Please note that a possible capital gain is only taxable if the total income from speculative transactions of the calendar year exceeds EUR 440.

Capital gains from the sale of shares after the 1-year holding period are generally not subject to Austrian income tax, unless the employee has held at least 1% of the shares in the company at any point in time during the last 5 years preceding the sale. In the latter case, income tax would be due at half of the applicable regular income tax rates.

#### (ii) Social security treatment

The capital gains realised upon the sale of the J&J shares will, as a general rule, not be subject to social security contributions.

## 1.2 Translated tax analysis: Bonus Plan

**Nachstehende Ausführungen sind nur eine kurze und allgemeine Leitlinie zur österreichischen einkommensteuerlichen und sozialversicherungsrechtlichen Behandlung von Bargeld-Prämienzahlungen und der Zuteilung von Aktien und umfassen nicht alle steuerlichen Aspekte. Die Ausführungen basieren auf österreichischem Steuerrecht wie in Kraft am 1. September 2010, das laufenden Änderungen unterliegen kann, möglicherweise auf mit rückwirkendem Effekt. Da Ihre (Arbeitnehmer) persönlichen Verhältnisse zu einer unterschiedlichen Beurteilung führen können, sollten Sie für Beratung in Ihrer konkreten Situation Ihren steuerlichen Berater konsultieren.**

## 1.2.1 Steuern und Sozialversicherungsabgaben auf Bargeld-Prämienzahlungen

### (i) Steuerliche Behandlung

Der Auszahlungsbetrag, den der Prämienplanteilnehmer erhält, ist bei Zufluss als Einkunft aus nichtselbständiger Arbeit zum progressiven Einkommensteuersatz von bis zu 50% steuerbar. Laut österreichischem Gesetz sind so genannte „außerordentliche (nicht regelmäßige/wiederkehrende) Zahlungen“ einem Sondersteuersatz von 6% unterworfen, wenn die Zahlungen nicht mehr als ein Sechstel regelmäßiger oder immer wiederkehrender Zahlungen ausmachen (Jahressechstel).

Der Arbeitgeber des Prämienplanteilnehmers behält die Lohnsteuer vom Auszahlungsbetrag ein und führt diese an das Finanzamt ab. Die einbehaltene Lohnsteuer kann in voller Höhe auf die Einkommensteuerschuld des Prämienplanteilnehmers angerechnet werden. Der Arbeitgeber weist zudem die Prämienzahlung gegenüber den Steuerbehörden auf der jährlichen Lohn/Gehaltsliste des Prämienplanteilnehmers aus.

### (ii) Sozialversicherung

Auf die Prämienzahlung sind Sozialversicherungsbeiträge zu leisten, sofern die Höchstbemessungsgrundlage für Sozialversicherungsbeiträge noch nicht überschritten ist (für 2010: EUR 4,110 monatlich für laufende Lohnzahlungen und EUR 8,220 jährlich für Sonderzahlungen).

## 1.2.2 Steuer und Sozialversicherungsabgaben auf zugeteilte Aktien

**Nachstehende Ausführungen sind nur eine kurze und allgemeine Leitlinie zur österreichischen einkommensteuerlichen und sozialversicherungsrechtlichen Behandlung von Aktienzuteilungen und umfassen nicht alle steuerlichen Aspekte. Die Ausführungen basieren auf österreichischem Steuerrecht wie in Kraft am 1. September 2010, das laufenden Änderungen unterliegen kann, möglicherweise auf mit rückwirkendem Effekt. Da Ihre (Arbeitnehmer) persönlichen Verhältnisse zu einer unterschiedlichen Beurteilung führen können, sollten Sie für Beratung in Ihrer konkreten Situation Ihren steuerlichen Berater konsultieren.**

### (i) Steuerliche Behandlung

Der Vorteil aus der Aktienzuteilung, somit der Marktwert der zugeteilten Aktien im Zeitpunkt der Zuteilung bei unentgeltlicher Zuteilung, ist als Einkunft aus nichtselbständiger Arbeit zum progressiven Einkommensteuersatz von bis zu 50% einkommensteuerpflichtig. Unter bestimmten Voraussetzungen kann eine Steuerbegünstigung anwendbar sein.

Der Arbeitgeber des Prämienplanteilnehmers behält die Lohnsteuer auf den jeweiligen steuerpflichtigen Betrag ein und führt diese an das Finanzamt ab. Die einbehaltene Lohnsteuer kann in voller Höhe auf die Einkommensteuerschuld des Prämienplanteilnehmers angerechnet werden. Der Arbeitgeber weist zudem den steuerbaren Betrag auf der jährlichen Gehaltsliste des Prämienplanteilnehmers aus.

Dividenden aus den Aktien von J&J unterliegen der Einkommensteuer in der Höhe von 25%.

### (ii) Sozialversicherung

Auf den Vorteil aus der Zuteilung der Aktien sind Sozialversicherungsbeiträge zu leisten sofern die Höchstbemessungsgrundlage für Sozialversicherungsbeiträge noch

nicht überschritten ist (für 2010: EUR 4,110 monatlich für laufende Lohnzahlungen und EUR 8,220 jährlich für Sonderzahlungen).

### 1.2.3 Beispiel

(i) Annahmen:

- Unbeschränkte Steuerpflicht in Österreich
- Reguläres Einkommen in der Höhe von EUR 80.000
- Prämienzahlungen in der Höhe von EUR 6.000 oder Zuteilung von 100 Aktien zu einem Wert von EUR 60 pro Aktie
- Steuerbegünstigtes Jahressechstel bereits ausgenutzt (durch 13. und 14. Gehalt)

(ii) Ergebnis

	<b>Prämienzahlung</b>	<b>Aktienzuteilung (100 Aktien x € 60)</b>
<b>Wert der Prämienzahlungen / Aktien</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Minus : Sozialversicherungsabgaben (*)	- € 0	- € 0
Minus : Einkommensteuer (**)	- € 3.000	- € 2.270
<b>Netto-Bonus</b>	<b>€ 3.000</b>	<b>€ 3.730</b>

(\*) keine zusätzlichen Sozialversicherungsabgaben, da die Höchstbemessungsgrundlage bereits erreicht ist

(\*\*) Höchststeuersatz (50%) ab einem steuerbaren Einkommen von EUR 60.000. Steuerfreibetrag von EUR 1.460 für Aktienzuteilungen an Arbeitnehmer (abhängig von der Erfüllung gewisser Voraussetzungen).

### 1.2.4 Steuerliche und sozialversicherungsrechtliche Behandlung bei Verkauf der Aktien

(i) Steuerliche Behandlung

Werden die Aktien innerhalb 1 Jahres nach deren Erwerb verkauft (sogenanntes Spekulationsgeschäft), unterliegt der Veräußerungsgewinn der Einkommensteuer zum Normaltarif von bis zu 50%. Hinweis: Ein eventueller Veräußerungsgewinn ist nur steuerpflichtig, wenn die Einkünfte aus Spekulationsgeschäften im Kalenderjahr insgesamt EUR 440 übersteigen.

Gewinne aus der Veräußerung von Aktien nach einer Behaltdauer von 1 Jahr sind grundsätzlich nicht einkommensteuerpflichtig, es sei denn, der Arbeitnehmer hat zu irgendeinem Zeitpunkt während der letzten 5 Jahre vor der Veräußerung der Aktien zumindest 1% am Unternehmen gehalten. In letzterem Fall würde Einkommensteuer zum halben Durchschnittssteuersatz anfallen.

(ii) Sozialversicherungsrechtliche Behandlung

Auf Gewinne aus der Veräußerung von Aktien fallen grundsätzlich keine Sozialversicherungsbeiträge an.

## 2 Belgium

### 2.1 Tax analysis: Bonus Plan (French)

#### 2.1.1 Traitement fiscal et social du bonus payé en espèces

(i) Traitement fiscal

Le montant reçu en espèces par les participants sera imposable au moment du paiement, à titre de revenu professionnel, au tarif progressif de l'impôt sur les revenus (entre 25% et 50%), augmenté de la taxe additionnelle communale (en principe, entre 5% et 9%).

L'employeur du participant retiendra un précompte professionnel sur le paiement effectué en espèces. Le précompte professionnel sera entièrement crédité sur l'impôt des personnes physiques du participant. L'employeur mentionnera également le paiement en espèces sur la fiche salariale annuelle du participant.

(ii) Sécurité sociale

Le paiement en espèce sera soumis aux cotisations sociales dans le chef de l'employé (13,07%). L'employeur du participant retiendra lesdites cotisations à la source.

#### 2.1.2 Traitement fiscal et social de l'attribution d'actions

(i) Traitement fiscal

L'attribution d'actions aux participants sera imposable, au moment de leur attribution, à titre de revenu professionnel, au tarif progressif de l'impôt sur les revenus (entre 25% et 50%), augmenté de la taxe additionnelle communale (en principe, entre 5% et 9%).

Le montant imposable est égal à la cote de l'action J&J attribuée, à la date d'attribution de ces actions. Si toutefois le participant accepte de bloquer les actions durant une période ininterrompue de deux ans au moins à partir de l'attribution, le montant imposable sera réduit à 83,33 % de la cote de l'action J&J attribuée.

L'employeur du participant retiendra un précompte professionnel sur le montant imposable, lequel sera entièrement crédité sur l'impôt des personnes physiques du participant. L'employeur indiquera également le montant imposable sur la fiche salariale annuelle du participant.

(ii) Sécurité sociale

Le montant imposable sera soumis aux cotisations sociales dans le chef de l'employé (13,07%). L'employeur du participant retiendra lesdites cotisations à la source.

#### 2.1.3 Exemple

(i) Données

- Imposition dans le chef d'un résident belge (célibataire, pas d'enfant à charge)
- Revenu normal de EUR 80.000
- Bonus en espèces de EUR 6.000 ou attribution de 100 actions d'une valeur de EUR 60 chacune
- Charge fiscale de 54 % (taxe additionnelle communale incluse)

- Cotisations sociales dans le chef de l'employé de 13,07%

(ii) Résultat

	Bonus en espèces	Attribution d'actions (sans blocage)	Attribution d'actions (avec blocage durant deux ans)
<b>Valeur du bonus/des actions</b>	<b>€ 6.000</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Moins : cotisations sociales	€ 784	€ 784	€ 653
Moins : impôt sur les revenus	€ 2.817	€ 2.817	€ 2.347
<b>Valeur nette</b>	<b>€ 2.399</b>	<b>€ 2.399</b>	<b>€ 3.000</b>

Les chiffres ont été arrondi à la décimale suivante.

#### 2.1.4 Dividendes

Les dividendes déclarés sur des actions J&J sont en principe soumis aux Etats-Unis à une retenue à la source de 30%. En vertu de l'article 10,2°, b de la convention préventive de double impositions entre la Belgique et les Etats-Unis, cette retenue à la source ne pourra être supérieure à 15%.

Pour les actionnaires qui sont repris dans les registres de la société en tant que résidents belges et qui ont rempli un formulaire W8-BEN (le formulaire peut être obtenu sur le site internet de l'IRS : [www.irs.gov](http://www.irs.gov)), la réduction du précompte mobilier jusqu'à 15% aux Etats-Unis est en principe d'office applicable.

En Belgique, les dividendes déclarés sur des actions J&J sont soumis à une retenue à la source de 25 % (appliqué au dividende net, c'est-à-dire après déduction de la retenue à la source aux Etats-Unis) s'ils sont perçus au travers d'un intermédiaire professionnel établi en Belgique. En l'absence d'intervention d'un tel intermédiaire professionnel, le montant net doit être reporté dans la déclaration fiscale de l'employé concerné. Les dividendes sont alors imposés au taux distinct de 25 %, augmentés de la taxe additionnelle communale.

## 2.2 Tax analysis: Bonus Plan (Dutch)

### 2.2.1 Fiscale en sociaal zekerheidsrechtelijke behandeling van cash betaling

(i) Fiscale behandeling

Het cash bedrag verkregen door de gerechtigde deelnemer zal worden belast, op het moment van de betaling, als beroepsinkomen aan de progressieve tarieven in de inkomstenbelasting (gaande van 25% tot 50%), te verhogen met de gemeentelijke opcentiemen op de verschuldigde inkomstenbelasting (gaande, in principe, van 5% tot 9%).

De werkgever van de gerechtigde werknemer zal bedrijfsvoorheffing inhouden op de cash betaling. De bedrijfsvoorheffing is volledig verrekenbaar met de door de gerechtigde deelnemer verschuldigde inkomstenbelasting. De werkgever zal het cash bedrag eveneens vermelden op de jaarlijkse individuele fiche van de gerechtigde deelnemer.

(ii) Sociaal zekerheidsrechtelijke behandeling

Het cash bedrag zal onderworpen zijn aan werknemers sociale zekerheidsbijdragen (13,07%). De werkgever van de gerechtigde deelnemer zal deze werknemers sociale zekerheidsbijdragen inhouden.

**2.2.2 Fiscale en sociaal zekerheidsrechtelijke behandeling van de toekenning van aandelen**

(i) Fiscale behandeling

De aandelen toegekend aan de gerechtigde deelnemer zullen belastbaar zijn, op het moment van de levering, als beroepsinkomen aan de progressieve tarieven in de inkomstenbelasting (gaande van 25% tot 50%), te verhogen met de gemeentelijke opcentiemen op de verschuldigde inkomstenbelasting (gaande, in principe, van 5% tot 9%).

Het belastbaar bedrag is gelijk aan de beurskoers van de J&J aandelen op het moment van de toekenning van deze aandelen. Indien, echter, de gerechtigde deelnemer akkoord gaat om de aandelen te blokkeren gedurende een ononderbroken periode van ten minste twee jaar vanaf het moment van de toekenning, zal het belastbaar bedrag worden beperkt tot 83,33% van de beurskoers van de J&J aandelen die werden toegekend.

De werkgever van de gerechtigde deelnemer zal bedrijfsvoorheffing inhouden op het belastbare bedrag dewelke volledig verrekenbaar zal zijn met de door de gerechtigde deelnemer verschuldigde inkomstenbelasting. De werkgever zal eveneens het belastbaar bedrag vermelden op de jaarlijkse individuele fiche van de gerechtigde deelnemer.

(ii) Sociaal zekerheidsrechtelijke behandeling

Het belastbaar bedrag zal onderworpen zijn aan werknemers sociale zekerheidsbijdragen (13,07%). De werkgever van de gerechtigde deelnemer zal deze werknemers sociale zekerheidsbijdragen inhouden.

**2.2.3 Voorbeeld**

(i) Assumpties

- Belgische fiscaal rijksinwoner (alleenstaand, geen kinderen ten laste)
- Overig inkomen van EUR 80.000
- Bonus betaling in cash van EUR 6.000 of toekenning van 100 aandelen met een waarde van EUR 60/aandeel
- Veronderstelde toepasselijke belastingvoet van 54% (inclusief gemeentelijke opcentiemen)
- Werknemers sociale zekerheidsbijdragen van 13,07%

(ii) Resultaat

	Cash bonus	Aandelen toekenning (geen blokkering)	Aandelen toekenning (blokkering gedurende twee jaar)
Waarde van bonus /	€ 6.000	€ 6.000	€ 6.000

	Cash bonus	Aandelen toekenning (geen blokkering)	Aandelen toekenning (blokkering gedurende twee jaar)
<b>aandelen</b>			
Min : sociale zekerheid	€ 784	€ 784	€ 653
Min : inkomstenbelasting	€ 2.817	€ 2.817	€ 2.347
<b>Netto bonus</b>	<b>€ 2.399</b>	<b>€ 2.399</b>	<b>€ 3.000</b>

Gelieve te noteren dat de cijfers werden afgerond tot het volgende decimaal.

#### 2.2.4 Dividenden

De dividenden toegekend met betrekking tot de J&J aandelen zijn in de Verenigde Staten in principe onderworpen aan een bronheffing van 30%. Mits toepassing van artikel 10, 2°, b van het Belgisch-Amerikaans dubbelbelastingverdrag zal deze bronheffing maximaal 15% bedragen.

Voor aandeelhouders die in de boeken van de vennootschap als inwoner van België bekend staan en die een W8-BEN formulier hebben ingevuld (het formulier kan worden verkregen op de website van de IRS: [www.irs.gov](http://www.irs.gov)), wordt de verlaging tot 15% in de Verenigde Staten in principe van ambtswege toegepast.

De dividenden toegekend met betrekking tot de J&J aandelen zijn in België onderworpen aan een roerende voorheffing van 25% (afgehouden op het netto dividend na aftrek van de Amerikaanse bronheffing) indien deze worden ontvangen via een professionele tussenpersoon gevestigd in België. Bij afwezigheid van enige tussenkomst van een professionele tussenpersoon gevestigd in België, dient het netto-bedrag te worden opgenomen in de aangifte personenbelasting van de gerechtigde deelnemer. De dividenden worden dan afzonderlijk belast aan 25%, te vermeerderen met gemeentelijke opcentiemen.



### 3 Bulgaria

#### 3.1 Tax analysis: Bonus Plan

##### 3.1.1 Tax and social security treatment of cash payments

(i) Tax treatment<sup>1</sup>

The cash amount received by the eligible participant will be taxable and will be added to the employee's salary. The income tax based on a labour agreement is payable on a monthly basis in accordance with the Law on Income Taxes of Physical Persons. The Law on Income Taxes of Physical Persons has been amended and as of 2009, a unified flat rate of 10 % on the income has been introduced, i.e. for the year 2010 the flat rate of 10 % applies as well.

The employer of the eligible participant will withhold salary tax on a monthly basis as indicated above. The participant shall be obliged to pay additional taxes on the ground of the Law on income taxes of physical persons after year-end in case he/she has another/additional income apart from the monthly salary during the year.

(ii) Social security treatment

The cash payment will be considered a part of the remuneration and will be added to the monthly income of the participant. The social security contributions are payable on a monthly basis (different rates apply to different social security risks and professions). However, at the year-end final social security contributions can be due in case the person's annual income is higher than the monthly income basis of the year – in case he/she has another income apart from the salary during the year. However there is a cap monthly size under which social security contributions are payable, which for the year 2007 is 1,400 BGL (apprx. 700 EUR). For the year 2008 the cap monthly size under which social security contributions are payable is 2,000 BGL.<sup>2</sup> For the year 2009 the cap monthly amount under which social security contributions are payable is 2,000 BGL. The cap monthly amount for the year 2010 remains unchanged and is still 2,000 BGL.

The employer of the eligible participant withholds these employee's social security contributions from the participant's salary. According to the Social Security Code during the year 2007 the employer and the employee pay the due social security contributions in proportion 65:35. For the year 2008 the ratio is - 60:40. For the year 2009 those contributions are distributed between the employer and the employee (born after 01.01.1960) in the following ratio:

- fund Pensions – 13 %, distributed between employer and employee in the following ratio – for the Employer – 7.2 %, for the Employee – 5.8 %;
- fund General illness and maternity – 3.5 %, distributed between employer and employee in the following ratio – 60 : 40;
- fund Unemployment – 1 %, distributed between employer and employee in the following ratio – 60 : 40;

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<sup>1</sup> Income tax is computed on a taxable basis reduced by due social contributions and other tax concessions provided for the Law on income taxes of physical persons.

<sup>2</sup> This threshold will be revised annually through the Parliament by the Law on the budget for social security contributions in view to take into account inflation.

- fund Labour accident – 0.4 – 1.1 % depending on the type of profession, payable by the employer.

The following table summarizes the social and health insurance contributions mandatory for 2010 as well as the distribution ratio between employer: employee applicable for 2010:

<b>Fund</b>	<b>Born before 1960</b>	<b>Born after 31.12.1959</b>
Fund retirement pensions	16%	11%
Fund disability and maternity	3.5%	3.5%
Fund unemployment	1%	1%
Fund labour accident and professional illness	0.4% - 1.1%	0.4% - 1.1%
Fund additional retirement pensions	/	5%
Health insurance	8%	8%

**Distribution of social security and health contributions for the year 2010 regarding:**

**EMPLOYEES BORN AFTER 31.12.1959**

	<b>Employer</b>	<b>Employee</b>
Fund retirement pensions (11%)	6.1%	4.9%
Fund disability and maternity (3,5%)	2.1%	1.4%
Fund unemployment (1%)	0.6%	0.4%
Fund labour accident and professional illness (0,4% - 1,1%)	0.4 %- 1.1%	/
Fund additional retirement pensions (5%)	2.8%	2.2%
Health insurance (8%)	4.8%	3.2%
<b>Total</b>	<b>17,5%</b>	<b>12,1%</b>

**EMPLOYEES BORN BEFORE 1960**

	<b>Employer</b>	<b>Employee</b>
Fund retirement pensions (16%)	8.9%	7.1%
Fund disability and maternity (3,5%)	2.1%	1.4%
Fund unemployment (1%)	0.6%	0.4%
Fund labour accident and professional illness (0,4% - 1,1%)	0.4 %- 1.1%	/
Health insurance (8%)	4.8%	3.2%
<b>Total</b>	<b>17,5%</b>	<b>12,1%</b>

### 3.1.2 Tax and social security treatment of attribution of shares

#### (i) Tax treatment

The wording of the plan suggests that the grant of shares is a part of the compensation of the employee in accordance with the employee's level of performance. Therefore it is likely to be considered as a bonus in kind meaning that the market value of the shares will be added to the monthly remuneration of the employee and taxed as described above.

In case it is not considered a part of the remuneration of the employee the grant of shares may be (there have been some articles on the topic in this sense) levied with a gift tax under the Law on Local Taxes. The rate is between 5 and 10% (on the basis of the market value of the shares) determined by the various municipalities (for Sofia Municipality the gift tax for the year 2010 is 5 %). The payer is the employee who has to pay it at the relevant Municipality where he is a permanent resident within 2 months upon receipt of the shares.

Upon sale of the shares, the difference between the amount received upon sale of the shares and the actual price at the moment of their acquisition is the amount which is taxable. That amount will be added to the annual income of the person and for the year 2010 the whole income is levied with a flat tax rate of 10 %.

Dividends derived from J&J shares are taxed at the rate of 5 % for the year 2010. No social security contributions are due.

#### (ii) Social security treatment

In case the grant of shares is considered a part of the remuneration there are social security payments as described above.

In case of sale of shares the gain increases the person's annual income and the employee has to declare it in his tax return at the end of the year.

The different scenarios as regards the tax treatment are due to the fact that there is a legislation gap on the issue, there is no explicit statement on the matter on the part of the Tax authorities, neither is there any court practice in this respect.

Therefore it is recommendable that the official opinion of the Tax Office is sought.

### 3.1.3 Example

#### (i) Assumptions

- Bulgarian resident taxation
- Monthly Salary of EUR 1,000
- Monthly Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- No other monthly payment
- The sum of all payments (€ 6,000 + € 1,000 = € 7,000) has been recalculated to BGN in accordance with the official exchange rate (1 € is equal to BGN 1.95583) and equals to BGN 13,691. The Bulgarian equivalent serves as a basis for the calculations below.

#### (ii) Result

**EMPLOYEE BORN AFTER 31.12.1959:**

Value per month	Cash bonus	Share award (100 shares x € 60)
Bonus / share award	€ 6,000	€ 6,000
Salary	€ 1,000	€ 1,000
Less : social security (*)	- 432 BGL (apprx. € 216)	- 432 BGL (apprx. € 216)
Less: health security (**)	- 160 BGL (apprx. 80 EUR)	- 160 BGL (apprx. 80 EUR)
Less : income tax (***)	- 10 % flat rate of BGN 13,449 (apprx. € 6,725) = BGN 1,344.9 (€ 672.45)	- 10 % flat rate of BGN 13,449 (apprx. € 6,725) = BGN 1,344.9 (€ 672.45)
Net received per month	BGN 11,754.10 (€ 5,877)	BGN 11,754.10 (€ 5,877)

(\*) No

social security contributions due for the sum received in total (i.e., all monthly payments – salaries, bonuses, etc.) above the monthly threshold, which for the year 2010 is 2,000 BGL – the payment has to be reduced with maximum 21.60 % depending on the type of profession, i.e., with 432 BGL (21.6 % of 2,000 BGL). The distribution between the employer and the employee has been described above in a separate table.

(\*\*) The health security contribution for the year 2010 is 8% and it is distributed between the employer and the employee in the following ratio - 60 : 40. No health security contributions due for the sum received in total (i.e., all monthly payments – salaries, bonuses, etc.) above the monthly threshold, which for the year 2010 is 2,000 BGL, i.e., the payment is reduced with maximum 8 % of 2,000 BGL = 160 BGL (apprx. 80 EUR).

(\*\*\*) tax rate for the year 2010 is a flat rate of 10 % of the whole taxable income, reduced with the social security and health security contributions payable by the employee. For the year 2010 those contributions are distributed between the employer and the employee (born after 31.12.1959) in the following ratio:

- fund Pensions – 11 %, distributed between employer and employee in the following ratio – for the employer – 6.1 %, for the employee – 4.9 %;
- fund Disability and maternity – 3.5 %, distributed between employer and employee in the following ratio – 60 : 40;
- fund Unemployment – 1 %, distributed between employer and employee in the following ratio – 60 : 40;
- fund Labour accident – 0.4 – 1.1 % depending on the type of profession, payable by the employer;
- fund Additional Retirement Pensions – 5 %, distributed between employer and employee in the following ratio – for the employer – 2.8 %, for the employee – 2.2 %.

In total if the monthly payment exceeds 2,000 BGL it should be reduced with maximum amount of 242 BGN (apprx. 121 EUR). Monthly payments (salary, bonuses, etc.) minus 242 BGN are reduced with 10 % flat rate.

### 3.2 Translated tax analysis: Bonus Plan

#### 3.2.1 Данъчен и социалноосигурителен режим – парични плащания

##### (i) Данъчен режим<sup>3</sup>

Паричните средства, получени от отговарящия на изискванията участник, подлежат на данъчно облагане и се прибавят към заплатата на служителя. Подоходният данък по трудов договор се дължи на месечна основа съгласно Закона за данъците върху доходите на физическите лица. Законът за данъците върху доходите на физическите лица претърпя изменения, беше въведен плоският данък, и в момента доходите, придобити през 2009 г., се облагат с плосък данък в размер на 10 %.

Работодателят на отговарящия на изискванията участник удържа данъка върху заплатата на месечна основа съобразно посоченото по-горе правило. Участникът е задължен да плаща допълнителни данъци въз основа на Закона

<sup>3</sup> Подоходният данък се изчислява на данъчна основа, намалена с дължимите от служителя социални и здравни вноски и други данъчни облекчения предвидени в Закона за данъците върху доходите на физическите лица.

за данъците върху доходите на физическите лица за предходната година, когато има друг/допълнителен доход освен месечната заплата през предходната година.

(ii) Режим на социално осигуряване

Паричното плащане се прибавя към месечния доход на участника. Социалноосигурителните вноски (ДОО) се дължат на месечна основа (за различните рискове и професии се прилагат различни нива на социално осигуряване). Окончателният размер на социалноосигурителните вноски се определя в края на годината като се вземат пред вид случаите, когато годишният доход на участника е по-висок от месечната основа на дохода за годината – когато участникът има друг доход през годината освен заплата. Съществува максимален месечен праг, за който се дължат социалноосигурителни вноски, който за 2007 г. е 1400 лв. (прибл. 700 EUR). За 2008 г. този максимален месечен праг е 2000 лева<sup>4</sup> За 2009 г. този максимален месечен праг е 2000 лева. Максималният праг за 2010 г. е непроменен и е 2000 лв.

Работодателят на отговарящия на изискванията участник удържа тези социалноосигурителни вноски на служителя от заплата на участника. Съгласно Кодекса за социално осигуряване през 2007 г. работодателят и служителят плащат дължимите социалноосигурителни вноски в съотношение 65:35. За 2008 г. съотношението е 60:40. За 2009 г. тези вноски се разпределят между работодателя и служителя (роден след 01.01.1960 г.) в следното съотношение:

- фонд „Пенсии” – 13 %, разпределени между работодател и служител в следното съотношение – за работодателя – 7,2 %, а за служителя – 5,8 %;
- фонд „Общо заболяване и майчинство” – 3,5 %, разпределени между работодател и служител в следното съотношение – 60 : 40;
- фонд „Безработица” – 1 %, разпределени между работодател и служител в следното съотношение – 60 : 40;
- фонд „Трудова злополука” – между 0,4 – 1,1 %, според различните професии, за сметка на работодателя е.

Таблицата по-долу включва задължителните социални и здравни осигуровки за 2010 г., както и съотношението работодател : служител, в което се разпределят:

<b>ФОНД / ВЪЗРАСТ</b>	<b>РОДЕНИ ПРЕДИ 1960 Г.</b>	<b>РОДЕНИ СЛЕД 31.12.1959 Г.</b>
ФОНД „ПЕНСИИ”	16 %	11%
ФОНД „ОБЩО ЗАБОЛЯВАНЕ И МАЙЧИНСТВО”	3,5 %	3,5 %
ФОНД „БЕЗРАБОТИЦА”	1 %	1 %
ФОНД „ТРУДОВА ЗЛОПОЛУКА И ПРОФЕСИОНАЛНА БОЛЕСТ”	0,4 – 1,1 %	0,4 – 1,1 %

<sup>4</sup> Този праг се преразглежда годишно от Народното събрание чрез Закона за бюджета на държавното обществено осигуряване за да се отчете инфлацията.

ФОНД „ДОПЪЛНИТЕЛНО ЗАДЪЛЖИТЕЛНО ПЕНСИОННО ОСИГУРЯВАНЕ”	-	5%
ЗДРАВНО ОСИГУРЯВАНЕ	8%	8%

**РАЗПРЕДЕЛЕНИЕ И СЪОТНОШЕНИЕ НА ВНОСИТЕ ЗА СОЦИАЛНО И ЗДРАВНО ОСИГУРЯВАНЕ,  
ДЪЛЖИМИ ЗА 2010 Г.**

**СЛУЖИТЕЛИ, РОДЕНИ СЛЕД 31.12.1959 Г.**

	ДЪЛЖИМИ РАБОТОДАТЕЛЯ	ОТ	ДЪЛЖИМИ ОТ СЛУЖИТЕЛЯ
ФОНД „ПЕНСИИ” 11 %	6.1 %		4.9 %
ФОНД „ОБЩО ЗАБОЛЯВАНЕ И МАЙЧИНСТВО” – 3.5 % ФОНД „БЕЗРАБОТИЦА” – 1 % 60 : 40	2.7 %		1.8 %
ФОНД „ДОПЪЛНИТЕЛНО ЗАДЪЛЖИТЕЛНО ПЕНСИОННО ОСИГУРЯВАНЕ” 5 %	2.8 %		2.2 %
ФОНД „ТРУДОВА ЗЛОПОЛУКА И ПРОФЕСИОНАЛНА БОЛЕСТ” 0.4 – 1.1 %	0.4 – 1.1 %		/
ЗДРАВНО ОСИГУРЯВАНЕ 8 % - 60 : 40	4.8 %		3.2 %
<b>Общо:</b>	<b>17.5 %</b>		<b>12.1 %</b>

**СЛУЖИТЕЛИ, РОДЕНИ ПРЕДИ 1960 Г.**

	ДЪЛЖИМИ ОТ РАБОТОДАТЕЛЯ	ДЪЛЖИМИ ОТ СЛУЖИТЕЛЯ
ФОНД „ПЕНСИИ” 16 %	8.9 %	7.1 %
ФОНД „ОБЩО ЗАБОЛЯВАНЕ И МАЙЧИНСТВО” – 3.5 % ФОНД „БЕЗРАБОТИЦА” – 1 % 60 : 40	2.7 %	1.8 %
ФОНД „ТРУДОВА ЗЛОПОЛУКА	0.4 – 1.1 %	/

И ПРОФЕСИОНАЛНА БОЛЕСТ” 0.4 – 1.1 %		
ЗДРАВНО ОСИГУРЯВАНЕ 8 % - 60 : 40	4.8 %	3.2 %
<b>Общо:</b>	<b>17.5 %</b>	<b>12.1 %</b>

### 3.2.2 Данъчен и социалноосигурителен режим – придобиване на акции

#### (i) Данъчен режим

Според плана предоставянето на акциите е част от трудовото възнаграждение на служителя според качеството на изпълнение на трудовите му функции. Следователно е възможно да се третира като заплащане в натура, т.е. пазарната цена на акциите ще бъде добавена към месечното възнаграждение на служителя и полученото в цялост ще бъде обложено с данък съобразно т. 1.

В случай че не се третира като част от трудовото възнаграждение на служителя предоставянето на акции би могло (има изказани мнения в тази посока) да бъде обложено с данък дарение съобразно Закона за местните данъци и такси. Размерът на данъка варира между 5 и 10 % (изчислява се на базата на пазарната цена на акциите), като точният размер се определя от всяка община самостоятелно (за Община София данък дарение за доход, придобит през 2009 г., е 5 %). За 2010 г. данък дарение за Община София отново е 5 %. Платец е служителят, който трябва да внесе данъка по сметка на съответната община, където е постоянният му адрес, в двумесечен срок от придобиването на акциите

При продажба на акциите разликата между сумата, получена при продажбата и действителната цена към момента на придобиването на акциите, е сумата, която подлежи на облагане. Тази сума се добавя към годишния доход на лицето, който се облага с плосък данък в размер 10 % и през 2010 г.

Дивиденди, получени от акции на J&J се облагат с данъчна ставка 5% за 2009 г. И през 2010 г. дивидентите се облагат с данъчна ставка 5 %. Не се начисляват вноски за социално осигуряване.

#### (ii) Режим на социално осигуряване

В случай на предоставяне на акциите, те се третират като част от полученото месечно възнаграждение. Дължимите социалноосигурителни вноски се определят съобразно т. 1.

При продажба на акции придобитите средства увеличават годишния доход на лицето, и служителят трябва да ги декларира в годишната си данъчна декларация в края на годината.

Различните гледища относно данъчното третиране се дължат на факта, че съществува празнина в законодателството по този въпрос, липсват както изрично становище по въпроса от страна на Данъчната администрация, така и релевантна съдебна практика.

Във връзка с гореизложеното е препоръчително да се отправи искане за официално становище по въпроса на Данъчната администрация.

### 3.2.3 Пример

#### (i) Презумпции

- данъчно облагане на български гражданин
- месечна заплата – 1000 евро
- месечен бонус - 6 000 евро или предоставяне на 100 броя акции, всяка по 60 евро
- Сумата от всички плащания (€ 6,000 + € 1,000 = € 7,000) е преизчислена в български левове чрез официалния курс (1 € = BGN 1.95583), или възлиза на BGN 13,691. Сумата в български левове служи за основа на изчисленията по-долу.
- никакви други доходи

#### СЛУЖИТЕЛ, РОДЕН СЛЕД 31.12.1959 г.:

Месечна стойност	Кеш бонус	Предоставяне на акции (100 акции x € 60)
Бонус / предоставени акции	€ 6,000	€ 6,000
Заплата	€ 1,000	€ 1,000
редукция :ДОО (*)	- 432 BGL (прибл. € 216)	- 432 BGL (прибл. € 216)
редукция: ЗО (**)	- 160 BGL (прибл. 80 EUR)	- 160 BGL (прибл. 80 EUR)
редукция : данък върху дохода (***)	- 10 % плюс данък върху BGN 13,449 (прибл. € 6725) = BGN 1,344.9 (€ 672.45)	- 10 % плюс данък върху BGN 13,449 (прибл. € 6725) = BGN 1,344.9 (€ 672.45)
Нетна стойност, получена за месец	BGN 11,754.10 (€ 5877)	BGN 11,754.10 (€ 5877)

(\*) Не се дължат социалноосигурителни вноски за полученото (вкл. се всички месечни плащания – заплата, бонуси и др.) над определения максимален месечен праг, който за 2010 г. е 2000 лв. – полученото се редуцира максимум с 21,6% според различните професии, т.е. с 432 лева (21,6 % от 2000 лв.). Разпределението между работодател и служител е описано по-горе в отделна таблица.

(\*\*) Здравноосигурителната вноска (ЗО) за 2010 г. е 8 % и се разпределя между работодателя и служителя в следното съотношение – 60 : 40. Не се дължи здравноосигурителна вноска за полученото (вкл. се всички месечни плащания – заплата, бонуси и др.) над определения максимален месечен праг, който за 2010 г. е 2000 лв. – полученото се редуцира максимум с 8 % от 2000 лв., т.е. със 160 лв. (прибл. с € 80).

(\*\*\*) Подоходният данък за 2010 г. е плюс данък от 10 %, с който се облага целият получен доход, редуциран с изплатените от служителя ДОО и ЗО. За 2010 г. тези вноски се разпределят между работодателя и служителя (роден след 31.12.1959 г.) в следното съотношение:

- фонд „Пенсии” – 11 %, разпределени между работодател и служител в следното съотношение – за работодателя – 6,1 %, а за служителя – 4.9 %;
- фонд „Общо заболяване и майчинство” – 3,5 %, разпределени между работодател и служител в следното съотношение – 60 : 40;
- фонд „Безработица” – 1 %, разпределени между работодател и служител в следното съотношение – 60 : 40;
- фонд „Трудова злополука” – между 0,4 – 1,1 %, според различните професии, за сметка на работодателя е;



- фонд „Допълнително задължително пенсионно осигуряване” – 5 %, разпределени между работодател и служител в следното съотношение – за работодателя – 2.8 %, а за служителя – 2.2 %.

Общо, ако полученото през месеца надвишава 2000 лв., ще се редуцира с максимум 242 лв. (прибл. € 121). Полученото през месеца (заплата, бонуси и др.) минус 242 лв. се облага с плосък данък от 10 %.

## 4 Czech Republic

### 4.1 Tax analysis<sup>5</sup>: Bonus Plan

#### 4.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, **at personal income tax rate** of 15%.

The employer of the eligible participant will withhold a tax advance on the cash payment, which will be collected through payroll. The tax advance withheld is credited in full with the income tax due by the eligible participant.

If the employer of the eligible participant does not bear the costs related to the plan (i.e it does not pay the cash), then the employee must tax this cash payment in his/her personal income tax return.

(ii) Social security treatment

The cash payment will be subject to **the eligible participant's social security contributions (11%)<sup>6</sup>**. The employer of the eligible participant will withhold these social security contributions through payroll.

If the employer of the eligible participant does not bear the costs related to the plan, the taxable amount upon the cash payment is not subject to the eligible employee's social security contributions.

#### 4.1.2 Tax and social security treatment of the attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the moment of transfer **at personal income tax rate** of 15%.

The taxable amount is equal to the fair market value of the J&J shares granted on the date the shares are transferred.

The employer of the eligible participant will withhold a tax advance on the taxable amount, which will be collected through payroll. The tax advance withheld is credited in full with the income tax due by the eligible participant.

A capital gain realised by the eligible participant upon sale of the shares will be taxed as his/her ordinary income at personal income tax rate of 15%, unless a tax exemption applies. The taxable income of the eligible participant is the difference between (i) the price for which the eligible participant sells the shares and (ii) the amount of the eligible participant's income taxed through payroll upon obtaining the shares and any directly associated transaction costs. The eligible participant will need to declare the taxable capital gain in his/her income tax return.

A capital gain from the sale of the shares will be exempt from Czech personal income tax if (i) the shares have been held by the eligible participant for a period exceeding six consecutive months; (ii) the eligible participant must not have held more than 5%

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<sup>5</sup> The tax analyses presumes that the costs of Bonus Plan/LTIP are recharged to the local subsidiary/employer of the eligible participant.

<sup>6</sup> Social security contributions in the Czech Republic include both health insurance and social security.

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of the shares or voting rights in the 24 months prior to the sale of the shares; and (iii) the shares will not form part of the business property of the eligible participant at any time prior to their sale. If the latter condition is not fulfilled, a tax exemption may still apply under certain circumstances provided the business activities of the eligible participant are terminated.

Dividends **deriving from the J&J shares are included in his/her general tax base (rate 15%)**. The eligible participant receiving dividends from a foreign entity exceeding the annual amount of CZK 6,000 is obliged to declare the taxable amount in his/her personal income tax return.

Our correspondent would encourage the eligible participants to seek personal tax advice in the event of a planned sale of the shares.

(ii) Social security treatment

The taxable amount upon transfer of the shares will be subject to the **eligible** participant's **social security contributions (11%)**. The employer of the eligible participant will withhold these social security contributions through payroll.

If the employer of the eligible participant does not bear the costs related to the plan, the taxable amount upon transfer of the shares is not subject to the eligible employee's social security contributions.

#### 4.1.3 Example

(i) Assumptions:

- Czech resident taxation
- Cash bonus paid and shares financed by the employer of the participant
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at a value of EUR 60/share

(ii) Result

(a) Social security cap NOT met

	Cash bonus	Share award (100 shares x EUR 60)
<b>Value of bonus/shares</b>	<b>EUR 6,000</b>	<b>EUR 6,000</b>
Less: social security	- EUR 660	- EUR 660
Less: income tax	- EUR 1,206	- EUR 1,206
<b>Net bonus</b>	<b>EUR 4,134</b>	<b>EUR 4,134</b>

(\*) social security rate of 11%

(\*\*) 15% personal income tax rate applies

(\*\*\*) it is deemed that the social security cap was not met and therefore the tax base is the value of bonus/shares plus the social security to be paid by the employer from this income (i.e., 34% of the value of the bonus/shares) . Social security is tax deductible.

(b) Social security cap met

	Cash bonus	Share award (100 shares x EUR 60)
<b>Value of bonus/shares</b>	<b>EUR 6,000</b>	<b>EUR 6,000</b>
Less: social security	- EUR 0	- EUR 0
Less: income tax	- EUR 900	- EUR 900
<b>Net bonus</b>	<b>EUR 5,100</b>	<b>EUR 5,100</b>

(\*) social security rate: N/A

(\*\*) 15% personal income tax rate applies

(\*\*\*) it is deemed that the social security cap was met (which is the case of the assumed regular annual income of EUR 80,000 in the example). The cap valid for the year 2010 is met already at the annual income of CZK 1,707,048 (approx. EUR 70,000). Therefore the tax base is only the value of bonus/shares, i.e., NOT increased by the social security to be paid by the employer from this income (34% of the value of the bonus/shares).

## 4.2 Translated tax analysis: Bonus Plan

### 4.2.1 Aspekty hotovostních plateb v oblasti daně z příjmu, sociálního a zdravotního pojištění

(i) Daňový režim

Hotovostní částka vyplacená způsobilému účastníkovi se stane zdanitelnou v momentě vyplacení, a to sazbou **daně z příjmů fyzických osob ve výši 15%**.

Zaměstnavatel srazí při mzdovém zúčtování způsobilému účastníkovi z hotovostní platby zálohu na daň. Záloha na daň je plně započitatelná na daň z příjmu, kterou musí zaplatit způsobilý účastník.

Pokud zaměstnavatel způsobilého účastníka nenese náklady týkající se plánu (tzn. neuhradí hotovostní platbu), je zaměstnanec povinen tuto hotovostní platbu (tj. přijatou od jiného subjektu než jeho zaměstnavatele) zdanit v rámci svého osobního daňového přiznání.

(ii) Režim sociálního a zdravotního pojištění

Hotovostní platba se stane předmětem platby **sociálního a zdravotního pojištění způsobilého účastníka (11%)**. Zaměstnavatel způsobilého účastníka srazí tyto příspěvky sociálního a zdravotního pojištění zaměstnanci ze mzdy.

Pokud zaměstnavatel způsobilého účastníka nenese náklady týkající se plánu, nebude způsobilý účastník ze zdanitelné částky při přijetí hotovostní platby hradit sociální a zdravotní pojištění.

### 4.2.2 Daňový režim a režim sociálního a zdravotního pojištění přidělení akcií

(i) Daňový režim

Akcie přidělené způsobilému účastníkovi se stanou zdanitelné v momentě převodu, a to sazbou **daně z příjmů fyzických osob ve výši 15%**.

Zdanitelná částka se rovná reálné tržní hodnotě akcií společnosti J&J v den, kdy budou akcie převedeny.

Zaměstnavatel srazí způsobilému účastníkovi zálohu na daň ze zdanitelné částky, která bude zúčtována při výplatě mzdy. Záloha na daň je plně započitatelná na daň z příjmů, kterou musí zaplatit způsobilý účastník.

Kapitálový zisk realizovaný způsobilým účastníkem při prodeji akcií bude zdaněn jako jeho/její běžný příjem sazbou daně z příjmů fyzických osob ve výši 15%, pokud tento příjem nebude od daně osvobozen. Zdanitelný příjem způsobilého účastníka tvoří rozdíl mezi (i) cenou, za kterou způsobilý účastník prodává akcie a (ii) částkou, kterou způsobilý účastník zdanil jako svoji mzdu v okamžiku obdržení akcií a přímo souvisejících transakčních nákladů. Způsobilý účastník bude muset deklarovat zdanitelné kapitálové zisky v jeho/jejím daňovém přiznání.

Kapitálový zisk z prodeje akcií nebude podléhat české dani z příjmů fyzických osob, pokud (i) jsou akcie drženy způsobilým účastníkem po období přesahující šest po sobě jdoucích kalendářních měsíců; (ii) způsobilý účastník nedržel více než 5% akcií nebo hlasovacích práv během 24 měsíců předcházejících prodeji akcií; a (iii) akcie nebudou tvořit součást obchodního majetku v rámci podnikání způsobilého účastníka kdykoliv před jejich prodejem. Pokud není splněna poslední podmínka, osvobození od daně lze použít za předpokladu, že způsobilý účastník ukončí své podnikatelské aktivity.

**Dividendy plynoucí z akcií společnosti J&J jsou obsaženy v jeho/jejím všeobecném základu daně (sazba daně 15%).** Způsobilý účastník, který obdrží dividendy od zahraniční entity ve výši více než CZK 6,000 ročně, je povinen podat přiznání k dani z příjmů.

V případě zájmu o prodej akcií doporučujeme způsobilým účastníkům obrátit se na osobního daňového poradce.

(ii) Režim sociálního a zdravotního zabezpečení

Zdanitelná částka při převodu akcií bude předmětem příspěvků na sociální a zdravotní pojištění způsobilého účastníka (11%). Zaměstnavatel způsobilého účastníka srazí tyto příspěvky sociálního a zdravotního pojištění zaměstnanci ze mzdy.

Pokud zaměstnavatel způsobilého účastníka nenese náklady související s plánem, zdanitelná částka při převodu akcií není předmětem příspěvků sociálního a zdravotního pojištění způsobilého zaměstnance.

#### 4.2.3 Příklad

(i) Předpoklady:

- Způsobilý účastník je českým daňovým rezidentem
- Hotovostní platba a akcie jsou financovány zaměstnavatelem účastníka
- Běžný příjem: EUR 80,000
- Hotovostní platba: EUR 6,000 nebo přidělení 100 akcií s hodnotou EUR 60/akcie

(ii) Výsledek

- (a) V případě, kdy hranice maximálního vyměřovacího základu pro pojistné nedosažena

	Hotovostní platba	Přidělení akcií (100 akcií x EUR 60)
Hodnota hotovostní platby / akcií	EUR 6,000	EUR 6,000

	<b>Hotovostní platba</b>	<b>Přidělení akcií (100 akcií x EUR 60)</b>
Mínus : Sociální a zdravotní pojištění	- EUR 660	- EUR 660
Mínus : Daň z příjmu	- EUR 1,206	- EUR 1,206
<b>Čistá hodnota bonusu</b>	<b>EUR 4,134</b>	<b>EUR 4,134</b>

(\*) - sazba sociálního a zdravotního pojištění 11%

(\*\*) - 15% sazba daně z příjmů fyzických osob

(\*\*\*) - předpokládáme, že nebylo dosaženo hranice maximálního vyměřovacího základu pro odvod sociálního a zdravotního pojištění, a proto základem daně je částka bonusu/akcie plus částka sociálního a zdravotního pojištění hrazená zaměstnavatelem z tohoto příjmu (tj. 34% z částky bonusu/akcií) - sociální zabezpečení je daňově uznatelný náklad zaměstnavatele

(b) V případě, kdy hranice maximálního vyměřovacího základu pro pojistné dosažena

	<b>Hotovostní platba</b>	<b>Přidělení akcií (100 akcií x EUR 60)</b>
<b>Hodnota hotovostní platby / akcií</b>	<b>EUR 6,000</b>	<b>EUR 6,000</b>
Mínus : Sociální a zdravotní pojištění	- EUR 0	- EUR 0
Mínus : Daň z příjmu	- EUR 900	- EUR 900
<b>Čistá hodnota bonusu</b>	<b>EUR 5,100</b>	<b>EUR 5,100</b>

(\*) - sazba sociálního a zdravotního pojištění: N/A

(\*\*) - 15% sazba daně z příjmů fyzických osob

(\*\*\*) - předpokládáme, že již bylo dosaženo hranice maximálního vyměřovacího základu pro odvod sociálního a zdravotního pojištění (to by byl případ předpokládaného běžného ročního příjmu EUR 80,000 v tomto příkladě). Maximální vyměřovací základ platný pro rok 2010 je totiž dosažen již při ročním příjmu **1,707,048 Kč**, tj. cca EUR 70,000. Proto základem daně je částka bonusu/akcie nezvýšena o částku sociálního a zdravotního pojištění hrazená zaměstnavatelem z tohoto příjmu (tj. 34% z částky bonusu/akcií)

## 5 Denmark

### 5.1 Tax analysis: Bonus Plan

The following provides only a brief and general guide to the tax consequences of the grant of benefits under the Bonus Plan and the LTIP programme and does not cover all aspects of Danish tax law. It is based on tax law in effect on 12 October 2010, which is subject to possible change at any time, possibly with retroactive effect. As your personal circumstances may lead to a different analysis, you should seek advice based on the particular circumstances from your personal tax advisor.

#### 5.1.1 Taxation of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, at the time of payment, as personal income at progressive income tax rates (up to 51.5%).

The employer of the eligible participant will withhold salary tax on the cash payment, which will be collected through the payroll administration. The employer will also report the cash payment to the Danish tax authorities.

(ii) Labour market contribution

The cash payment will be subject to an 8% labour market contribution (arbejdsmarkedsbidrag). The employer of the eligible participant will withhold the labour market contributions.

#### 5.1.2 Taxation of shares

(i) Tax treatment

The unrestricted shares granted to the eligible participant will be taxable, at the time of grant, as personal income at progressive income tax rates (up to 51.5%). The taxable amount is equal to the fair market value of the J&J common stock upon the date of grant of the unrestricted shares.

The employer of the eligible participant will normally not withhold salary tax. The employer will report the taxable amount to the Danish tax authorities.

Upon a sale of the shares the capital gains will be taxable as share income at a rate of 28% on share income up to DKK 48,300 and 42% of share income exceeding DKK 48,300. The stated amount limits are applicable for 2010 and adjusted annually (however, no adjustment will take place from 2010 to 2013). The amount limits are the double for married couples living together in the end of the income year as they share the amount limits.

The capital gain is calculated as the difference between the sales price and the market value of the shares at the time of grant.

Dividends deriving from the J&J shares will be taxable as share income at a rate of 28% on share income up to DKK 48,300 and 42% of share income exceeding DKK 48,300. The stated amount limits are applicable for 2010 and adjusted annually (however, no adjustment will take place from 2010 to 2013). The amount limits are the double for married couples living together in the end of the income year as they share the amount limits.

(ii) Labour market contribution

The taxable amount will be subject to an 8% labour market contribution (arbejdsmarkedsbidrag). The employer of the eligible participant will normally not withhold such labour market contribution.

### 5.1.3 Example

#### (i) Assumptions

- Danish resident for tax purposes
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

#### (ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 480	- € 480
Less : income tax (**)	- € 2,842.80	- € 2,842.80
<b>Net bonus</b>	<b>€ 2,677.20</b>	<b>€ 2,677.20</b>

(\*) social security rate of 8%

(\*\*) marginal income tax rate of 51.5%

## 5.2 Translated tax analysis: Bonus Plan

Det følgende giver kun en overordnet og generel introduktion af de skattemæssige konsekvenser af tildeling af goder under Bonus-programmet og LTIP-programmet og dækker ikke alle aspekter af dansk skatteret. Det er baseret på gældende skatteret den 12. oktober 2010, der kan være genstand for senere ændringer, muligvis med tilbagevirkende kraft. Da dine personlige forhold kan føre til en anden beskatning, bør du søge rådgivning baseret på de konkrete omstændigheder hos din personlige skatterådgiver.

### 5.2.1 Beskatning af kontantbetalinger

#### (i) Skattemæssig behandling

De kontantbeløb, der modtages af deltagerne, vil være skattepligtige ved udbetalingstidspunktet som personlig indkomst med progressiv indkomstbeskatning (op til 51,5%).

Deltagerens arbejdsgiver vil indeholde indkomstskat ved udbetalingen, og denne vil blive trukket via lønadministrationen. Arbejdsgiveren rapporterer også skatteindeholdelsen til de danske skattemyndigheder.

#### (ii) Arbejdsmarkedsbidrag

Af kontantbeløbet skal der indbetales 8% arbejdsmarkedsbidrag. Deltagerens arbejdsgiver vil indeholde arbejdsmarkedsbidrag ved udbetalingen.

### 5.2.2 Beskatning ved tildeling af aktier

#### (i) Skattemæssig behandling

De akter, der tildeles deltagerne, vil være skattepligtige på tildelingstidspunktet som personlig indkomst med progressiv indkomstbeskatning (op til 51,5%). Det



skattepligtige beløb er det samme som markedsværdien af de tildelte J&J-aktier på dagen for tildeling af aktierne.

Arbejdsgiveren for den kvalificerede deltager vil normalt ikke indeholde indkomstskat. Arbejdsgiveren vil indberette det skattepligtige beløb til de danske skattemyndigheder.

Ved salg af aktierne er gevinsten skattepligtig som aktieindkomst med 28% af aktieindkomst op til DKK 48.300 og med 42% af aktieindkomst, som overstiger DKK 48.300. De angivne beløbsgrænser gælder for 2010 og reguleres årligt (dog gennemføres ingen regulering fra 2010 til 2013). For ægtepar, som bor sammen ved slutningen af indkomståret, er beløbsgrænserne det dobbelte, da de deler beløbsgrænserne.

Gevinsten beregnes som forskellen mellem salgsprisen og markedsværdien for aktierne ved på tidspunktet for tildeling.

Udbytter modtaget af J&J-aktier vil være skattepligtige som aktieindkomst med 28% af aktieindkomst op til DKK 48.300 og med 42% af aktieindkomst, som overstiger DKK 48.300. De angivne beløbsgrænser gælder for 2010 og reguleres årligt (dog gennemføres ingen regulering fra 2010 til 2013). For ægtepar, som bor sammen ved slutningen af indkomståret, er beløbsgrænserne det dobbelte, da de deler indkomstgrænserne.

(ii) Arbejdsmarkedsbidrag

Der vil skulle betales 8% arbejdsmarkedsbidrag af det skattepligtige beløb. Deltagerens arbejdsgiver vil normalt ikke indeholde sådanne arbejdsmarkedsbidrag.

### 5.2.3 Eksempel

(i) Forudsætninger

- Skattemæssigt hjemmehørende i Danmark
- Almindelig indkomst på EUR 80.000
- Bonusbetaling på EUR 6.000 eller aktieandel på 100 aktier til EUR 60/Aktie

(ii) Resultat

	Kontant bonus	Aktie præmie (100 aktier x € 60)
<b>Værdi af bonus/aktier</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Uden : pensiongode (*)	- € 480	- € 480
Uden : indkomstskat (**)	- € 2.842,80	- € 2,842,80
<b>Netto bonus</b>	<b>€ 2.677,20</b>	<b>€ 2.677,20</b>

(\*) socialsikringprocent på 8%

(\*\*) marginal skatteprocent på 51,5%

## 6 Estonia

### 6.1 Tax analysis: Bonus Plan

The following provides only a brief and general guide to the tax and social security consequences of the grant of restricted stock units and does not cover all aspects of state and regional tax laws. It is based on tax law in effect on 1 September 2010, which is subject to possible change at any time, possibly with retroactive effect. As your personal circumstances participant may lead to a different analysis, you should seek advice based on the particular circumstances from your personal tax advisor.

#### 6.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

Any cash amount received by the eligible participant (employee) is considered as profit, which will be subject to income tax at the rate of 21%.

(ii) Social security treatment

You will not be subject to social security upon the receipt of the cash payments.

#### 6.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

You will not be taxed upon the attribution of shares.

Dividends derived from J&J shares are subject to income tax (rate of 21%).

(ii) Social security treatment

You will not be taxed upon the attribution of shares.

#### 6.1.3 Example

(i) Assumptions

- Estonian resident taxation
- Regular income of EUR 80,000 yearly<sup>\*</sup>
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- 2010 expected Estonian income tax rates

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Income tax (marginal rate of 21%)	- € 1,260	- € 0
<b>Net bonus</b>	<b>€ 4,740</b>	<b>€ 6,000</b>

<sup>\*</sup>The basic exemption deductible from the income of a resident natural person during a period of taxation (one calendar year) is:  
in 2010 : 27,000 EEK;  
as from 2011: 1,728 EUR;

## 6.2 Translated tax analysis: Bonus Plan

Järgnevalt on toodud lühike ja üldine maksude ja sotsiaalkindlustusmaksude arvestamise juhend piiratud rahalise lisatasu ja aktsiat andmisel, mis ei hõlma riiklike ja piirkondlike maksuseaduste kõiki aspekte. See põhineb 01. septembril 2010 kehtivatele maksu seadustele, millised võivad igal ajal muutuda, ka tagasiulatuva jõuga. Kui teie isiklikust olukorrast tulenev analüüs sellest erineb, siis peaksite konkreetse juhtumi puhul konsulteerima oma isikliku maksunõustajaga.

### 6.2.1 Rahaliste maksetelt võetav tulumaks ja sotsiaalkindlustusmaks

(i) Tulumaks

Sobilikule osalejale (töötajale) makstud mis tahes rahasummat käsitletakse tuluna, millelt tuleb maksta tulumaksu 21%.

(ii) Sotsiaalkindlustusmaks

Saadud rahalistelt maksetelt ei tule maksta sotsiaalkindlustusmaksu.

### 6.2.2 Aktsiate üleandmine makstav tulumaks ja sotsiaalkindlustusmaks

(i) Tulumaks

Teid ei maksustata aktsiate üleandmisel.

Johnson & Johnsoni aktsiatelt makstud dividendidelt tuleb ettevõttel maksta tulumaksu 21%.

(ii) Sotsiaalkindlustusmaks

Teid ei maksustata aktsiate üleandmisel.

### 6.2.3 Näidis

(i) Eeldused

- Eesti residendi maksustamine
- Regulaarne aastane sissetulek 80 000 EUR<sup>7</sup>
- 6000 EUR suurune lisatasu maksmine 100 aktsia väärtusega 60 EUR / aktsia andmine
- 2010. aastal ettenähtud tulumaksumäärad

(ii) Tulemus

	Rahaline lisatasu	Kingitud aktsiad (100 aktsiat x 60 EUR)
Lisatasu/aktsiate väärtus	€ 6,000	€ 6,000
Tulumaks (piirmäär 21%)	- € 1260	- € 0
<b>Puhastulu</b>	<b>€ 4,740</b>	<b>€ 6,000</b>

<sup>7</sup> Maksuvabastusalus, mis lahutatakse füüsilisest isikust residendi sissetulekust maksustamisperioodil (üks kalendriaasta), on järgmine:  
2010. a. 27 000 EEK  
alates 2011. a. 1728 EUR

## 7 Finland

### 7.1 Tax analysis: Bonus Plan

#### 7.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as employment income at the following tax rates: progressive state income tax (ranging from 6.5% to 30%), municipal income tax (ranging from 16.25% to 21% depending on municipality of residence) and church tax, for members of a Finnish congregation (ranging from 1% to 2% depending on municipality of residence).

The employer of the eligible participant will withhold tax on the cash payment at the withholding rate stated in the employee's tax card. If you do not deliver the card, the withholding percentage is 60%. The percentage shown in the tax deduction card is individual and based on your expected annual taxable income.<sup>8</sup> The employer will report the cash payment to the tax authorities on the employer's monthly and annual payroll reports. In addition, the employer will provide the eligible participant with an annual certificate of total pay.

(ii) Social security treatment

The cash payment will be subject to **employee pension premium of 4.5% until age of 52 (5.7% as of age 53), unemployment security premium of 0.4%, medical care premium of 1.47% (included in tax withholding percentage) and daily allowance premium of 0.93% (included in tax withholding percentage)**. The employer of the eligible participant will withhold these employee social security contributions.

#### 7.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the date of award, **as employment income at the following tax rates: progressive state income tax (ranging from 6.5% to 30%), municipal income tax (ranging from 16.25% to 21% depending on municipality of residence) and church tax, for members of a Finnish congregation (ranging from 1% to 2% depending on municipality of residence)**.

The taxable benefit is equal to the free market value of the shares at the time of the award.

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<sup>8</sup> The employee is liable to pay any deficit between his final income tax and the amount of tax withheld in advance at the latest after his final taxation for the relevant year has been completed, generally in December of the year following the relevant tax year and in February of the second following year. If the employee wishes to avoid interest on the deficit, however, the employee has to pay the deficit to the tax authorities by the end of January of the year following the relevant tax year. The employee may, upon his own request, also pay the deficit to the tax administration already during the relevant tax year as advance tax payments on a monthly basis. However, e.g. in respect of employment stock options he/she cannot become subject to such procedure without his/her own request.

The employer of the eligible participant will withhold tax due on the benefit<sup>9</sup>. The employer will report the taxable benefit to the tax authorities on the employer's monthly and annual payroll reports. In addition, the employer will provide the eligible participant with an annual certificate of total pay.

At the moment of sale of the shares, a capital gains tax of 28% will be due on the difference between the sale price and the acquisition cost. Alternatively you may deduct 20% of the sales price of the shares (40% if the shares have been held for at least 10 years from delivery). If this presumptive acquisition cost is used, you cannot deduct any other expenses from the sales price.

**Dividends derived from J&J shares are for 70% treated as capital income and taxed at a flat rate of 28%. The remaining 30% is tax exempt.**

Our correspondent encourages the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The taxable amount will be subject to **employee pension premium of 4.5% until age of 52 (5.7% as of age 53), unemployment security premium of 0.4%, medical care premium of 1.47% (included in tax withholding percentage) and daily allowance premium of 0.93% (included in tax withholding percentage)**. The employer of the eligible participant will withhold these employee social security contributions.

### 7.1.3 Example

(i) Assumptions

- Finnish resident taxation
- Employee is older than 53 years
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- Municipal tax estimated at 21%
- Abstraction of church tax

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less: social security		
- daily allowance premium	- € 55.80	- € 55.80
- medial care premium	- € 88.20	- € 88.20
- pension premium	- € 342.00	- €342.00
- unemployment premium	- € 24.00	- € 24.00

<sup>9</sup> The value of the shares should either be (i) added to the monetary salary of the salary period following the period during which the benefit has been received or, (ii) divided equally among the remaining salary periods of the relevant tax year. The corresponding tax withholding is then made from the cash salary of the relevant salary period(s).

	Cash bonus	Share award (100 shares x € 60)
Less: income tax (*)		
- state tax (**)	- € 1,673.46	- € 1,673.46
- municipal tax	- € 1,171.42	- € 1,171.42
<b>Net bonus</b>	<b>€ 2,645.12</b>	<b>€ 2,645.12</b>

(\*) pension, unemployment security and daily allowance premiums are tax deductible; medial care premium is not tax deductible

(\*\*) highest tax rate reached (30%) as of taxable income of EUR 66,400

## 7.2 Translated tax analysis: Bonus Plan

### 7.2.1 Käteismaksujen verotus- ja sosiaaliturvamenettely

#### (i) Verotus

Pätevän osapuolen saama käteissumma on verotettavaa ansiotuloa suoritushetkellä seuraavissa verotusprosentteissa: progressiivinen valtion ansiotulovero (vaihteluväli 6,5–30 %), kunnallisvero (vaihteluväli 16,25–21 % riippuen asuinkunnasta) ja kirkollisvero Suomen seurakuntien jäsenelle (vaihteluväli 1–2 % riippuen asuinkunnasta).

Pätevän osapuolen työnantaja pidättää veron käteismaksusta sen pidätysprosentin mukaan, joka on ilmoitettu työntekijän verokortissa. Jos verokorttia ei toimiteta, pidätysprosentti on 60 %. Verokortissa mainittu pidätysprosentti on henkilökohtainen ja perustuu vuosittaisen verotettavan tulon odotettuun määrään<sup>10</sup>. Työnantaja ilmoittaa käteismaksun verottajalle kuukausittain ja vuosittain työnantajan suoritusilmoituksessa. Tämän lisäksi työnantaja antaa pätevälle osapuolelle vuosittaisen kokonaispalkkatositteen.

#### (ii) Sosiaaliturva

Käteismaksusta suoritetaan työntekijän eläkemaksu 4,5 % alle 53-vuotiailla (5,7 % ikävuodesta 53 lähtien), palkansaajan työttömyysvakuutusmaksu 0,4 %, vakuutetun sairaanhoitomaksu 1,47 % (sisältyy ennakonpidätysprosenttiin) ja päivärahamaksu 0,93 % (sisältyy ennakonpidätysprosenttiin). Pätevän osapuolen työnantaja pidättää nämä työntekijän sosiaaliturvamaksut.

### 7.2.2 Osakkeiden verotus- ja sosiaaliturvamenettely

#### (i) Verotus

Pätevän osapuolen saamat osakkeet ovat verotettavaa ansiotuloa jakohetkellä seuraavissa verotusprosentteissa: progressiivinen valtion ansiotulovero (vaihteluväli 6,5–30 %), kunnallisvero (vaihteluväli 16,25–21 % riippuen asuinkunnasta) ja kirkollisvero Suomen seurakuntien jäsenelle (vaihteluväli 1–2 % riippuen asuinkunnasta).

Verotettava etuus on sama kuin osakemäärän markkina-arvo antamishetkellä.

<sup>10</sup> Työntekijä on velvollinen maksamaan lopullisen tuloveron ja ennakoon pidätetyn veron erotuksen viimeistään kyseessä olevan verovuoden verotuksen päättymisen jälkeen, pääsääntöisesti verovuotta seuraavan vuoden joulukuussa ja sitä seuraavan vuoden helmikuussa. Jos työntekijä haluaa välttää erotukselle kertyvän koron, on erotus maksettava verovuotta seuraavan vuoden tammikuun loppuun mennessä. Työntekijä voi, omasta pyynnöstään, maksaa erotuksen verottajalle jo verovuoden aikana kuukausittaisena ennakkoerona. Tällainen menettely ei kuitenkaan ole mahdollinen ilman työntekijän omaa pyyntöä esimerkiksi työsuhteeseen perustuvien optioiden osalta.

Pätevän osapuolen työnantaja pidättää veron etuuden mukaisena<sup>11</sup>. Työnantaja ilmoittaa verotettavan edun verottajalle kuukausittain ja vuosittain työnantajan suoritusilmoituksessa. Tämän lisäksi työnantaja antaa pätevälle osapuolelle vuosittaisen kokonaispalkkatositteen.

Osakkeiden myyntihetkellä lankeaa maksettavaksi myyntivoittovero 28 % sen mukaan, mikä on myyntihinnan ja hankintahinnan välinen erotus. Vaihtoehtoisesti myyntihinnasta voidaan vähentää 20 % osakkeiden myyntihinnasta (tai 40 %, mikäli osakkeet on omistettu yli 10 vuotta). Tätä niin sanottua hankintameno-olettamaa käytettäessä ei muita kuluja voida vähentää osakkeen myyntihinnasta.

J&Jilta saaduista osingoista 70 % käsitellään pääomatulona ja sen veroprosentti on kiinteä 28 %. Loppu 30 % on verovapaata.

Suosittelemme pätevää osapuolta kääntymään henkilökohtaisen veroneuvojan puoleen, jos osakkeita aiotaan myydä.

(ii) Sosiaaliturva

Verotettavasta summasta suoritetaan työntekijän eläkemaksu 4,5 % alle 53-vuotiailla (5,7 % ikävuodesta 53 lähtien), palkansaajan työttömyysvakuutusmaksu 0,4 %, vakuutetun sairaanhoitomaksu 1,47 % (sisältyy ennakonpidätysprosenttiin) ja päivärahamaksu 0,93 % (sisältyy ennakonpidätysprosenttiin). Pätevän osapuolen työnantaja pidättää nämä työntekijän sosiaaliturvamaksut.

### 7.2.3 Esimerkki

(i) Olettamukset

- Suomessa asuvan verotus
- Työntekijä on yli 53-vuotias
- Säännöllinen tulo 80 000 EUR
- Bonus 6 000 EUR tai osake-etu 100 kpl 60 EUR:n arvoista osaketta
- Kunnallisvero noin 21 %
- Kirkollisveron poistaminen

(ii) Tulos

	Käteisbonus	Osake-etu (100 osaketta x 60 €)
<b>Bonus/osakkeiden arvo</b>	<b>6 000 €</b>	<b>6 000 €</b>
Vähennetään: sosiaaliturvamaksut		
- päivärahamaksu	- 55.80 €	- 55.80€
- vakuutetun sairaanhoitomaksu	- 88.20 €	- 88.20 €
- työntekijän eläkemaksu	- 342.00 €	- 342.00 €
- työttömyysvakuutusmaksu	- 24.00 €	- 24.00 €
Vähennetään: tulovero (*)		

<sup>11</sup> Osakkeiden arvo tulee joko (i) lisätä edun saamista seuraavan palkkakauden rahapalkkaan tai (ii) jakaa tasan verovuoden jäljellä oleville palkkakausille. Vastaava ennakonpidätys tehdään verovuoden palkkakausien rahapalkasta.

	<b>Käteisbonus</b>	<b>Osake-etu (100 osaketta x 60 €)</b>
- valtion tulovero (**)	-1,673.46 €	-1,673.46 €
- kunnallisvero	-1,171.42 €	-1,171.42 €
<b>Nettobonus</b>	<b>2,645.12€</b>	<b>2,645.12 €</b>

(\*) eläke- ja työttömyysvakuutus- ja päivärahmaksut ovat verotuksessa vähennettäviä; terveydenhoitomaksu ei ole vähennyskelpoinen

(\*\*) korkein veroprosentti (30 %) saavutetaan, kun verotettava tulo on 66 400 EUR



## 8 France

### 8.1 Tax analysis: Bonus Plan

The draft Finance Bill for 2011, the draft Social Security Bill for 2011 and the draft Bill modifying the retirement system (all together “DFB11”) are currently under discussion before the French Parliament and the Senate. These bills include various provisions that may modify the current taxation of LTIP and bonuses.

**In the summary below, we have assumed that the share bonus plan would not qualify for the favourable tax regime set out under article 80 quaterdecies of the French tax code.**

#### 8.1.1 Tax and social security treatment of cash payments

##### (i) Tax treatment

The cash amount received by the eligible participant will be taxable, at the date of payment, as salary income at progressive income tax rates up to 40%<sup>12</sup>.

The employer of the eligible participant will not withhold this income tax charge. The employer will report the cash payment on the employee’s pay slip and a reporting in the individual income tax return will be required. Income tax will be payable through the French tax bill received after year-end.

##### (ii) Social security treatment

The cash payment will be subject to employee social security contributions up to approximately 20-25% and to employer’s social security of 45-50% (different rates and different maximum contribution levels apply to different social security components). The employer of the eligible participant will withhold these employees’ share of social security contributions from the cash payment to the eligible participant.

#### 8.1.2 Tax and social security treatment of attribution of shares

##### (i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the date the shares are delivered to him or her, as salary income at progressive tax rates up to 40%<sup>2</sup>.

The taxable amount is equal to the fair market value of the J&J shares upon the date when such shares are awarded.

The employer of the eligible participant will not withhold this income tax charge. The employer will report the fair market value of the shares on the employee’s pay slip and a reporting in the individual income tax return will be required. Income tax will be payable through the French tax bill received after year-end.

Upon sale of the shares, a 30.1%<sup>13</sup> capital gains tax (including 12.1%<sup>3</sup> social contributions) will be payable on the difference between the sale proceeds and the fair market value of the shares at the date of award.

However, capital gains will only be subject to tax if the total annual sale proceeds of all securities realized by the taxpayer’s tax household exceed EUR 25,830 (if such threshold is not met, only the 12.1% social contributions would be due)<sup>14</sup> Any loss can be offset against capital gains realized during the same year or in the 10 subsequent

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<sup>12</sup> The DFB11 would increase the 40% rate to 41%.

<sup>13</sup> The DFB11 would increase these rates respectively to 31.3% and 12.3%.

<sup>14</sup> This threshold could be cancelled under DFB11.

years, provided that the sale of securities threshold has been reached in the year of realization of the capital loss.

In general, dividends derived from J&J shares will be subject to:

- progressive income tax up to 40%<sup>2</sup>, applied on the gross amount of such dividends after a 40% rebate on gross dividends; an additional allowance of EUR 1,525 or EUR 3,050 for couple is then deducted from this taxable base. A tax credit of 50% with an annual cap of EUR 115, or EUR 230 for couples, as the case may be, also applies; or,<sup>15</sup>
- upon election, a flat tax rate of 18%<sup>16</sup>.

It should be noted that the election for the flat tax rate prevents the employee from benefitting from the 40% rebate and tax credits with respect to all other dividends received during the same fiscal year subject to personal income tax.

In both cases, the withholding tax levied in the United States on the dividend may be credited against French income tax within certain limits.

Also, dividends are subject to social contributions at a total rate of 12.1%<sup>17</sup>.

We would encourage the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The taxable amount will be subject to employee social security contributions up to approximately 20-25% and to employer's social security of 45-50% (different rates and different maximum contribution levels apply to different social security components). The employer of the eligible participant will withhold these employee's share of social security contributions from the salary payments made to the eligible participant.

### 8.1.3 Example

(i) Assumptions

- French resident taxpayer
- Single, no children at charge
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share at grant
- 2009 French income tax rates

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€6,000</b>	<b>€6,000</b>
Less : social security contributions (23%)	- €1,380	- €1,380

<sup>15</sup> This tax credit could be cancelled under DFB11.

<sup>16</sup> This rate could be increased to 19% under the DFB11.

<sup>17</sup> This rate could be increased to 12.3% under the DFB11.

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
Less : income tax (marginal rate of 40%)	- €1,916	- €1,916
<b>Net bonus</b>	<b>€2,704</b>	<b>€2,704</b>

## 8.2 Translated tax analysis: Bonus Plan

### 8.2.1 Régime fiscal et sécurité sociale des paiements en espèces

#### (i) Régime fiscal

Le montant en espèces reçu par le participant éligible sera imposable, au jour du paiement, en tant que revenu professionnel à l'impôt sur le revenu au barème progressif au taux maximum de 40%<sup>\*18</sup>.

L'employeur du participant éligible n'effectuera aucun prélèvement sur le salaire au titre de l'impôt sur le revenu. L'employeur indiquera le montant du paiement en espèces sur la fiche de paie du collaborateur qui devra en faire état dans la déclaration individuelle d'impôt sur le revenu. Les impôts correspondants seront acquittés dans le cadre de l'impôt sur le revenu dû au titre de l'année de perception.

#### (ii) Régime de sécurité sociale

Le paiement en espèces sera soumis aux cotisations de sécurité sociale applicables aux travailleurs salariés à raison d'environ 20-25% et aux charges sociales patronales d'environ 45-50% (en fonction des taux et plafonds de cotisation de sécurité sociale applicables). L'employeur du participant éligible procédera au prélèvement de ces cotisations pour la part salariale sur le montant des versements faits au participant éligible.

### 8.2.2 Régime fiscal et sécurité sociale de l'attribution d'actions

#### (i) Régime fiscal

Les actions attribuées au participant éligible seront imposables, au jour de l'attribution, en tant que revenu professionnel à l'impôt sur le revenu au barème progressif au taux maximum de 40%<sup>19\*</sup>.

Le montant imposable sera égal à la valeur de marché des actions J&J à la date d'attribution.

L'employeur du participant éligible n'effectuera aucun prélèvement sur le salaire au titre de l'impôt sur le revenu. L'employeur indiquera la valeur de marché des actions attribuées sur la fiche de paie du collaborateur qui devra en faire état dans la déclaration individuelle d'impôt sur le revenu. Les impôts correspondants seront acquittés dans le cadre de l'impôt sur le revenu dû au titre de l'année d'attribution.

La plus-value réalisée lors de la vente des actions correspondant à la différence entre le prix de vente des actions et leur valeur de marché au jour de l'attribution sera

<sup>18</sup> Le Projet de Loi de Finances pour 2011 prévoit d'augmenter ce taux à 41%.

<sup>19</sup> Le Projet de Loi de Finance pour 2011 prévoit d'augmenter ce taux à 41%.

soumise à l'impôt sur le revenu au taux de 30,1%<sup>20</sup> (incluant 12,1%<sup>21</sup> de charges sociales\*\*).

Toutefois, la plus-value de cession ne sera imposée qu'à la condition que le montant annuel des cessions de valeurs mobilières réalisées par l'ensemble des membres du foyer fiscal du participant éligible dépasse un seuil révisé annuellement, fixé en 2009 à EUR 25.830<sup>22</sup>. Toute perte pourra être reportée sur les plus-values réalisées durant une même année ou durant les 10 années suivantes à condition que le seuil ait été atteint l'année de réalisation de la perte.

Les dividendes afférents aux actions de J&J seront soumis :

- (c) soit au barème progressif de l'impôt sur le revenu qui s'applique au montant brut, diminué d'un abattement de 40% du montant de ces dividendes ; un abattement supplémentaire de EUR 1 525 ou de EUR 3 050 pour les couples est également déduit de la base imposable, après imputation des frais et charges déductibles. Enfin, un crédit d'impôt de 50% du montant des revenus distribués, avant application des abattements précités, plafonné à EUR 115 ou EUR 230 pour les couples, s'applique également<sup>23</sup>
- (d) soit, sur option du contribuable, à un prélèvement forfaitaire libératoire au taux proportionnel de 18%<sup>24</sup>, applicable sur le montant brut des dividendes reçus.

Il est précisé qu'une fois l'option exercée pour le prélèvement libératoire, elle prive le contribuable de l'abattement de 40% , de l'abattement fixe annuel et du crédit d'impôt pour toutes ses autres distributions de dividendes perçues au cours de la même année et soumises au barème progressif de l'impôt sur le revenu.

De même, indépendamment du choix du contribuable, en cas de retenue à la source américaine sur les dividendes distribués, un crédit d'impôt pourra, à ce titre et sous certaines limites, être imputé sur le montant de l'impôt sur le revenu français.

Dans les deux cas, 12,1%<sup>25</sup> de charges sociales sont dues sur le montant brut des dividendes reçus\*\*.

Nous tenons à recommander aux participants éligibles de se rapprocher de leur conseil fiscal habituel s'ils envisagent la vente des actions.

## (ii) Régime de sécurité sociale

Le montant imposable sera soumis aux cotisations de sécurité sociale applicables aux travailleurs salariés à concurrence de 20-25% environ et aux charges sociales patronales d'environ 45-50% (en fonction des taux et plafonds de cotisation de sécurité sociale applicables). L'employeur du participant éligible procédera au prélèvement de ces cotisations pour la part salariale sur le montant des versements faits au participant éligible.

### 8.2.3 Exemple

#### (i) Hypothèses

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<sup>20</sup> Le Projet de Loi de Finance pour 2011 prévoit d'augmenter ce taux à 31,3%.

<sup>21</sup> Le Projet de Loi de Finance pour 2011 prévoit d'augmenter ce taux à 12,3%.

<sup>22</sup> Le Projet de Loi de Finance pour 2011 prévoit de supprimer le seuil en deçà duquel les plus-values de cession de titres sont exonérées d'impôt sur le revenu (mais pas de contributions sociales).

<sup>23</sup> Le projet de Loi de Finance pour 2011 prévoit de supprimer ce crédit d'impôt.

<sup>24</sup> Le Projet de Loi de Finance pour 2011 prévoit d'augmenter ce taux à 19%.

<sup>25</sup> Le Projet de Loi de Finance pour 2011 prévoit d'augmenter ce taux à 12,3%.

- Impôts des résidents français
- Célibataire, sans enfant à charge
- Revenu ordinaire de EUR 80.000
- Paiement d'une prime de EUR 6.000 ou attribution de 100 actions d'une valeur de EUR 60/action
- Taux d'impôt sur le revenu français pour 2009

(ii) Résultat

	<b>Prime en espèces</b>	<b>Attribution d'actions (100 actions x € 60)</b>
<b>Valeur de la prime/des actions</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Moins : cotisations de sécurité sociale (23%)	- € 1,380	- € 1,380
Moins : impôt sur le revenu (taux marginal de 40%)	- € 1,916	- € 1,916
<b>Prime nette</b>	<b>€ 2,704</b>	<b>€ 2,704</b>

\* L'impôt sur le revenu est calculé sur une base imposable réduite des cotisations sociales dues, hormis une partie de deux taxes spéciales, à savoir la CSG et la CRDS, non déductible en ce qui concerne la CRDS et partiellement déductible en ce qui concerne la CSG.

\*\* CSG (8,2 %), CRDS (0,5%), cotisations sociales (2 %) et cotisations sociales additionnelles (0,3% et 1,1%).

## 9 Germany

### 9.1 Tax analysis: Bonus Plan

The following provides only a brief and general guide to the tax and social security consequences of the cash payments and of the attribution of shares and does not cover all aspects of state and regional tax laws. It is based on tax law in effect on 13 October 2010, which is subject to possible change at any time, possibly with retroactive effect. As your personal circumstances may lead to a different analysis, you should seek advice based on the particular circumstances from your personal tax advisor.

#### 9.1.1 Tax and social security treatment of cash payments

##### (i) Tax treatment

The cash amount received by the eligible participant will be taxable upon the moment of payment as **employment income at the progressive income tax rates** (varying from 0% to 42%; a tax rate of 45% will apply to an income exceeding EUR 250,731 for a single taxpayer). The total income tax due is to be increased by the solidarity surcharge (5.5% of the income tax due) and church tax if the employee is member of a German church (8% - 9% of the income tax due).

The employer of the eligible participant will withhold these taxes through salary tax withholding. The wage tax withheld is fully creditable to the income tax, solidarity surcharge and church tax (if applicable) due by the eligible participant. The employer will also report the cash payment on the annual salary slip of the eligible participant.

Please **note that rates may change**.

##### (ii) Social security treatment

The cash payment will be subject to employee social security contributions, provided the employee does not already exceed the applicable ceilings with his regular income. If the employee already exceeds the ceilings with regular income, no employee social security contributions will be due (the highest ceiling – the ceilings differ regarding the different categories of old age, health, unemployment and nursing insurance – is old age/unemployment insurance with a ceiling of EUR 66,000 (EUR 55,800 for new German states). The employer of the eligible participant will withhold the employee social security contributions. The total amount of employee contributions amounts to approximately 40% of the taxable income, divided by approximately 50% to be borne by the employee. In 2010, for statutory pension benefit, unemployment insurance and nursing insurance the employer has to bear 12.325% and the employee will have to bear between 12.325% and 12.575%, depending on individual circumstances. For statutory health insurance contributions, the statutory rate is 14%, payable half by the employer and half by the employee. Furthermore, the employee will have to bear an additional contribution of 0.9% for statutory dental health care. In total, assuming a statutory health insurance rate of 14% (plus 0.9% to be borne by the employee), the employer would have to bear 19.325% and the employee would have to bear between 20.225% and 20.475%, depending on individual circumstances.

Please **note that rates and thresholds may change with effect as of 1 January 2011**.

#### 9.1.2 Tax and social security treatment of attribution of shares

##### (i) Tax treatment

The shares granted to the eligible participant will be taxable at the moment they are debited from the employer's or plan administrator's account to transfer them to the employee as **employment income at the progressive income tax rates** (varying from 15 % to 42%; a tax rate of 45% will apply to an income exceeding EUR 250,731 for a single taxpayer). The total tax due is to be increased by the solidarity surcharge (5.5% of the income tax due) and church tax if the employee is member of a German church community (8% - 9% of the income tax due). **Please note that rates may change.**

The taxable amount is equal to the lowest price of the J&J shares on a German stock exchange at the taxable moment.

Under the Income Tax Act, certain plans qualify for a tax exemption on benefits. These plans are subject to complex requirements and must be offered at least to all employees provided they have been with the company one year or longer at the time of offer. Under the favourable tax plan a participant can receive tax (and also social security) free awards of up to EUR 360 per year.

The employer of the eligible participant will withhold income tax, solidarity surcharge and (if applicable) church tax through salary tax withholding. The wage tax withheld is fully creditable to the income tax, solidarity surcharge and church tax (if applicable) due by the eligible participant. The employer will also report the cash payment on the annual salary slip of the eligible participant.

100% of the capital gains realised by individuals will be subject to a 25% flat tax (plus solidarity surcharge and church tax (if applicable) thereon) irrespective of any holding period provided that the shares have been acquired after 31/12/2008 and the participant did not hold 1% or more of the shares in the company at any point in time within the last five years prior to the sale. In case the personal income tax rate would be less than 25%, a refund on the basis of the annual tax returns shall be achievable.

Dividends received will be subject to a 25% flat tax (plus solidarity surcharge and church tax (if applicable) thereon) less any creditable foreign taxes. In case the personal income tax rate would be less than 25%, a refund on the basis of the annual tax returns shall be achievable.

(ii) Social security treatment

The grant of shares is subject to **social security contributions, provided the employee does not already exceed the applicable ceilings with his regular income**. If the employee already exceeds the ceiling with regular income, no employee social security contributions will be due (**the highest ceiling – the ceilings differ regarding the different categories of old age, health, unemployment and nursing insurance – is old age/unemployment insurance with a ceiling of EUR 66,000 (EUR 55,800 for new German states)**). The employer of the eligible participant must withhold the employee social security contributions. **The total amount of contributions amounts to approximately 40% of the taxable income, divided by approximately 50% to be borne by employee and employer**. In 2010, for statutory pension benefit, unemployment insurance and nursing insurance the employer has to bear 12.325% and the employee will have to bear between 12.325% and 12.575%, depending on individual circumstances. For statutory health insurance contributions, the statutory rate is 14%, payable about half by the employer and half by the employee. Furthermore, the employee will have to bear an additional contribution of 0.9 % for statutory dental health care. In total, assuming a statutory health insurance rate of 14% (plus 0.9% to be borne by the employee), the employer

would have to bear 19.325% and the employee would have to bear between 20.225% and 20.475%, depending on individual circumstances.

**Please note that rates and thresholds may change with effect as of 1 January 2011.**

### 9.1.3 Example

#### (i) Assumptions

- German resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- No application of church tax

#### (ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 0	- € 0
Less : income tax (**)	- € 2,520	- € 2,520
Less : solidarity surcharge (5,5%)	- € 138,60	- € 138,60
<b>Net bonus</b>	<b>€ 3,341.40</b>	<b>€ 3,341.40</b>

(\*) no social security contributions due, as normal threshold has already been reached

(\*\*) highest tax rate reached (42%) as of taxable income of EUR 52,882 (for single taxpayers)

## 9.2 Translated tax analysis: Bonus Plan

### 9.2.1 Steuern und Sozialabgaben auf Bargeld-Bonuszahlung

#### (i) Steuerliche Behandlung

Die Bonuszahlung in bar, die jeder Prämienplanteilnehmer erhält, ist zum Zeitpunkt der Ausbezahlung als **Arbeitseinkommen mit progressiven Einkommensteuersätzen** zwischen 0% und 42% zu versteuern. Ein Steuersatz von 45% gilt für einen einzelnen Steuerzahler mit einem Einkommen ab EUR 250.731. Zur geschuldeten Einkommensteuer kommen der Solidaritätszuschlag (5,5% der geschuldeten Einkommensteuer) und die Kirchensteuer (zwischen 8% und 9% der geschuldeten Einkommensteuer, sofern der Arbeitnehmer Angehöriger einer Religionsgemeinschaft in Deutschland ist) hinzu.

Der Arbeitgeber des Prämienplanteilnehmers behält diese Steuern im Rahmen des Lohnsteuerabzugs ein. Die einbehaltene Lohnsteuer kann in voller Höhe auf die persönliche Einkommensteuer des Prämienplanteilnehmers zuzüglich Solidaritätszuschlag und (eventuell geschuldeter) Kirchensteuer angerechnet werden. Der Arbeitgeber weist die Barzahlung auch auf der jährlichen Lohnsteuerbescheinigung des Prämienplanteilnehmers aus.

Bitte berücksichtigen Sie, dass sich die oben genannten Steuersätze ändern können.



(ii) Sozialversicherungsrechtliche Behandlung

Die Bonuszahlung unterliegt beim **Arbeitnehmer der Sozialversicherung**, sofern er mit seinem regelmäßigen Einkommen nicht bereits die geltenden **Beitragsbemessungsgrenzen** überschreitet. Ist dies der Fall, sind keine Beiträge zur Sozialversicherung zu leisten (die höchste Beitragsbemessungsgrenze – die Beitragsbemessungsgrenzen weichen hinsichtlich gesetzlicher Renten- sowie Arbeitslosenversicherung und Kranken- sowie Pflegeversicherung voneinander ab – gilt für die Renten- und Arbeitslosenversicherung mit einer Beitragsbemessungsgrenze in Höhe von EUR 64.800 (EUR 54.600 in den neuen Bundesländern)). Der Arbeitgeber des Prämienplanteilnehmers behält die diesbezüglichen Beiträge zur Sozialversicherung ein. Der **Gesamtbetrag der Sozialversicherungsbeiträge** beläuft sich auf annähernd **41 %** seines steuerbaren Einkommens, von denen jeweils rund die Hälfte vom Arbeitnehmer und vom Arbeitgeber zu tragen sind. Im Jahre 2008 hat der Arbeitgeber für gesetzliche Renten-, Arbeitslosen- und Pflegeversicherung 12,325% und der Arbeitnehmer zwischen 12,325% und 12,575% - je nach den persönlichen Umständen (Kinder) – zu tragen. Der Durchschnittsbeitragssatz zur gesetzlichen Krankenversicherung beträgt 14%, von denen der Arbeitgeber und der Arbeitnehmer jeweils die Hälfte zahlen. Darüber hinaus zahlt der Arbeitnehmer einen zusätzlichen Beitrag in Höhe von 0,9 % zur gesetzlichen Zahnpflegeversicherung. Bei einem durchschnittlichen Beitragssatz zur gesetzlichen Krankenversicherung in Höhe von 14% (zuzüglich 0,9%, die vom Arbeitnehmer zu tragen sind) hat der Arbeitgeber insgesamt einen Sozialversicherungsbeitrag in Höhe von 19,325% und der Arbeitnehmer – je nach persönlichen Umständen – zwischen 20,225% und 20,475% zu tragen.

**Bitte berücksichtigen Sie, dass sich die Sätze und Beitragsbemessungsgrenzen ab dem 1. Januar 2010 ändern können.**

9.2.2 Steuerliche und sozialversicherungsrechtliche Behandlung bei zugeteilten Aktien

(i) Steuerliche Behandlung

Die dem Prämienplanteilnehmer zugeteilten Aktien unterliegen zum Zeitpunkt der Ausbuchung der Aktien aus dem Depot des Arbeitgebers oder dessen Erfüllungsgehilfen **als Arbeitseinkommen (geldwerter Vorteil) der Besteuerung zu progressiven Einkommensteuersätzen** (zwischen 15% und 42%). Ab dem 1. Januar 2007 gilt ein Steuersatz von 45% für das Einkommen eines einzelnen Steuerzahlers über EUR 250.000. Die geschuldete Einkommensteuer ist um den Solidaritätszuschlag (5,5% der geschuldeten Einkommensteuer) sowie um die Kirchensteuer (8% bis 9% der geschuldeten Einkommensteuer), wenn der Arbeitnehmer Angehöriger einer Religionsgemeinschaft in Deutschland ist, zu erhöhen.

**Bitte berücksichtigen Sie, dass sich die Steuersätze ändern können.**

Als steuerpflichtiger Betrag gilt der zum Besteuerungszeitpunkt am niedrigsten an einer deutschen Börse notierte Kurs der J&J Aktie.

Nach deutschem Recht unterliegt Arbeitseinkommen in Gestalt von zugeteilten Aktien nicht der Besteuerung iHv. bis zu EUR 360, wenn bestimmte Voraussetzungen erfüllt sind. Zu diesen Voraussetzungen gehört insbesondere, dass die Aktien allen Arbeitnehmern angeboten werden, die mindestens seit einem Jahr bei dem Arbeitgeber beschäftigt sind.

Der Arbeitgeber des Prämienplanteilnehmers behält die Einkommensteuer zuzüglich Solidaritätszuschlag und (evtl. geschuldeter) Kirchensteuer im Rahmen des Lohnsteuerabzugs ein. Die einbehaltene Lohnsteuer kann in voller Höhe auf die persönliche Einkommensteuer des Prämienplanteilnehmers zuzüglich Solidaritätszuschlag und (eventuell geschuldeter) Kirchensteuer angerechnet werden. Der Arbeitgeber weist den geldwerten Vorteil aus der Aktiengewährung auch auf der jährlichen Lohnsteuerbescheinigung des Prämienplanteilnehmers aus.

Der **Gewinn aus der Veräußerung der Aktien** ist in vollem Umfang steuerpflichtig und unterliegt der sogenannten **Abgeltungssteuer** mit einem einheitlichen Steuersatz in Höhe von 25% (zuzüglich Solidaritätszuschlag und evtl. Kirchensteuer). Dies gilt unabhängig von der Besitzzeit der Aktien unter der Voraussetzung, dass der Arbeitnehmer die Aktien nach dem 31.12.2008 erworben hat und nicht mindestens 1 % der Aktien des Unternehmens zu irgendeinem Zeitpunkt innerhalb der letzten fünf Jahre vor dem Verkauf gehalten hat. Für den Fall, dass der persönliche Einkommensteuersatz weniger als 25% beträgt, kann es auf Antrag im Rahmen der jährlichen Einkommensteuererklärung zu einer Steuererstattung kommen.

**Dividendenzahlungen** unterliegen der sogenannten **Abgeltungssteuer** mit einem einheitlichen Steuersatz in Höhe von 25% (zuzüglich Solidaritätszuschlag und evtl. Kirchensteuer). Für den Fall, dass der persönliche Einkommensteuersatz weniger als 25% beträgt, kann es auf Antrag im Rahmen der jährlichen Einkommensteuererklärung zu einer Steuererstattung kommen.

(ii) Sozialversicherungsrechtliche Behandlung

Die Übertragung der Aktien unterliegt beim **Arbeitnehmer der Sozialversicherung**, sofern er mit seinem regelmäßigen Einkommen nicht bereits die geltenden **Beitragsbemessungsgrenzen** überschreitet. Ist dies der Fall, sind keine Beiträge zur Sozialversicherung zu leisten (die höchste Beitragsbemessungsgrenze – die Beitragsbemessungsgrenzen weichen hinsichtlich gesetzlicher Renten- sowie Arbeitslosenversicherung und Kranken- sowie Pflegeversicherung voneinander ab – gilt für die Renten- und Arbeitslosenversicherung mit einer Beitragsbemessungsgrenze in Höhe von EUR 66,000 (EUR 55,800 in den neuen Bundesländern)). Der Arbeitgeber des Prämienplanteilnehmers behält die diesbezüglichen Beiträge zur Sozialversicherung ein. Der **Gesamtbetrag der Sozialversicherungsbeiträge** beläuft sich auf annähernd **40%** seines steuerbaren Einkommens, von denen jeweils rund die Hälfte vom Arbeitnehmer und vom Arbeitgeber zu tragen sind. Im Jahre 2010 hat der Arbeitgeber für gesetzliche Renten-, Arbeitslosen- und Pflegeversicherung 12,325% und der Arbeitnehmer zwischen 12,325% und 12,575% - je nach den persönlichen Umständen (Kinder) – zu tragen. Der gesetzlich festgelegte Beitragssatz zur gesetzlichen Krankenversicherung beträgt 14%, von denen der Arbeitgeber und der Arbeitnehmer jeweils die Hälfte zahlen. Darüber hinaus zahlt der Arbeitnehmer einen zusätzlichen Beitrag in Höhe von 0,9% zur gesetzlichen Zahnpflegeversicherung. Bei einem Beitragssatz zur gesetzlichen Krankenversicherung in Höhe von 14% (zuzüglich 0,9%, die vom Arbeitnehmer zu tragen sind) hat der Arbeitgeber insgesamt einen Sozialversicherungsbeitrag in Höhe von 19,325% und der Arbeitnehmer – je nach persönlichen Umständen – zwischen 20,225% und 20,475% zu tragen.

**Bitte berücksichtigen Sie, dass sich die Sätze und Beitragsbemessungsgrenzen ab dem 1. Januar 2011 ändern können.**

### 9.2.3 Beispiel

(i) Annahmen

- Besteuerung von Personen, die in Deutschland ihren Wohnsitz oder gewöhnlichen Aufenthalt haben (unbeschränkt Steuerpflichtige)
- Regelmäßiges Einkommen: EUR 80.000
- Bonuszahlung: EUR 6.000 oder 100 zugeteilte Aktien zum Wert von EUR 60/Aktie
- Keine Kirchensteuerpflicht

(ii) Ergebnis

	Cashprämie	Aktienprämie (100 Stück x € 60)
<b>Wert der Bonuszahlung/Aktien-Prämie</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Abzüglich Sozialversicherungsabgaben (*)	- € 0	- € 0
Abzüglich der Einkommensteuer (**)	- € 2.520	- € 2.520
Abzüglich Solidaritätszuschlag in Höhe von 5,5 %	- € 138,60	- € 138,60
<b>Nettoprämie</b>	<b>€ 3.341,40</b>	<b>€ 3.341,40</b>

(\*) Keine Sozialversicherungsbeiträge, da Beitragsbemessungsgrenzen bereits überschritten

(\*\*) max. Steuersatz (42 %) bei einem steuerbaren Einkommen von EUR 52.882 (einzelner Steuerpflichtiger)

## 10 Greece

### 10.1 Tax analysis: Bonus Plan

#### 10.1.1 Tax and social security treatment of cash payments

##### (i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as employment income and taxed at progressive income tax rates up to 45%. However, if the employee is a board member registered with a different social security fund other than IKA, the bonus shall be considered income from trading activities (subject to final withholding tax of 35% for 2009 and onwards).

The employer of the eligible participant will withhold income tax on the cash payment. The salary tax withheld is fully creditable with the income tax due by the eligible participant. In the case of an employee who is a board member registered with a different social security fund other than IKA, the as above 35% withholding tax rate extinguishes the tax liability of the individual with respect to said income. The employer will also report the cash payment on the annual salary slip of the eligible participant.

##### (ii) Social security treatment

The amount of contribution is a percentage of the gross income of the employee. The employer deducts the employee's contribution when the salary is paid to the employee and the deducted sum is paid to social security fund along with the employer's contribution within the deadline set by law. In addition to the above, social security contributions apply to monthly gross employment income up to a ceiling amount. No contribution is due on any remuneration in excess of the ceiling. The maximum monthly ceiling for the main social security fund contributions (IKA) is EUR 2,432.25 for employees registered with a social security fund prior to January 1, 1993 and EUR 5,543.55 for other employees. Expatriate employees who were insured abroad prior to that date might apply to be subject to this ceiling if they are from an EU country or a country with which Greece has a bilateral social security treaty. Additionally, salaried EU expatriates may be exempted from any contribution in Greece provided they supply the necessary documentation (E101 form).

The basic rate of social security (IKA-TEAM) contributions as percentage of monthly gross salary and wages is 44.06% (16.00% payable by the employee and 28.06% payable by the employer).

#### 10.1.2 Tax and social security treatment of attribution of shares

##### (i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the moment of acquisition, as employment income and taxed at progressive income tax rates up to 45%. However, if the employee is a board member registered with a different social security fund other than IKA, the bonus shall be considered income from trading activities (subject to final withholding tax of 35% for 2009 and onwards).

The taxable amount is equal to the stock price of the J&J shares upon the vesting (delivery) date of these shares.

The employer of the eligible participant will withhold income tax on the shares granted. The salary tax withheld is fully creditable with the income tax due by the

eligible participant. In the case of an employee who is a board member registered with a different social security fund other than IKA, the as above 35% withholding tax rate extinguishes the tax liability of the individual with respect to said income. The employer will also report the granting of shares on the annual salary slip of the eligible participant.

For any J&J share acquired prior to 01.01.2011, any gain arising from their sale by the participant shall be exempt from income tax in Greece, whereas transfer tax liability at the rate of 0,15% will be due on the sale proceeds of the shares. This tax due will have to be remitted to the competent tax district within the first fortnight of the month following the one in which the sale of the shares took place.

For any J&J share acquired after 01.01.2011, any gain arising from their sale by the participant at a price higher than the acquisition price shall be subject to a withholding tax as follows:

- at the rate of 20% in case sale takes place within three (3) months from the date of acquisition of the shares; and
- at the rate of 10% in case sale takes place after three (3) and within twelve (12) months from the date of acquisition of the shares.

The above withholding tax does not extinguish the tax liability of the participant for said income, which is taxable as per the general provisions, with a credit being given for any tax withheld. For the purposes of calculating the taxable basis, acquisition price shall mean the market price of the shares at the time of acquisition. This tax due will have to be remitted to the competent tax district by the first 15 days of April, July, October and January, for the sale of shares that has taken place within the previous quarter. Please note that losses incurred during the same quarter are can be offset against the above gains. In case the sale takes place after twelve (12) months from the acquisition of the shares, any capital gain is exempted from tax.

Dividends derived from J&J shares and distributed on the basis of balance sheets with a date prior to 31.12.2010 are subject to 10% withholding tax, which extinguishes the tax liability of the participant for said income. Dividends derived from J&J shares and distributed on the basis of balance sheets with a date on or after 31.12.2010 are subject to no withholding tax, but are taxable pursuant to the general provisions at a rate up to 45%.

Our correspondent encourages the eligible participants to seek personal tax advice.

(ii) Social security treatment

The amount of contribution is a percentage of the gross income of the employee. The employer deducts the employee's contribution when the salary is paid to the employee and the deducted sum is paid to the social security fund along with the employer's contribution within the deadline set by law. In addition to the above, social security contributions apply to monthly gross employment income up to a ceiling amount. No contribution is due on any remuneration in excess of the ceiling. The maximum monthly ceiling for the main social security contributions fund (IKA) is EUR 2,432.25 for employees registered with a social security fund prior to January 1, 1993 and EUR 5,543.55 for other employees. Expatriate employees who were insured abroad prior to that date might apply to be subject to this ceiling if they are from an EU country or a country with which Greece has a bilateral social security treaty. Additionally, salaried EU expatriates may be exempted from any contribution in Greece provided they supply the necessary documentation (E101 form).

The basic rate of social security (IKA-TEAM) contributions as percentage of monthly gross salary and wages is 44.06% (16.00% payable by the employee and 28.06% payable by the employer).

According to legal theory, social security contributions should be deducted only from the amount offered and therefore paid by the employer (not from the amount paid by the employee).

### 10.1.3 Example

(i) Assumptions

- Greek resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share. Our correspondent confirms the correctness of the example provided that EUR 60 per share constitutes the value of the gain that the participant earns from each share.

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 0	- € 0
Less : income tax (**)	- € 2,400	- € 2,400
<b>Net bonus</b>	<b>€ 3,600</b>	<b>€ 3,600</b>

(\*) no social security contributions due, as normal threshold has already been reached

(\*\*)tax rate of 40% being applicable to total income from EUR 60,000 to EUR 100,000.

## 10.2 Translated tax analysis: Bonus Plan

### 10.2.1 Θέματα φορολογίας και κοινωνικής ασφάλισης σε σχέση με τις πληρωμές σε μετρητά

(i) Φορολογικά θέματα

Το ποσό σε μετρητά που λαμβάνει ο εργαζόμενος που πληροί τις προϋποθέσεις θα είναι φορολογητέο, από τη στιγμή της καταβολής, ως εισόδημα από εξαρτημένη εργασία και θα φορολογείται με συντελεστές προοδευτικού φόρου εισοδήματος έως και 45%. Ωστόσο, εάν ο εργαζόμενος είναι μέλος του διοικητικού συμβουλίου, εγγεγραμμένος σε άλλο φορέα κοινωνικής ασφάλισης εκτός του ΙΚΑ, η πρόσθετη αμοιβή (bonus) θα θεωρείται εισόδημα από εμπορικές επιχειρήσεις (και θα υπόκειται σε τελικό φόρο παρακράτησης ύψους 35% για το 2009 και μετά).

Ο εργοδότης του εργαζομένου που πληροί τις προϋποθέσεις θα παρακρατεί φόρο εισοδήματος επί της πληρωμής σε μετρητά. Ο φόρος επί των αποδοχών που παρακρατείται έχει πλήρη δυνατότητα πίστωσης στο φόρο εισοδήματος από τον εργαζόμενο που πληροί τις προϋποθέσεις. Στην περίπτωση εργαζομένου, ο οποίος είναι μέλος του διοικητικού συμβουλίου, εγγεγραμμένος σε άλλο φορέα κοινωνικής ασφάλισης εκτός του ΙΚΑ, ο ως άνω συντελεστής παρακράτησης 35% εξαντλεί τη φορολογική υποχρέωση του προσώπου σε σχέση με το εν λόγω εισόδημα. Ο εργοδότης θα αναφέρει επίσης την πληρωμή σε μετρητά στην ετήσια κατάσταση μισθοδοσίας του εργαζομένου που πληροί τις προϋποθέσεις.

(ii) Θέματα κοινωνικής ασφάλισης

Το ποσό της εισφοράς αποτελεί ποσοστό του ακαθάριστου εισοδήματος του εργαζομένου. Ο εργοδότης παρακρατά την εισφορά του εργαζομένου κατά την πληρωμή του μισθού στον εργαζόμενο και το άθροισμα των κρατήσεων καταβάλλεται στο ταμείο κοινωνικής ασφάλισης μαζί με την εργοδοτική εισφορά εντός της προθεσμίας που ορίζεται από τη νομοθεσία. Επί πλέον των παραπάνω, οι εισφορές κοινωνικής ασφάλισης ισχύουν για μηνιαίο ακαθάριστο εισόδημα από εξαρτημένη εργασία έως ένα ανώτατο όριο. Δεν απαιτείται καμία εισφορά για οποιαδήποτε αμοιβή που υπερβαίνει το ανώτατο όριο. Το μηνιαίο ανώτατο όριο για τις εισφορές στον κύριο φορέα κοινωνικής ασφάλισης (ΙΚΑ) είναι 2.432,25 ευρώ για εργαζομένους που εγγράφηκαν σε κάποιον φορέα κοινωνικής ασφάλισης πριν από την 1η Ιανουαρίου 1993 και 5.543,55 ευρώ για τους υπόλοιπους εργαζομένους. Οι εκπατρισμένοι εργαζόμενοι που ασφαλίστηκαν στο εξωτερικό πριν από εκείνη την ημερομηνία μπορούν να αιτηθούν την υπαγωγή τους σε αυτό το ανώτατο όριο εάν βρίσκονται σε χώρα της ΕΕ ή σε άλλη χώρα με την οποία η Ελλάδα έχει συνάψει διμερή συμφωνία περί της κοινωνικής ασφάλισης. Επιπλέον, οι έμμισθοι εκπατρισμένοι στην ΕΕ μπορούν να εξαιρεθούν από οποιαδήποτε εισφορά στην Ελλάδα εφόσον παράσχουν τα απαραίτητα έγγραφα (έντυπο Ε101).

Ο βασικός συντελεστής εισφορών κοινωνικής ασφάλισης (ΙΚΑ-TEAM) ως ποσοστό του μηνιαίου ακαθάριστου μισθού και αποδοχών είναι 44,06% (16,00% πληρωτέο από τον εργαζόμενο και 28,06% πληρωτέο από τον εργοδότη).

**10.2.2 Θέματα φορολογίας και κοινωνικής ασφάλισης της απόδοσης των μετοχών**

(i) Φορολογικά θέματα

Οι μετοχές που χορηγούνται στον συμμετέχοντα που πληροί τις προϋποθέσεις θα είναι φορολογητέες, από τη στιγμή της απόκτησης, ως εισόδημα από εξαρτημένη εργασία και θα φορολογούνται με συντελεστές προοδευτικού φόρου εισοδήματος έως και 45%. Ωστόσο, εάν ο εργαζόμενος είναι μέλος του διοικητικού συμβουλίου, εγγεγραμμένος σε άλλο φορέα κοινωνικής ασφάλισης εκτός του ΙΚΑ, η πρόσθετη αμοιβή (bonus) θα θεωρείται εισόδημα από εμπορικές επιχειρήσεις (και θα υπόκειται σε τελικό φόρο παρακράτησης ύψους 35% για το 2009 και μετά).

Το φορολογητέο ποσό ισούται με την τιμή της μετοχής της J&J κατά την ημερομηνία κατοχύρωσης (παράδοση) των εν λόγω μετοχών.

Ο εργοδότης του εργαζομένου που πληροί τις προϋποθέσεις θα παρακρατεί φόρο εισοδήματος επί των μετοχών που διατίθενται. Ο φόρος επί των αποδοχών που παρακρατείται έχει πλήρη δυνατότητα πίστωσης στο φόρο εισοδήματος από τον εργαζόμενο που πληροί τις προϋποθέσεις. Στην περίπτωση εργαζομένου, ο οποίος είναι μέλος του διοικητικού συμβουλίου, εγγεγραμμένος σε άλλο φορέα κοινωνικής ασφάλισης εκτός του ΙΚΑ, ο ως άνω συντελεστής παρακράτησης 35% εξαντλεί τη φορολογική υποχρέωση του προσώπου σε σχέση με το εν λόγω εισόδημα. Ο εργοδότης θα αναφέρει επίσης τη διάθεση μετοχών στην ετήσια κατάσταση μισθοδοσίας του εργαζομένου που πληροί τις προϋποθέσεις.

Σε σχέση με μετοχές της J&J που αποκτώνται πριν από την 01.01.2011, κάθε κέρδος που προκύπτει από την πώλησή τους από τον συμμετέχοντα θα εξαιρείται από το φόρο εισοδήματος στην Ελλάδα, ενώ θα εφαρμόζεται φόρος μεταβίβασης με συντελεστή ύψους 0,15% επί των εσόδων της πώλησης των μετοχών. Ο καταβλητέος φόρος θα πρέπει να διαβιβαστεί στην αρμόδια φορολογική περιφέρεια εντός του πρώτου δεκαπενθημέρου του επόμενου μήνα από το μήνα που πραγματοποιήθηκε η πώληση των μετοχών.

Σε σχέση με μετοχές της J&J που αποκτώνται μετά την 01.01.2011, κάθε κέρδος που προκύπτει από την πώλησή τους από τον συμμετέχοντα εργαζόμενο σε τιμή ανώτερη από την τιμή κτήσης υπόκειται σε παρακρατούμενο φόρο ως εξής:

- σε ποσοστό 20% σε περίπτωση που η πώληση πραγματοποιείται εντός τριών (3) μηνών ,από την ημερομηνία απόκτησης των μετοχών και
- σε ποσοστό 10% σε περίπτωση που η πώληση πραγματοποιείται εντός διαστήματος που υπερβαίνει τους τρεις (3) και εκτείνεται έως τους δώδεκα (12) μήνες από την ημερομηνία απόκτησης των μετοχών.

Το ως άνω ποσό του παρακρατούμενου φόρου δεν εξαντλεί τη φορολογική υποχρέωση του συμμετέχοντος εργαζόμενου για το εν λόγω εισόδημα, το οποίο είναι φορολογητέο κατά τις γενικές διατάξεις με έκπτωση του παρακρατούμενου φόρου. Προς το σκοπό υπολογισμού της βάσης υπολογισμού του φόρου, ως τιμή απόκτησης νοείται η αγοραία αξία των μετοχών τη στιγμή της απόκτησης.Αυτός ο οφειλόμενος φόρος θα πρέπει να διαβιβαστεί στην αρμόδια φορολογική υπηρεσία εντός του πρώτου δεκαπενθημέρου των μηνών Απριλίου, Ιουλίου, Οκτωβρίου και Ιανουαρίου για πωλήσεις μετοχών που πραγματοποιήθηκαν εντός του αμέσως προηγούμενου τριμήνου. Σημειώνουμε ότι τυχόν ζημίες που πραγματοποιήθηκαν εντός του ως άνω τριμήνου συμψηφίζονται με τα αντίστοιχα κέρδη. Σε περίπτωση που η πώληση πραγματοποιείται μετά τη παρέλευση δώδεκα μηνών από την απόκτηση των μετοχών κάθε κεφαλαιακό κέρδος εξαιρείται του φόρου.

Τα μερίσματα που προκύπτουν από τις μετοχές της J&J και τα οποία διανέμονται βάσει του ισολογισμού σε ημερομηνία προγενέστερη της 31.12.2010 υπόκεινται σε παρακράτηση φόρου 10%, με την οποία εξαντλείται η φορολογική υποχρέωση του συμμετέχοντα για τα εν λόγω εισοδήματα. Τα μερίσματα που προκύπτουν από τις μετοχές της J&J και τα οποία διανέμονται βάσει του ισολογισμού με ημερομηνία 31.12.2010 ή μεταγενέστερη αυτής δεν υπόκεινται σε παρακράτηση φόρου, αλλά φορολογούνται σύμφωνα με τις γενικές διατάξεις με ποσοστό 45%..

Συνιστούμε στους συμμετέχοντες που πληρούν τις προϋποθέσεις να απευθυνθούν σε φοροτεχνικό σύμβουλο.

(ii) Θέματα κοινωνικής ασφάλισης

Το ποσό της εισφοράς αποτελεί ποσοστό του ακαθάριστου εισοδήματος του εργαζομένου. Ο εργοδότης παρακρατά την εισφορά του εργαζομένου κατά την πληρωμή του μισθού στον εργαζόμενο και το άθροισμα των κρατήσεων καταβάλλεται στο ταμείο κοινωνικής ασφάλισης μαζί με την εργοδοτική εισφορά εντός της προθεσμίας που ορίζεται από τη νομοθεσία. Επί πλέον των παραπάνω, οι εισφορές κοινωνικής ασφάλισης ισχύουν για μηνιαίο ακαθάριστο εισόδημα από εξαρτημένη εργασία έως ένα ανώτατο όριο. Δεν απαιτείται καμία εισφορά για οποιαδήποτε αμοιβή που υπερβαίνει το ανώτατο όριο. Το μηνιαίο ανώτατο όριο για τις εισφορές στον κύριο φορέα κοινωνικής ασφάλισης (ΙΚΑ) είναι 2.432,25 ευρώ για εργαζομένους που εγγράφηκαν σε κάποιον φορέα κοινωνικής ασφάλισης πριν από την 1η Ιανουαρίου 1993 και 5.543,55 ευρώ για τους υπόλοιπους εργαζομένους. Οι εκπατρισμένοι εργαζόμενοι που ασφαλίστηκαν στο εξωτερικό πριν από εκείνη την ημερομηνία μπορούν να αιτηθούν την υπαγωγή τους σε αυτό το ανώτατο όριο εάν βρίσκονται σε χώρα της ΕΕ ή σε άλλη χώρα με την οποία η Ελλάδα έχει συνάψει διμερή συμφωνία περί της κοινωνικής ασφάλισης. Επιπλέον, οι έμμισθοι εκπατρισμένοι στην ΕΕ μπορούν να εξαιρεθούν από οποιαδήποτε εισφορά στην Ελλάδα εφόσον παράσχουν τα απαραίτητα έγγραφα (έντυπο Ε101).



Ο βασικός συντελεστής εισφορών κοινωνικής ασφάλισης (ΙΚΑ-TEAM) ως ποσοστό του μηνιαίου ακαθάριστου μισθού και αποδοχών είναι 44,06% (16,00% πληρωτέο από τον εργαζόμενο και 28,06% πληρωτέο από τον εργοδότη).

Σύμφωνα με τη νομική θεωρία, οι εισφορές κοινωνικής ασφάλισης πρέπει να παρακρατώνται μόνο από το προσφερόμενο ποσό και, επομένως, να πληρώνονται από τον εργοδότη (όχι από το ποσό που πληρώνει ο εργαζόμενος).

### 10.2.3 Παράδειγμα

(i) Υποθέσεις

- Φορολόγηση κατοίκων Ελλάδας
- Τακτικό εισόδημα 80.000 ευρώ
- Πρόσθετη αμοιβή 6.000 ευρώ ή χορήγηση 100 μετοχών με τιμή 60 ευρώ ανά μερίδιο. Επιβεβαιώνουμε την ορθότητα του παραδείγματος, υπό την προϋπόθεση ότι τα 60 ευρώ ανά μερίδιο αποτελούν την αξία του κέρδους που ο συμμετέχων αποκτά από κάθε μερίδιο.

(ii) Αποτέλεσμα

	Πρόσθετη αμοιβή σε μετρητά	Αμοιβή σε μερίδια (100 μερίδια x € 60)
<b>Αξία πρόσθετης αμοιβής / μετοχών</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Μείον: εισφορά κοινωνικής ασφάλισης	- € 0	- € 0
Μείον: φόρος εισοδήματος	- € <u>2.400</u>	- € <u>2.400</u>
<b>Καθαρή πρόσθετη αμοιβή</b>	<b>€ <u>3.600</u></b>	<b>€ <u>3.600</u></b>

(\*) δεν καταβάλλονται εισφορές κοινωνικής ασφάλισης, καθώς το φυσιολογικό ανώτατο όριο έχει ήδη επιτευχθεί

(\*\*) ο φορολογικός συντελεστής 40% αφορά συνολικό εισόδημα από 60.000 έως 75.000 ευρώ.

## 11 Hungary

### 11.1 Tax analysis : Bonus Plan

#### 11.1.1 Tax and social security treatment of cash payments

##### (i) Tax treatment

The cash amount received by the eligible participant will be taxable at the time when the cash payment is transferred to the individual. This income is considered as **employment income and accordingly is subject to personal income tax at the marginal rate up to 32%**. Nevertheless, as a result of the applicable gross-up mechanisms, the effective tax rate will be 40.64% in the highest bracket. Please note that the 32% personal income tax rate is applicable only if the individual's annual income falling into the consolidated tax base exceeds HUF 5,000,000 (approx. EUR 18,500) in 2010.

Since the cash amount is granted directly by J&J or a foreign (non-Hungarian) entity of the J&J group and not by a Hungarian "disburser", the taxable income recognised by the participants equals to 78% of the cash amount provided to the participants. By contrast, if the local employer, on the basis of an agreement to be concluded with the participants, assumes the payable employer social security contribution (please refer to point (b) below) or it is reimbursed to the participants in any other way, the taxable income equals to the total cash amount provided to the participants.

As the payment would be made directly by J&J or a foreign (non-Hungarian) entity of the J&J group, the employees shall be liable to pay quarterly advance tax by the 12<sup>th</sup> of the month following the relevant quarter and report the liability in their annual personal income tax return until 20 May of the following year.

##### (ii) Social security treatment

**The cash payment will be subject to employee and employer social security contributions.**

The employee contributions amount to 17% including 9,5% pension fund contribution and 7,5% health care and employment contribution. Since the pension fund contribution payable by the participant is capped at HUF 7,453,300 (approximately EUR 27,600) in 2010, only 7,5% health care and employment contribution should be paid on the excess portion of the income recognised.

In addition, the participant would also have to pay the 27 %social security contribution<sup>26</sup> on the gross income to be recognised by the participant provided that the local employer would not assume, on the basis of an agreement concluded with the participant, the payment of the employer social security contribution from the participant.

As the cash amount is granted directly by J&J or a foreign (non-Hungarian) entity of the J&J group and not by a Hungarian "disburser", the participant must pay the employee and employer social security contributions<sup>27</sup> to the Hungarian tax authority by the 12<sup>th</sup> of the month following the month when the taxable income was

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<sup>26</sup> The 27% employer social security contribution consists of 3% healthcare and employment contribution and 24% pension fund contribution.

<sup>27</sup> The local employer must pay the employer social security contribution to the tax authority if it is assumed by the local employer from the participant.

recognised.. The employees are liable to report their social security liabilities in their annual personal income tax return to be submitted by 20 May of the subsequent year.

#### 11.1.2 Tax and social security treatment of attribution of shares

##### (i) Tax treatment

**The shares granted to the eligible participant will be subject to personal income tax** on the fair market value of the shares as they are granted free of charge to the participants (taxable income). If, however, the individual has not acquired full ownership rights, the income will be deemed to be received only once any of the ownership rights (e.g. right to dividend) has been acquired.

As the shares are provided with regard to the Hungarian employment relationship of the participant, the taxable income will be considered as employment income. This income is taxable at progressive rates up to 32%. Nevertheless, as a result of the applicable gross-up mechanisms, the effective tax rate will be 40.64% in the highest bracket. Please note that the 32% personal income tax rate is applicable only if the individual's annual income exceeds HUF 5,000,000 (approximately EUR 18,500) in 2010.

Since the shares are granted directly by J&J or a foreign (non-Hungarian) entity of the J&J group and not by a Hungarian "disburser", the taxable income recognised by the participants equals to 78% of the fair market value of the shares at the date of vesting. By contrast, if the local employer, on the basis of an agreement to be concluded with the participants, assumes the payable employer social security contribution (please refer to point (b) below) or it is reimbursed to the participants in any other way, the taxable income equals to the fair market value of the shares at the date of vesting.

As the shares are provided directly by J&J or a foreign (non-Hungarian) entity of the J&J group and not by a Hungarian "disburser" to the employees, tax payment is implemented in the form of advance tax payments due by the employee on a quarterly basis. The payment of 'advance tax' should be made by the 12<sup>th</sup> day of the month following the quarter in which the taxable income is recognised on the shares provided.

The Hungarian employer has no reporting obligation and the annual salary slip of the eligible participant should not include the taxable income recognised from the shares provided.

The Hungarian employer cannot submit the employees' Hungarian annual personal income tax return to the Hungarian tax authorities on behalf of the employees. The employee is liable to file an annual personal income tax return through self-assessment reporting his taxable income and paying the respective tax by 20 May of the subsequent year.

Capital gains arising from the subsequent sale of the shares are subject to personal income tax. If the capital gains are deriving from a controlled equity market transaction ("**Controlled Transaction**"), the gains are taxable at the rate of 20%. Since the J&J shares are listed at the US Stock Exchange the sale of the shares at this equity market will likely qualify as a Controlled Transaction and will be subject to tax at the rate of 20%.

Please note that losses deriving from any other Controlled Transaction can set off the capital gain which might be recognised by the participants upon the sale of the shares

(current year losses and carried forward losses may also qualify within the applicable 2-year loss carry forward period).

However, if the shares are sold in any other way which will not qualify as a Controlled Transaction, capital gains recognised are taxed at the rate of 25% and a health tax charge of 14% (capped at HUF 450,000 approximately EUR 1,700) must be paid by the participant as well.

**Dividends derived from J&J shares are taxed at a flat rate of 25%.**

Our correspondent encourages the eligible participants to seek personal tax advice in the event of the planned sale of the shares.

(ii) Social security treatment

**The taxable income recognised from the receipt of the shares will be subject to employee and employer social security contributions.**

The employee social security contributions amount to 17% including 9,5 % pension fund contribution and 7,5% health care and employment contribution. Since the pension fund contribution payable by the employee is capped at HUF 7,453,300 (approximately EUR 27,600) in 2010, only 7,5% health care and employment contribution should be paid on the excess portion of the income recognised.

In addition, the participant would also have to pay the 27 % social security contribution<sup>28</sup> on the gross income to be recognised by the participant provided that the local employer would not assume, on the basis of an agreement concluded with the participant, the payment of the employer social security contribution from the participant.

As the shares are awarded by a foreign (non-Hungarian) entity of the J&J group, but with regard to the Hungarian employment relationship of the participant, the individual will be obliged to settle the 17% employee's social security contributions to the authorities by the 12<sup>th</sup> of the month following the month in which the income was recognised, together with the employer's social security contributions at the rate of 27%. The payment obligation of the 27% employer's social security contribution might be assumed by the Hungarian employer based on an agreement concluded with the employee without creating any further tax and social security liabilities for the participants.

The employees are liable to report their social security liabilities in their annual personal income tax return to be submitted by 20 May of the subsequent year.

As far as possible dividend income is concerned, 14% health tax charge<sup>29</sup> will also be payable by the employees.

### 11.1.3 Example

(i) Assumptions

- The relevant year is 2010
- Hungarian resident taxation
- Regular income of EUR 80,000

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<sup>28</sup> The 27% employer social security contribution consists of 3% healthcare and employment contribution and 24% pension fund contribution.

<sup>29</sup> Capped at HUF 450,000 (approximately EUR 1,700) per calendar year

- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
<b>Value of bonus / shares</b>	<b>EUR 6,000</b>	<b>EUR 6,000</b>
Less : employee social security (17%)	- € 1,020	- € 1,020
Less : employer social security (if payable by the employee; 27%)	- € 1,620	- € 1,620
Less : income tax (*)	- € 2,438	- € 2,438
<b>Net bonus</b>	<b>€ 922</b>	<b>€ 922</b>

(\*) - 40.64% effective tax rate is assumed

- social security is not tax deductible

## 12 Ireland

### 12.1 Tax analysis : Bonus Plan

#### 12.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as with a normal salary payment. Progressive income tax rates of up to 41% will apply. The cash amount will also be liable to an income levy at progressive rates depending on the aggregate level of income received during the relevant tax year. The applicable rates of income levy for income earned in 2010 are as follows:

Annual Earnings	Income Levy Rate
First € 75,036	2%
€ 75,037 to € 174,980	4%
in excess of € 174,980	6%

The employer must report the cash payment as part of its normal payroll reporting obligations, including reporting it on the annual P35 return.

The employer of the eligible participant must withhold income tax and the income levy payable in respect of the cash payment, through the PAYE system, thereby paying the income tax due by the eligible participant.

(ii) Social security treatment

The cash payment will be subject to employee social security contributions. Income up to a certain limit (for 2010 the limit is EUR 75,037) is subject to both pay related social insurance (PRSI) contributions (currently 4%) and a health contribution levy (currently 4% on income up to EUR 75,037 per annum and 5% on income above EUR 75,037 per annum). Income in excess of EUR 75,037 is subject to the health contribution levy only. The employer of the eligible participant must withhold the employee social security contributions when the cash payment is made.

#### 12.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

Where the employer grants free shares to an eligible participant the value of the shares awarded will be assessable to income tax, however the normal PAYE system will not apply (i.e., tax would not be withheld by the employer in respect of tax arising on the grant of the shares). Instead the employee must account for any tax due in respect of the benefit and report the benefit under the self-assessment system. The income tax is generally payable by the employee on the filing date for submission of tax returns (currently 31st October following the relevant tax year when the shares were granted). However, the participant should take account of this income when considering his preliminary income tax obligations (such obligations to be fulfilled on or before 31 October during the relevant tax year when the shares were granted). Progressive income tax rates up to 41% will apply. An amount equal to the value of the shares will also be liable to an income levy at progressive rates depending on the individual's aggregate level of income during the relevant tax year in which the shares are awarded (the applicable rates are as outlined in paragraph (i) of 12.1.1).

The taxable amount is equal to the fair market value of the J&J shares granted at the date of the award.

Upon sale of the shares, capital gains tax will be due on an amount equal to the sale proceeds (net of any costs of sale) less the fair market value of the shares at the date of award. The capital gain is currently taxed at a flat rate, currently 25%. The first EUR 1,270 of gains realised in the tax year is exempt from capital gains tax. The eligible participant must pay any capital gains tax due to the Collector General by 15 December during the tax year where the share sale takes place in the period from 1 January to 30 November. Where the share sale takes place in the period from 1 December to 31 December, the capital gains tax must be paid by the following 31 January. The eligible participant must report the share sale on his annual tax return by 31 October following the end of the tax year in which the shares are disposed.

The local employer is required to report the grant of free shares to Irish Revenue Commissioners on a Form RSS1. This form should be submitted to the Irish Revenue Commissioners by March 31 in the year of assessment following the grant of the free shares.

Dividends derived from J&J shares are subject to income tax at the normal progressive income tax rates, and must be reported by the eligible participant in his annual tax return by 31 October following the end of the tax year in which dividends are received. Dividends received will also be liable to an income levy at progressive rates depending on the individual's aggregate level of income during the relevant tax year in which the dividends are received (the applicable rates are as outlined in paragraph (i) of 12.1.1). The income tax is generally payable by the employee on the filing date for submission of tax returns (currently 31 October following the relevant tax year when the shares were awarded). However, the participant should take account of this income when considering his preliminary income tax obligations (such obligations to be fulfilled on or before 31 October during the relevant tax year when the dividends are received). To the extent that any foreign withholding taxes are suffered, a credit should be available in computing the amount of Irish income tax payable.

Our correspondent encourages the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

Taxable benefits are normally subject to Irish employee and employer social security contributions. However, certain share based benefits (including the free shares) are not liable to employee and employer PRSI.

### 12.1.3 Example

(i) Assumptions

- Irish resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less: Income levy (*)	- € 180	- € 180
Less: social security		
- PRSI (**)	- € 0	- € 0
- Health contribution levy(***)	- € 300	- € 0
Less: income tax (****)	- € 2,460	- € 2,460
<b>Net bonus</b>	<b>€ 3,060</b>	<b>€ 3,360</b>

(\*) For 2010, the individual will be liable to an income levy of 2% on his first EUR 75,036 of earnings, and the balance will be liable at a rate of 4%. Therefore, an income levy of 4% has been applied to the cash bonus and share award

(\*\*) No PRSI contributions due, as normal threshold has already been reached

(\*\*\*) Health levy due, highest rate of 5% applies because threshold of EUR 75,036 is exceeded

(\*\*\*\*) Highest tax rate reached (41%)



## 13 Italy

### 13.1 Tax analysis: Bonus Plan

#### 13.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, at the time of payment, as employment income, with the application of the progressive individual income tax rate up to 43%, to be increased with regional tax up to 1.4% and municipal tax up to 0.8%, to be determined on the basis of the tax domicile of the eligible participant.

The employer of the eligible participant will withhold salary tax on the cash payment, which will be collected through the monthly payroll administration. The salary tax withheld is fully creditable against the income tax due by the eligible participant and excess (if any) of the income tax withheld over the income tax due may be also reimbursed directly by the employer to the eligible participant.

(ii) Social security treatment

The cash payment will be subject to social security contributions. Social security contributions may amount up to approximately 36% to 46% to be entirely withheld by the employer, approximately 9/10% (depending on the sector in which the employing company is classified for social security purposes) of which shall be borne by the employee. The employer of the eligible participant will withhold these employee social security contributions through payroll.

#### 13.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant for no consideration will be taxable, at the time of assignment (i.e. acquisition of the shares for no consideration), as **employment income** with the application of the progressive individual income tax rate up to 43%, to be increased with regional tax up to 1.4% and municipal tax up to 0.8%, to be determined on the basis of the place of residence of the eligible participant.

The taxable amount is equal to the “normal value” of the J&J shares at the date of assignment. The “normal value” of listed shares corresponds to the arithmetic average of the actual prices in the month prior to the assignment (i.e. the period going from the date of assignment back to the same day of the previous month). The employer of the eligible participant will ordinarily withhold salary tax, which will be collected through the monthly payroll administration. Given that the income is in kind, the employer will withhold salary tax on other payments in cash due to the eligible participant; however, if such payments are lower than the amount to be withheld, the difference must be provided to the employer directly by the eligible participant. The salary tax withheld is fully creditable against the income tax due by the eligible participant and excess of the income tax withheld over the income tax due (if any) may be also reimbursed directly by the employer to the eligible participant.

Capital gains realised upon the disposal of the J&J shares, calculated as the difference between the sale price and the value already taxed upon the assignment of the shares, will be taxed at a 12.5% tax rate if the participation represents voting rights at the ordinary shareholders’ meeting not higher than 2% and a shareholding

not higher than 5% of the issued share capital. Capital gains tax can be applied under one of the three ordinarily available regimes for the taxation of capital gains (i.e., the tax return regime, the administrative savings regime or the managed savings regime).

**Dividends derived from J&J shares are taxed at 12.50% (for non-qualified shareholding, i.e. if the beneficiary has a participation in a listed company representing voting rights at the ordinary shareholders' meeting not higher than 2% and a shareholding not higher than 5% of the issued share capital). The 12.50% withholding tax applies on dividends net of foreign withholding taxes applied at source, if any.**

At the end of each tax period, the eligible participant should report on his/her income tax return the amount of investments held abroad, including the shares, if the overall value of such investments exceeds the threshold of EUR 10,000.00. Moreover, the eligible participant should report at the end of each tax period any transfers from abroad to Italy, from Italy to abroad and from abroad to abroad of sums higher than, on overall, EUR 10,000.00 affecting the investments held abroad (e.g., the receipt of the sale price of the shares). In any case, such reporting obligation does not apply if the investments are held through an Italian-based intermediary.

We would encourage the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

A quite recent circular letter issued by the Italian Social Security Authority stated that *"the social security exemption [applicable to stock options plans] applies also for those equity incentive plans which provide that the award of shares free of charge is subject to certain conditions (e.g. provision of a term for the exercise of the option; achievement of certain performance conditions; being an employee at the date of vesting of the option, etc.)"*.

The Italian Social Security Authority has further clarified on 12 October 2010 that the presence of even just one of the conditions listed above is sufficient for equity incentive plans to qualify for the social security exemption.

In light of the above, the assignment of J&J shares will not be subject to social security contributions, provided that at least one of the above mentioned conditions is satisfied.

### 13.1.3 Example

(i) Assumptions

- Italian resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 569.40	- € 569.40

	Cash bonus	Share award (100 shares x € 60)
Less : income tax		
- state tax (**)	- € 2,335.16	- € 2,335.16
	-	-
- regional and municipal tax (2.2%)	- € 119.47	- € 119.47
<b>Net bonus</b>	<b>€ 2,975.97</b>	<b>€ 2,975.97</b>

(\*) assuming social security rate of 9.49%, applicable in several sectors

(\*\*) - 43% tax is applicable on earnings above EUR 75,000

- social security is tax deductible

## 13.2 Traduzione dell'analisi fiscale: Bonus Plan

### 13.2.1 Trattamento fiscale e previdenziale dei pagamenti in contanti

#### (i) Trattamento fiscale

L'importo in contanti ricevuto dal partecipante sarà tassato al momento del pagamento, come **reddito di lavoro dipendente**, con applicazione della tassazione progressiva con aliquota massima fino al 43%, a cui si aggiungono l'addizionale regionale, applicata con aliquota massima dell'1,4%, e l'addizionale municipale, applicata con aliquota massima dello 0,8%, da determinarsi in base al domicilio fiscale del partecipante.

Il datore di lavoro del partecipante effettuerà una ritenuta sul pagamento, che sarà ordinariamente prelevata dall'ufficio paghe. La ritenuta sullo stipendio è totalmente detraibile dall'imposta sul reddito dovuta dal partecipante, e le eventuali somme trattenute in eccesso dal datore di lavoro saranno restituite.

#### (ii) Trattamento previdenziale

Il pagamento in contanti sarà soggetto ai contributi previdenziali. I contributi previdenziali possono ammontare da circa il 36% a circa il 46%, dei quali circa il 9/10% (dipende dal settore in cui il datore di lavoro è classificato ai fini dei contributi previdenziali) sono a carico del lavoratore. Il datore di lavoro del partecipante eleggibile tratterà i contributi previdenziali del dipendente in busta paga.

### 13.2.2 Trattamento fiscale e previdenziale dell'attribuzione di azioni

#### (i) Trattamento fiscale

Le azioni attribuite gratuitamente al partecipante saranno tassate al momento dell'attribuzione (i.e. dell'acquisizione delle stesse a titolo gratuito) come **reddito di lavoro dipendente**, con applicazione della tassazione progressiva con aliquota massima fino al 43%, a cui si aggiungono l'addizionale regionale, applicata con aliquota massima dell'1,4%, e l'addizionale municipale, applicata con aliquota massima dello 0,8%, da determinarsi in base al domicilio fiscale del partecipante.

L'importo tassabile è uguale al "valore normale" delle azioni alla data dell'acquisizione. Il "valore normale" delle azioni quotate corrisponde alla media aritmetica dei prezzi delle azioni rilevati nel mese precedente l'assegnazione (ossia nel periodo intercorrente tra il giorno di assegnazione e lo stesso giorno del mese precedente).

Il datore di lavoro effettuerà una ritenuta sull'importo tassabile, che sarà ordinariamente prelevata dall'ufficio paghe. Trattandosi di un corrispettivo in natura, il datore di lavoro dedurrà tale imposta dagli altri pagamenti in denaro dovuti al partecipante; ad ogni modo, se tali pagamenti sono inferiori all'ammontare della ritenuta, il partecipante dovrà fornire al datore di lavoro le somme necessarie ad assolvere la ritenuta. La ritenuta sullo stipendio è totalmente detraibile dall'imposta sul reddito dovuta dal partecipante, e le eventuali somme trattenute in eccesso dal datore di lavoro saranno restituite.

Alla vendita delle azioni, la plusvalenza, determinata in misura pari alla differenza tra il prezzo di vendita e il valore assoggettato a tassazione al momento dell'assegnazione, è tassata con aliquota del 12,5% qualora si tratti di cessione di partecipazioni non qualificate, che rappresentino una percentuale di diritti di voto esercitabili nell'assemblea ordinaria non superiore al 2% e una partecipazione al capitale o al patrimonio non superiore al 5%. L'imposta sulla plusvalenza può essere assolta tramite uno dei tre regimi fiscali previsti per la tassazione dei redditi finanziari (i.e. regime della dichiarazione, del risparmio amministrato, del risparmio gestito).

**I dividendi derivanti dalle azioni J&J sono tassati al 12,50% (a condizione che si tratti di partecipazioni non qualificate, i.e. partecipazioni che rappresentano una percentuale di diritti di voto esercitabili nell'assemblea ordinaria non superiore al 2% e una partecipazione al capitale o al patrimonio non superiore al 5%). L'aliquota del 12,50% si applica sull'ammontare del dividendo al netto di eventuali imposte applicate all'estero.**

**Il partecipante è tenuto ad indicare nella propria dichiarazione dei redditi annuale l'ammontare degli investimenti detenuti all'estero, incluse le azioni, se l'ammontare complessivo supera l'importo di Euro 10.000,00. Inoltre il partecipante è tenuto a dichiarare al termine di ciascun periodo d'imposta i trasferimenti dall'estero all'Italia, dall'Italia all'estero e tra paesi esteri, di ammontare complessivamente superiore ad Euro 10.000,00, relativi agli investimenti detenuti all'estero (ad esempio, le somme percepite a titolo di corrispettivo per la cessione delle azioni). In ogni caso, tali obblighi non si applicano nel caso in cui le azioni siano detenute per il tramite di intermediari residenti in Italia.**

I partecipanti sono invitati a richiedere una consulenza fiscale personalizzata in caso di cessione delle azioni.

(ii) **Trattamento previdenziale**

Una recente circolare emanata dall'Istituto Nazionale della Previdenza Sociale nel dicembre 2009 ha stabilito che *"il regime di esenzione contributiva [applicabile ai redditi derivanti dall'esercizio di piani di stock option] trovi applicazione anche per i piani azionari non generalizzati che prevedano, previo rispetto di determinate condizioni (es. previsione di un termine per l'esercizio dell'opzione; raggiungimento di determinati livelli di performance aziendale; essere alle dipendenze della società al momento dell'esercizio dell'opzione ecc.), l'assegnazione a titolo gratuito delle azioni."*

Il 12 ottobre 2010 l'Istituto Nazionale della Previdenza Sociale ha inoltre chiarito che la presenza anche di una sola delle condizioni elencate sopra è sufficiente perché trovi applicazione il regime di esenzione contributiva ad un determinato piano azionario di incentivazione.

Alla luce di quanto sopra, l'attribuzione di azioni J&J non sarà soggetta ai contributi previdenziali, purchè almeno una delle condizioni sopra menzionate sia soddisfatta.

### 13.2.3 Esempio

(i) Ipotesi

- Tassazione di una persona residente ai fini fiscali in Italia
- Reddito base di EUR 80.000
- Pagamento di un bonus per EUR 6.000 o attribuzione di 100 azioni per un valore di EUR 60/azione

(ii) Esempificazione

	<b>Bonus in contanti</b>	<b>Attribuzione azioni (100 azioni x €60)</b>
<b>Valore del bonus/azione</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Meno: previdenza sociale (*)	- € 569,40	- € 569,40
Meno: imposta sul reddito		
- imposta statale (**)	- € 2.335,16	- € 2.335,16
- imposta regionale e municipale (2,2%)	- € 119,47	- € 119,47
<b>Bonus netto</b>	<b>€ 2.975,97</b>	<b>€ 2.975,97</b>

(\*) assumendo la percentuale di contribuzione del partecipante ai fini della previdenza sociale del 9,49%, percentuale che trova applicazione in diversi settori

(\*\*) - l'imposta sul reddito con aliquota del 43% è applicabile ai redditi eccedenti EUR 75.000

- i contributi previdenziali sono deducibili dal reddito

## 14 Latvia

### 14.1 Tax analysis : Bonus Plan

When reviewing the documents our correspondent has assumed that the benefits were granted by the parent company and not directly by the employer. However in order to cover both possible scenarios in the documents, our correspondent has shown all possible tax consequences.

#### 14.1.1 Tax and social security treatment of cash payments

##### (i) Tax treatment

If the cash bonus is granted by the parent company of the employer, it should be noted that it could be considered as income equal to a gift granted by company registered in Latvia and thus subject to personal income tax at rate of 26%. It would be the employee's responsibility to report the income in his/her annual tax return to be filed by April 1 of the following year and pay any tax liability due within 15 days of filing the tax return.

If the cash bonus is granted by the employer of the eligible participant then the employer will withhold salary tax on the cash payment. The salary tax withheld is fully creditable with the personal income tax due by the eligible participant. The employer will also report the cash payment on the notice of payroll tax of the eligible participant.

##### (ii) Social security treatment

The cash payment will be subject to employee social security contributions if the said bonus is granted by the employer. The employer of the eligible participant will withhold these employee social security contributions at the rate of 9%.

#### 14.1.2 Tax and social security treatment of attribution of shares

##### (i) Tax treatment

In case shares are offered by sale at a discounted price as part of an employee share offer, the discount is to be treated as taxable income by an employee subscribing to the offer. The value of the benefit received (the difference between the market value of the subscribed shares and the amount paid for the shares) would be treated as income received by employee, subject to 26% personal income tax. It would be the responsibility of the employee to report the income in his/her annual tax return to be filed by April 1 of the following year and pay any tax liability due within 15 days of filing the tax return.

The shares granted to the eligible participant by employer will be subject to personal income tax upon the moment of delivery at the flat tax rate of 26%.

The taxable amount is equal to the stock price of the J&J shares granted upon the date of delivery of these shares.

The employer of the eligible participant will withhold salary tax which will be fully creditable with the personal income tax due by the eligible participant. The employer will also report the taxable amount on the notice of payroll tax of the eligible participant.

A sale of shares conducted by a private person – a resident of Latvia – will have tax consequences. In accordance with the tax law of Latvia, a sale of shares is considered to be an alienation of capital assets and taxable under the personal income tax at the rate of 15%. The taxable value is determined as the difference

between the sale price of the shares and acquisition value thereof. The employee is responsible for declaration of his/her income until the 15<sup>th</sup> day of the month following that month when the income is gained; or if the income is less than 500 lats per month, the income shall be declared once in a quarter until the 15<sup>th</sup> day of the month following that quarter when the income is gained.

Dividends received by a private person – a resident of Latvia - shall be included in the annual taxable income of the recipient and the personal income tax will be due at the rate of 10%. Our correspondent encourages the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

If the shares are granted by employer the said income will be subject to employee social security contributions.

### 14.1.3 Example

(i) Assumptions

- Latvian resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 540	- € 540 (***)
Less : income tax (**)	- € 1,419.60	- € 1,419.60
<b>Net bonus</b>	<b>€ 4,040.40</b>	<b>€ 4,040.40</b>

(\*) social security contributions are made at rate of 9%

(\*\*) flat tax rate of 26%

(\*\*\*) as the social security cannot be withheld from the issuance of shares, the employer will be liable for the payment of the tax

## 14.2 Translated tax analysis: Bonus Plan

Izskatot dokumentus, pieņemām, ka labumu piešķir mātes sabiedrība, nevis tiešais darba devējs. Taču, lai apskatītu abus iespējamus scenārijus dokumentos saistībā ar šo jautājumu, aprakstījām visas iespējamās nodokļu sekas.

### 14.2.1 Nodokļu un sociālās apdrošināšanas režīms – naudas prēmijas.

(i) Nodokļu režīms.

Ja darba devēja mātes sabiedrība piešķir naudas prēmijas, jāņem vērā, ka šāds ienākums var tikt pielīdzināts dāvinājumam, ko piešķir Latvijā reģistrēta sabiedrība un kas attiecīgi tiek aplikts ar iedzīvotāja ienākuma nodokli 26% apmērā. Darbinieks būtu individuāli atbildīgs par ienākuma uzrādīšanu savā gada nodokļu deklarācijā, kas iesniedzama līdz nākošā gada 1.aprīlim, un par jebkādām nodokļu saistībām, kuru

apmaksas termiņš iestājas 15 dienu laikā no nodokļu deklarācijas iesniegšanas dienas.

Ja darba devējs piešķir naudas prēmiju tiesīgajam dalībniekam, darba devējs no šīs summas ietur algas nodokli. Ieturētais algas nodoklis pilnībā atbilst tiesīgā dalībnieka maksājamam iedzīvotāja ienākuma nodoklim. Darba devējs tāpat norādīs šo naudas prēmiju tiesīgā dalībnieka algas nodokļa izziņā.

(ii) Sociālās apdrošināšanas režīms.

No naudas prēmijas būs jāveic darbinieka sociālās apdrošināšanas iemaksas, ja šo prēmiju piešķir darba devējs. Tiesīgā dalībnieka darba devējs ieturēs šādas darbinieka sociālās apdrošināšanas iemaksas ar likmi 9% apmērā.

#### 14.2.2 Nodokļu un sociālās apdrošināšanas režīms – akciju piešķirums.

(i) Nodokļu režīms.

Gadījumā, ja akcijas tiek piedāvātas pārdošanā par pazeminātu cenu, kā daļa no darbinieku akciju piedāvājuma, šāda atlaide uzskatāma par darbinieka, kas parakstās uz piedāvājumu, ar nodokli apliekamo ienākumu. Iegūtā labuma vērtība (starpība starp parakstīto akciju tirgus vērtību un summu, kas samaksāta par akcijām) tiktu uzskatīta par darbinieka gūto ienākumu, kas apliekams ar iedzīvotāja ienākuma nodokli 26% apmērā. Darbinieks būtu atbildīgs par ienākuma uzrādīšanu savā gada nodokļu deklarācijā, kas iesniedzama līdz nākošā gada 1.aprīlim, un par jebkādam nodokļu saistībām, kuru apmaksas termiņš iestājas 15 dienu laikā no nodokļu deklarācijas iesniegšanas dienas.

Akcijas, kuras darba devējs piešķir tiesīgajam dalībniekam, tiks apliktas ar iedzīvotāja ienākuma nodokli, to nodošanas brīdī ar nodokļa pamatlikmi 26% apmērā.

Ar nodokli apliekamā summa ir vienāda ar J&J piešķirto akciju tirgus cenu šādu akciju nodošanas dienā.

Tiesīgā dalībnieka darba devējs ieturēs algas nodokli, kas pilnībā atbilst tiesīgā dalībnieka maksājamam iedzīvotāja ienākuma nodoklim. Darba devējs tāpat norādīs ar nodokli apliekamo summu tiesīgā dalībnieka algas nodokļa izziņā.

Privātpersonas, Latvijas rezidenta, īstenotai kapitāla daļu pārdošanai būs nodokļu sekas. Saskaņā ar Latvijas nodokļu likumdošanu kapitāla daļu pārdošana tiek uzskatīta par kapitāla aktīvu atsavināšanu, un tai ir piemērojams iedzīvotāju ienākuma nodoklis 15% apmērā. Ar nodokli apliekamā vērtība tiek noteikta kā starpība starp kapitāla daļu pārdošanas cenu un to iegādes cenu. Darbiniekam ir pienākums deklarēt savus ienākumus līdz nākamā mēneša 15. datumam, kas seko mēnesim, kad gūti ienākumi; vai arī, ja ienākumi ir mazāki nekā 500 lati mēnesī, ienākumi ir jādeklarē vienu reizi ceturksnī, līdz nākamā ceturkšņa pirmā mēneša 15. datumam pēc ceturkšņa, kad gūti ienākumi.

Privātpersonas, Latvijas rezidenta, saņemtas dividendes tiek iekļautas saņēmēja ar nodokli apliekamajos gada ienākumos, un par tām maksājams iedzīvotāju ienākuma nodoklis 10% apmērā. Mūsu korespondents iesaka tiesīgajiem dalībniekiem vērsties pēc padoma iedzīvotāja ienākuma nodokļa jautājumos, gadījumā, ja tiek plānots pārdot akcijas.

(ii) Sociālās apdrošināšanas režīms.

Ja darba devējs piešķir akcijas, šādam ienākumam piemērojamas darbinieka sociālās apdrošināšanas iemaksas.



### 14.2.3 Piemērs

(i) Pieņēmumi

- Latvijas iedzīvotāju aplikšana ar nodokli
- Pamata ienākums EUR 80 000 apmērā
- Prēmijas izmaksas EUR 6 000 apmērā vai akciju piešķirums - 100 akcijas ar katras akcijas vērtību EUR 60 apmērā

(ii) Rezultāts

	<b>Naudas prēmija</b>	<b>Akciju piešķirums (100 akcijas x € 60)</b>
<b>Prēmijas/akciju vērtība</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Mīnuss : sociālā apdrošināšana (*)	- € 540	- € 540***
Mīnus : ienākuma nodoklis (**)	- € 1,419.60	- € 1,419.60
<b>Neto prēmija</b>	<b>€ 4,040.40</b>	<b>€ 4,040.40</b>

(\*) sociālās apdrošināšanas iemaksas veic pēc likmes 9%

(\*\*) nodokļa pamatlīdzme 26% apmērā

(\*\*\*) tā kā sociālās apdrošināšanas iemaksas nevar ieturēt no kapitāla daļu emisijas, darba devējs būtu atbildīgs par nodokļa maksājumiem

## 15 Lithuania

### 15.1 Tax analysis : Bonus Plan

#### 15.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as **employment income at the flat rate of 15%**.

The eligible participant, being an employee of the Lithuanian subsidiary, will be liable himself/herself for reporting and payment of personal income tax by the 1st of May of the following year, provided that cash payment is received from a group company established outside Lithuania.

(ii) Social security treatment

Cash payment will not be subject to social security contributions and health insurance contributions in Lithuania, provided that cash payment is received from a group company established outside Lithuania.

#### 15.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

Shares granted to employees either by employing company or by a group company free of charge are treated as taxable income in kind received by an employee. Income in kind is taxed as employment related income, which is subject to personal income tax (15%).

Provided that the shares to the eligible participant (an employee of the Lithuanian subsidiary) are granted by a group company established outside Lithuania, the employee will be liable himself/herself for reporting and payment of personal income tax by the 1st of May of the following year.

**At the moment of sale of the shares, a capital gains tax of 15%** will be due on the difference between the sale proceeds received and the market value of shares on the date of transfer of ownership of shares to the individual.

If shares are kept for longer than 1 year and the total J&J share ownership does not exceed 10% (or 20% if the ownership of shares is considered as joint conjuctual ownership), relief of capital gains tax can be obtained. This relief shall not apply in the event that the eligible participant sells such shares to J&J, i.e., to the issuer of the shares.

No taxes will be withheld by the employer of the eligible participant. The eligible participant is subject to the payment and reporting of taxes by the 1st of May of the following year.

**Dividends derived from J&J shares are taxed at a rate of 20% in Lithuania.**

Our correspondent encourages the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

Shares granted to employees of the Lithuanian subsidiary will not be subject to social security contributions and health insurance contributions in Lithuania, provided that the shares are granted by a group company established outside Lithuania.

### 15.1.3 Example

(i) Assumptions

- Lithuanian resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus (*)	Share award (100 shares x € 60) (*)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security		
Less : health insurance		
Less : income tax	- € 900 (***)	- € 900 (***)
<b>Net bonus</b>	<b>€ 5,100</b>	<b>€ 5,100</b>

(\*) assuming that cash bonus and/or share award will be granted by a group company established outside Lithuania

## 15.2 Translated tax analysis: Bonus Plan

### 15.2.1 Mokesčių ir socialinio draudimo įmokų taikymas išmokoms grynaisiais pinigais

(i) Mokesčių taikymas

Dalyvio gauta suma grynaisiais pinigais bus apmokestinta išmokėjimo metu kaip pajamos, susijusios su darbo santykiais, fiksuotu 15 % mokesčio tarifu.

Pareiga sumokėti ir deklaruoti pajamų mokestį iki kitų metų gegužės 1 d. atsiranda dalyviui (dukterinės įmonės Lietuvoje darbuotojui), darant prielaidą, kad išmoka grynaisiais pinigais yra gaunama iš užsienyje įsteigtos grupės įmonės.

(ii) Socialinio draudimo įmokų taikymas

Išmoka grynaisiais pinigais neapmokestinama socialinio draudimo ir sveikatos draudimo įmokomis Lietuvoje, darant prielaidą, kad išmoka grynaisiais pinigais yra gaunama iš užsienyje įsteigtos grupės įmonės.

### 15.2.2 Mokesčių ir socialinio draudimo įmokų taikymas paskirtosioms akcijoms

(i) Mokesčių taikymas

Nauda, kurią darbuotojas gauna, kai darbdavys ar su darbdaviu susijusi įmonė nemokamai suteikia akcijas, yra laikoma pajamomis natūra. Tokios pajamos natūra apmokestinamos kaip su darbo santykiais susijusios pajamos, t.y. taikant 15 % pajamų mokestį.

Darant prielaidą, kad premijos dalį akcijomis dalyviui (dukterinės įmonės Lietuvoje darbuotojui) suteikia užsienyje įsteigta grupės įmonė, pareiga sumokėti ir deklaruoti pajamų mokestį iki kitų metų gegužės 1 d. atsiranda dalyviui (dukterinės įmonės Lietuvoje darbuotojui).

Akcijų pardavimo metu skirtumas tarp asmens gautų akcijų pardavimo pajamų ir buvusios akcijų rinkos vertės jų nuosavybės perdavimo asmeniui dieną bus apmokestinamas 15 % pajamų mokesčio tarifu.

Jei akcijos priklauso asmeniui ilgiau nei 1 metus ir bendra nuosavybės teise jam priklausančių „J&J“ akcijų vertė neviršija 10 % (arba 20 %, jei akcijos yra bendra jungtinė sutuoktinių nuosavybė), gali būti taikomas atleidimas nuo prievolės mokėti kapitalo prieaugio mokestį. Šis atleidimas netaikomas tuo atveju, jei dalyvis parduoda akcijas „J&J“, t. y. akcijų emitentui.

Dalyvio darbdavys neišskaičiuos jokių mokesčių. Dalyvis pats privalo sumokėti ir deklaruoti pajamų mokestį iki kitų metų gegužės 1 d.

Dividendai, gauti už „J&J“ akcijas, apmokestinami 20 % tarifu.

Dalyviams patariame asmeniškai konsultuotis dėl mokesčių, jei ketinate parduoti akcijas.

(ii) Socialinio draudimo įmokų taikymas

Darant prielaidą, kad premijos dalį akcijomis dalyviui (dukterinės įmonės Lietuvoje darbuotojui) suteikia užsienyje įsteigta grupės įmonė, tokia gauta dalyvio nauda nebus apmokestinta socialinio draudimo ir sveikatos draudimo įmokomis.

### 15.2.3 Pavyzdys

(i) Prielaidos

- Lietuvos nuolatinio gyventojų mokesčiai
- Įprastos pajamos – EUR 80 000
- EUR 6 000 dydžio premijos išmoka, arba suteiktos 100 akcijų, kurių vertė – EUR 60/akciją

(ii) Rezultatas

	<b>Premija grynaisiais pinigais (*)</b>	<b>Suteiktos akcijos (100 akcijų x € 60) (*)</b>
<b>Premijos / akcijų vertė</b>	<b>€ 6 000</b>	<b>€ 6 000</b>
Išskaičiuota: socialinis draudimas		
Išskaičiuota: sveikatos draudimas		
Išskaičiuota: pajamų mokestis	- € 900 (***)	- € 900 (***)
<b>Grynoji premija</b>	<b>€ 5,100</b>	<b>€ 5,100</b>

(\*) daroma prielaida, kad premija akcijų forma bus gauta iš užsienyje registruotos grupės įmonės

## 16 The Netherlands

### 16.1 Tax analysis : Bonus Plan

#### 16.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable upon the moment of payment, as income from employment. Income from employment is subject to wage withholding tax and income tax. The wage withholding tax is a pre levy to the income tax and may be credited against income tax due (or, in certain circumstances, available for refund if it exceeds the income tax due). The income tax and wage withholding tax rate are progressive with a maximum of 52% (2010)<sup>30</sup>.

The employer of the eligible participant as a wage withholding agent, is obliged to withhold wage tax on the cash wage of the employee. The employer will also report the wage tax withheld on the annual salary slip of the eligible participant.

(ii) Social security treatment

Income from employment is also subject to employee's insurance premiums but only to the extent that the income does not exceed approximately EUR 49,000. These are calculated on the basis of the employee's gross salary and are generally payable by both the employer and the employee. The employee's insurance premiums are calculated as follows (income 2010):

- unemployment contributions: due by the employer only. The employer is obliged to pay 4.20% with a maximum of EUR 2,058 per year plus another percentage, in average 1.03% which differs from branch to branch;
- disability contributions: due by the employer only. The employer has to pay a premium of 5.7% (percentage may slightly differ from branch to branch), with a maximum of EUR 2,827 per employee per year;
- medical care insurance contributions: the employee pays a nominal premium of a fixed amount (approximately EUR 1,099 for 2010). In addition, the employee pays a premium dependent on the income from employment. This premium is 7.05% of the income from employment with a maximum of EUR 2,239 (based on a maximum premium income of EUR 33,189). The income-dependent premium is withheld from the income by the employer. The employer reimburses the employee for the full amount of the income-dependent premium which reimbursement in turn is subject to wage withholding tax.

The employer of the eligible participant will withhold these employee's insurance premiums whenever applicable.

#### 16.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable upon the moment of award, as income from employment. Income from employment is subject to wage withholding tax and income tax. The wage withholding tax is a pre levy to the income tax and may be credited against income tax due (or, in certain circumstances,

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<sup>30</sup> The national insurance premiums are incorporated in the lowest income tax brackets (equalling 31.15% in both brackets) and adhere to the rules applicable to the wage withholding tax.

available for refund if it exceeds the income tax due). The income tax and wage withholding tax rate are progressive with a maximum of 52% (2010)<sup>31</sup>.

The taxable amount is equal to the fair market value of the J&J shares on the date of award. If, however, the shares are subject to a holding period, the taxable amount may be reduced. Per lock-up year a discount of 2.5% of the fair market value of the shares may be available. Our correspondent recommends obtaining a tax ruling in which this discount is confirmed.

The employer of the eligible participant as a wage withholding agent, is obliged to withhold wage tax on the cash wage of the employee. The employer will also report the wage tax withheld on the annual salary slip of the eligible participant.

After the shares are awarded, the J&J shares (or the amount realized upon disposition of the shares) will be taxed as income from savings and investments (*inkomen uit sparen en beleggen*). Irrespective of the actual income or capital gains realized, the annual taxable benefit deemed derived from the participant's assets and liabilities that are subject to tax under this regime, including the J&J shares, is set at a fixed amount. The fixed amount equals 4% of the average net fair market value of these assets and liabilities measured, in general, at the beginning and end of every calendar year.<sup>32</sup> For determination of the value of the shares, the participant can use the listed price of the shares on January 1 and December 31. The current tax rate on income from savings and investments is a flat rate of 30%. Taxation only occurs to extent average value of the net assets exceeds EUR 20,661 (2010) (amount to be doubled for couples for tax purposes). After the shares are awarded, no social security charges will be due.

Generally, dividends derived from J&J shares are not subject to income tax (see above).

After the sale of the J&J shares, the cash equivalent of the fair market value of the shares sold will be subject to income tax as part of the participant's income from savings and investments (*inkomen uit sparen en beleggen*) (see above).

(ii) Social security treatment

Income from employment is also subject to employee's insurance premiums but only to the extent that the income does not exceed approximately EUR 49,000. These are calculated on the basis of the employee's gross salary and are generally payable by both the employer and the employee. The employee's insurance premiums are calculated as follows (2010):

- unemployment contributions: due by the employer only. The employer is obliged to pay 4.20% with a maximum of EUR 2,058 per year plus another percentage, in average 1.03% which differs from branch to branch;
- disability contributions: due by the employer only. The employer has to pay a premium of 5.7% (percentage may slightly differ from branch to branch), with a maximum of EUR 2,827 per employee per year;
- medical care insurance contributions: the employee pays a nominal premium of a fixed amount (approximately EUR 1,099 for 2010). In addition, the employee

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<sup>31</sup> The national insurance premiums are incorporated in the lowest income tax brackets (equaling 31.15% in both brackets) and adhere to the rules applicable to the wage withholding tax.

<sup>32</sup> As of 2011, the fixed amount equals 4% of the fair market value of the assets reduced by the liabilities measured exclusively at the beginning of every calendar year.

pays a premium dependent on the income from employment. This premium is 7.05% of the income from employment with a maximum of EUR 2,239 (based on a maximum premium income of EUR 33,189). The income-dependent premium is withheld from the income by the employer. The employer reimburses the employee for the full amount of the income-dependent premium which reimbursement in turn is subject to wage withholding tax.

The employer of the eligible participant will withhold these employee social security contributions whenever applicable.

After the shares are awarded, no employee social security contributions are due.

### 16.1.3 Example

#### (i) Assumptions

- Dutch resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

#### (ii) Result

	Cash bonus	Share award (100 shares x € 60)
Value of bonus / shares	€ 6,000	€ 6,000
Less: social security (*)	- € 0	- € 0
Less: income tax (**)	- € 3,120	- € 3,120
Net bonus	€ 2,880	€ 2,880

(\*) no social security contributions due, as normal threshold of approximately EUR 49,000 has already been reached

(\*\*) highest tax rate reached (52%) as of taxable income of EUR 54,367.

## 16.2 Translated tax analysis: Bonus Plan

### 16.2.1 Fiscale behandeling en behandeling op het vlak van de sociale zekerheid van contante betalingen

#### (i) Fiscale behandeling

Het contante bedrag dat door de in aanmerking komende deelnemer wordt ontvangen, zal belastbaar zijn op het ogenblik van de betaling als **inkomen uit arbeid**. Inkomen uit arbeid is onderworpen aan loonbelasting en inkomstenbelasting. De loonbelasting is een voorheffing op de inkomstenbelasting en kan worden verrekend met de verschuldigde inkomstenbelasting (of, in bepaalde omstandigheden, beschikbaar zijn voor restitutie als het de verschuldigde inkomstenbelasting overschrijdt). Het tarief voor inkomstenbelasting en loonbelasting is progressief met een maximum van 52% (2010)<sup>33</sup>.

De werkgever van de in aanmerking komende werknemer is als inhoudingsplichtige verplicht om loonbelasting in te houden op het loon van de werknemer. De werkgever

<sup>33</sup> De premies volksverzekeringen maken deel uit van de laagste tariefschijven van de inkomstenbelasting (hetgeen neerkomt op 31.15% aan premies in beide schijven) en volgen de regels die van toepassing zijn op de in te houden loonbelasting.

zal de ingehouden loonbelasting ook vermelden op de jaaropgave van de in aanmerking komende deelnemer.

(ii) Behandeling op het vlak van de sociale zekerheid

Inkomen uit arbeid is ook het voorwerp van premies werknemersverzekeringen maar alleen voorzover het jaarlijkse inkomen minder bedraagt dan ongeveer EUR 49,000. Deze worden berekend op basis van het brutosalaris van de werknemer en worden over het algemeen betaald door zowel de werkgever als de werknemer. De verzekeringpremies van de werknemer worden als volgt berekend (inkomsten 2010):

- werkloosheidsbijdragen: alleen verschuldigd door de werkgever. De werkgever is verplicht om 4,20% te betalen met een maximum van EUR 2.058 per jaar plus een sector gerelateerd percentage van gemiddeld 1,03%;
- bijdragen arbeidsongeschiktheid: alleen verschuldigd door de werkgever. De werkgever is verplicht om een premie van ongeveer 5,7% te betalen (het percentage verschilt enigszins per sector waarin een werknemer werkzaam is) met een maximum van € 2.827 per werknemer per jaar;
- bijdragen voor de zorgverzekering: de werknemer betaalt een nominale premie van een vast bedrag (ongeveer EUR 1.099 voor 2010). Bovendien betaalt de werknemer een premie die afhankelijk is van het inkomen uit arbeid. Deze premie bedraagt 7,05% van het inkomen uit arbeid met een maximum van EUR 2.239 (gebaseerd op een maximaal jaarlijks premie inkomen van EUR 33.189). De inkomensafhankelijke premie wordt door de werkgever ingehouden op het inkomen. De werkgever vergoedt het volledige bedrag van de inkomensafhankelijke premie aan de werknemer, waarbij de vergoeding op zijn beurt onderhevig is aan loonbelasting.

De werkgever van de in aanmerking komende werknemer zal deze premies werknemersverzekeringen inhouden op het moment dat dit nodig is.

## 16.2.2 Fiscale behandeling en behandeling op het vlak van de sociale zekerheid van de toekenning van aandelen

(i) Fiscale behandeling

De aandelen die aan de in aanmerking komende werknemer worden toegekend, zijn op het ogenblik van de toekenning als inkomen uit arbeid belastbaar. Inkomen uit arbeid is onderworpen aan loonbelasting en inkomstenbelasting. De loonbelasting is een voorheffing op inkomstenbelasting en kan worden verrekend met de verschuldigde inkomstenbelasting (of, in bepaalde omstandigheden, beschikbaar zijn voor restitutie als het de verschuldigde inkomstenbelasting overschrijdt). Het tarief voor inkomstenbelasting en loonbelasting is progressief met een maximum van 52% (2010)<sup>34</sup>.

Het belastbare bedrag is gelijk aan de marktwaarde van de toegekende J&J aandelen op het moment dat deze aandelen worden toegekend. Indien de aandelen echter onderhevig zijn aan een blokkeringsperiode (gedurende welke de aandelen niet kunnen worden verkocht), kan het belastbare bedrag worden verminderd. Per geblokkeerd jaar kan een korting van 2,5% van de marktwaarde van de aandelen worden gehanteerd. Wij raden aan om de korting in een ruling te laten bevestigen door de Belastingdienst.

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<sup>34</sup> De premies volksverzekeringen maken deel uit van de laagste tariefschijven van de inkomstenbelasting (hetgeen neerkomt op 31.15% aan premies in beide schijven) en volgen de regels die van toepassing zijn op de in te houden loonbelasting



De werkgever van de in aanmerking komende kandidaat is als inhoudingsplichtige voor de loonbelasting verplicht om loonbelasting in te houden op het loon van de werknemer. De werkgever zal de ingehouden loonbelasting ook vermelden op de jaaropgave van de in aanmerking komende deelnemer.

Nadat de aandelen zijn toegekend, zullen uw J&J aandelen (of het bedrag dat wordt verkregen nadat u uw aandelen heeft verkocht) worden belast als inkomen uit sparen en beleggen). Ongeacht het daadwerkelijke gerealiseerde inkomen of de daadwerkelijk gerealiseerde winst wordt het jaarlijkse belastbare voordeel dat wordt beschouwd te zijn verkregen uit het saldo van uw bezittingen en schulden, inclusief de J&J aandelen, vastgesteld op een vast percentage. Het vaste percentage is gelijk aan 4% van het saldo van de gemiddelde marktwaarde van deze activa en passiva, over het algemeen gebaseerd op de waarde aan het begin en einde van ieder kalenderjaar.<sup>35</sup> Voor vaststelling van de waarde van uw aandelen kunt u de genoteerde prijs van de aandelen op 1 januari en 31 december gebruiken. Het huidige belastingtarief op inkomen uit sparen en beleggen is een vast tarief van 30%. De belasting is alleen verschuldigd indien de gemiddelde waarde van het saldo van bezittingen en schulden meer bedraagt dan EUR 20.661 (2010) (welk bedrag kan worden verdubbeld voor fiscale partners). Nadat de aandelen zijn toegekend zullen geen socialezekerheidsbijdragen verschuldigd zijn (zie hieronder).

Over het algemeen zijn dividenden verkregen op aandelen J&J niet onderhevig aan inkomstenbelasting (zie hiervoor).

Na verkoop van de J&J aandelen, wordt de opbrengst van de verkochte aandelen meegenomen in het regime voor sparen en beleggen (zie hiervoor).

(ii) Behandeling op het vlak van de sociale zekerheid

Inkomen uit arbeid is ook het voorwerp van premies werknemersverzekeringen maar alleen voorzover het jaarlijkse inkomen minder bedraagt dan ongeveer EUR 49,000. Deze worden berekend op basis van het brutosalaris van de werknemer en worden over het algemeen betaald door zowel de werkgever als de werknemer. De verzekeringspremies van de werknemer worden als volgt berekend (inkomsten 2010):

- werkloosheidsbijdragen: alleen verschuldigd door de werkgever. De werkgever is verplicht om 4,20% te betalen met een maximum van EUR 2.058 per jaar plus een sector gerelateerd percentage van gemiddeld 1,03%;
- bijdragen arbeidsongeschiktheid: alleen verschuldigd door de werkgever. De werkgever is verplicht om een premie van ongeveer 5,7% te betalen (het percentage verschilt enigszins per sector waarin een werknemer werkzaam is) met een maximum van EUR 2.827 per werknemer per jaar;
- bijdragen voor de zorgverzekering: de werknemer betaalt een nominale premie van een vast bedrag (ongeveer EUR 1.099 voor 2010). Bovendien betaalt de werknemer een premie die afhankelijk is van het inkomen uit arbeid. Deze premie bedraagt 7,05% van het inkomen uit arbeid met een maximum van EUR 2.239 (gebaseerd op een maximaal jaarlijks premie inkomen van EUR 33.189). De inkomensafhankelijke premie wordt door de werkgever ingehouden op het inkomen. De werkgever vergoedt het volledige bedrag van de inkomensafhankelijke premie aan de werknemer, waarbij de vergoeding op zijn beurt onderhevig is aan loonbelasting

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<sup>35</sup> Per 2011, is het vaste percentage gelijk aan 4% van de marktwaarde van de activa minus passiva uitsluitend gemeten aan het begin van een kalenderjaar.

De werkgever van de in aanmerking komende werknemer zal deze premies werknemersverzekeringen inhouden op het moment dat dit nodig is.

Nadat de aandelen zijn toegekend, zijn geen werknemersverzekeringspremies meer verschuldigd.

### 16.2.3 Voorbeeld

(i) Veronderstellingen

- Belastingheffing van een inwoner van Nederland
- Vast inkomen van EUR 80.000
- Bonus van EUR 6.000 of toekenning van 100 aandelen met een waarde van EUR 60/aandeel

(ii) Resultaat

	<b>Contante bonus</b>	<b>Toekenning van aandelen (100 aandelen x € 60)</b>
<b>Waarde van de bonus /aandelen</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Min : sociale zekerheid (*)	- € 0	- € 0
Min: inkomstenbelasting (**)	- € 3.120	- € 3.120
<b>Netto bonus</b>	<b>€ 2.880</b>	<b>€ 2.880</b>

(\*) er zijn geen socialezekerheidspremies verschuldigd aangezien het drempelinkomen al is bereikt

(\*\*) het hoogste belastingtarief (52%) wordt bereikt vanaf een belastbaar inkomen van EUR 54.367

## 17 Norway

### 17.1 Tax analysis : Bonus Plan

#### 17.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable upon the moment of payment as gross employment income. Gross employment income is taxed as ordinary income with 28% tax rate. In addition, employment income is subject to top tax. The top tax is 9% on income between NOK 456,400 (approximately EUR 56,300) and NOK 741,700 (approximately EUR 91,500), and 12% on any income above NOK 741,700.

The employer of the eligible participant will withhold salary tax on the cash payment. The withholding must be in accordance with the tax deduction card for each employee. The cash payment will be reported by the employer in the bimonthly reports to the Chief Municipal Treasurer and will be included in the End of Year Certificate issued for each eligible participant.

(ii) Social security treatment

The cash payment will be subject to employee social security contributions. The employee contributions amount to 7.8%. The employer of the eligible participant will withhold these social security contributions.

#### 17.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

Shares received under the Bonus Plan will be taxable when the employee obtains the possession of the shares. The taxable amount is equal to the market value of the shares, and will be taxed as gross employment income.

Gross employment income is taxed as ordinary income with 28% tax rate. In addition, employment income is subject to top tax. The top tax is 9% on income between NOK 456,400 (approximately EUR 56,300) and NOK 741,700 (approximately EUR 91,500), and 12% on any income above NOK 741,700.

The employer of the eligible participant will withhold salary tax on the taxable amount in the employee's ordinary salary payment. The withholding will be in accordance with the tax deduction card for each employee. The taxable amount will be reported by the employer in the bimonthly reports to the Chief Municipal Treasurer and will be included in the End of Year Certificate issued for each eligible participant.

Upon sale of the shares, a capital gains tax of 28% will be due on the amount equal to the sale proceeds less the fair market value of the shares at the date of acquisition. If there is a gain on the sale of the shares, the shareholder may deduct a certain tax-free allowance. The tax-free allowance shall be computed for each individual shareholder on the basis of the cost price of each of the shares multiplied by a risk-free interest. The risk-free interest will be calculated every income year. Any loss on the sale of the shares can be deducted in the shareholder's ordinary income.

Dividends derived from J&J shares are taxed at a flat rate of 28%. It will be possible to deduct a certain tax-free allowance from any dividend payment.

The eligible participants should seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The taxable amount of the shares received under the Bonus Plan will be subject to employee social security contributions. The employee contributions amount to 7.8%. The employer will withhold these social security contributions.

### 17.1.3 Example

(i) Assumptions

- Norwegian resident taxation
- Regular income of EUR 60,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 468	- € 468
Less : income tax (**)	- € 2,220	- € 2,220
<b>Net bonus</b>	<b>€ 3,312</b>	<b>€ 3,312</b>

(\*) Social security rate of 7,8%

(\*\*) - Tax rate of 28% + 9%

- Social security is not tax deductible

## 17.2 Translated tax analysis: Bonus Plan

### 17.2.1 Skatt og folketrygdavgift på kontantutbetalinger

(i) Skatt

Kontantbeløpet som mottas av en kvalifisert deltaker skattlegges ved utbetaling som brutto lønnsinntekt. Brutto lønnsinntekt skattlegges som alminnelig inntekt med 28 %. I tillegg er lønnsinntekt underlagt toppskatt. Toppskatten er 9 % av inntekt mellom NOK 456,400 (ca EUR 56,300) og NOK 741,700 (ca EUR 91,500), og 12 % av all inntekt over NOK 741,700.

Den kvalifiserte deltakers arbeidsgiver vil foreta forskuddstrekk ved kontant utbetaling. Skattetrekket må være i samsvar med hver ansattes skattekort. Kontantutbetalingen vil bli innrapportert til kommunekassereren annenhver måned og vil bli inkludert i lønns- og trekkoppgaven som utstedes for hver kvalifisert deltaker ved årets slutt.

(ii) Folketrygd

Det må betales folketrygdavgift på kontantutbetalingen. Arbeidstakerens andel er 7,8 %. Den kvalifiserte deltakers arbeidsgiver vil trekke dette bidraget til folketrygden.

### 17.2.2 Skatt og folketrygdavgift på tildelte aksjer

#### (i) Skatt

Aksjer som mottas under bonusplanen er skattepliktige når den ansatte mottar aksjene. Det skattebare beløpet tilsvarer aksjenes markedsverdi, som vil bli beskattet som brutto lønnsinntekt.

Brutto lønnsinntekt skattlegges som alminnelig inntekt med 28 %. I tillegg er lønnsinntekt underlagt toppskatt. Toppskatten er 9 % av inntekt mellom NOK 456,400 (ca EUR 56,300) og NOK 741,700 (ca EUR 91,500), og 12 % av all inntekt over NOK 741,700. Den kvalifiserte ansattes arbeidsgiver vil foreta forskuddstrekk på det skattepliktige beløpet ved den ansattes ordinære lønnsutbetaling. Skattetrekket må være i samsvar med hver ansattes skattekort. Det skattepliktige beløpet vil bli innrapportert til kommunekassereren annenhver måned og vil bli inkludert i lønns- og trekkoppgaven som utstedes for hver kvalifisert deltaker ved årets slutt.

Ved salg av aksjer betales vanlig inntektsskatt på 28 % på et beløp som tilsvarer salgsinntekten minus markedsverdien på aksjene på datoen de ble anskaffet. Hvis det er gevinst ved salg av aksjer kan aksjonæren trekke fra et visst skattefritt beløp (skjermingsfradrag, i den utstrekning dette ikke er benyttet i forbindelse med utbytteutdelinger). Skjermingsfradraget beregnes årlig for hver enkelt aksje med utgangspunkt i den enkelte aksjes kostpris. Eventuelle tap på salg av aksjer kan føres til fradrag i aksjonærens ordinære inntekt.

Utbytte på aksjer i J&J beskattes med en flat skattesats på 28 %. Aksjonæren vil kunne føre et visst beløp til fradrag i inntektsskatten (det årlige skjermingsfradraget) ved utbetaling av utbytte.

Vi oppfordrer kvalifiserte deltakere til å søke personlig skatterådgivning dersom de planlegger å selge aksjene.

#### (ii) Folketrygd

Det må betales folketrygdavgift på det skattepliktige beløpet av mottatte aksjer. Arbeidstakerens andel er 7,8 %. Arbeidsgiveren vil trekke dette bidraget til folketrygden.

### 17.2.3 Eksempel

#### (i) Forutsetninger

- Beskatning som fastboende i Norge
- Ordinær inntekt på EUR 60 000
- Bonusutbetaling på EUR 6000 eller tildeling av 100 aksjer verdt EUR 60/aksje

#### (ii) Resultat

	Kontantbonus	Tildelte aksjer (100 aksjer x EUR 60)
<b>Verdi av bonus / aksjer</b>	<b>EUR 6000</b>	<b>EUR 6000</b>
Minus: Folketrygd (*)	- EUR 468	- EUR 468
Minus: Inntektsskatt (**)	- EUR 2220	- EUR 2220
<b>Netto bonus</b>	<b>EUR 3312</b>	<b>EUR 3312</b>

(\*) Folketrygdavgift på 7,8 %

(\*\*) Skattenivå 28 % + 9 %

**Folketrygdavgift kan ikke føres til fradrag i skatten**

## 18 Poland

### 18.1 Tax analysis: Bonus Plan

The following provides only a brief and general guide to the tax and social security consequences under the Bonus Plan and does not cover all aspects of state and regional tax laws. It is based on tax law in effect on 15 October 2010, which is subject to possible change at any time, possibly with retroactive effect. As your personal circumstances may lead to a different analysis, you should seek advice based on the particular circumstances from your personal tax adviser.

#### 18.1.1 General Tax Comments

Please note that as a general rule all payments received under the Bonus Plan by the eligible employees (Participants) in relation to the employment contract shall be subject to personal income tax and social security contributions.

Also expenses, if any, incurred by the employer may be treated as incurred instead of the Participant in connection to their participation in the Bonus Plan and if these expenses can be allocated to an individual Participant, their value will be treated as a part of the Participant's taxable income deriving from employment. Such income will be subject to personal income tax according to the progressive scale, social security contributions and health insurance contributions.

Please note that there are special provisions of personal income tax law postponing the taxable event in case of share plans until the subsequent sale of shares but only under certain conditions as described below and with respect to newly issued shares.

We are aware of the advantageous tax rulings postponing the taxable event until the subsequent sale of shares in such cases.

However, as there is no unified interpretation of the provisions of the tax law and a limited practice and due to the abovementioned doubts as to the moment of arising of income, we would recommend to acquire a binding tax ruling.

If J&J wants to obtain favourable tax status for the Bonus Plan and/or other Plans, a tax ruling from the relevant tax authority should be obtained. The costs of the single tax ruling is approximately EUR 20 for the filing fee plus legal fees, and in principle it takes between 1.5 - 3 months to obtain the tax ruling.

#### 18.1.2 Tax and social security treatment of cash payment

##### (i) Tax treatment

Due to the fact that the cost of the Bonus Plan will be recharged to the Participant's employer, the cash amount received by the eligible Participant will be considered as employment income, and as such, will be subject to tax, upon the moment of payment, at the progressive income tax rates from 18% up to 32%.

During the year, the Polish employer of the eligible Participant will withhold personal income tax on the cash payment. The employer will also report the cash payment on the appropriate annual forms filed with the tax office.

As a general rule until 30 April of the following year, the individual should report the above income in an annual tax return and pay annual tax in due amount.<sup>36</sup> The

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<sup>36</sup> Please note that the Ministry of Finance is considering implementing the tax law amendments providing for the employer obligation to file personal income annual tax return on behalf of its employee.

annual tax should be calculated at progressive tax rates, and will be subsequently decreased by the amount of tax advances withheld by the employer in the course of the tax year.

(ii) Social security and health insurance treatment

The taxable amount will be subject to employee social security contributions of 11.26% on taxable income up to the amount of PLN 94,380 for 2010, additionally 2.45% rate (sickness insurance) and also health insurance contribution of 9% rate, where 7.75% is tax deductible. The employer shall withhold these social security and health insurance contributions together with its part of the contributions amounting to 18.43 %. In certain cases the employer may be also obliged to pay the additional contribution at a rate of 1.50% to the Temporary Retirement Fund.

### 18.1.3 Tax and social security treatment of attribution of shares

(i) Tax treatment

Due to the fact that the cost of the Bonus Plan will be recharged to the Participant's employer, the market value of shares granted free of charge to the Participant under Bonus Plan will be considered as employment income, and as such, will be subject to tax, upon the moment of attribution, at the progressive income tax rates from 18 up to 32%.

During the year, the Polish employer of the eligible Participant will withhold personal income tax on the market value of shares. The employer will also report the amount of income derived on the share attribution on the appropriate annual forms filed with the tax office.

As a general rule until 30 April of the following year, the individual should report the above income in an annual tax return and pay annual tax in due amount.<sup>37</sup> The annual tax should be calculated at progressive tax rates, and will be subsequently decreased by the amount of tax advances paid by the employee in the course of the tax year.

The taxable amount is equal to the fair market value of the J&J shares granted upon the date of delivery of these shares.

In Poland there are favourable tax provisions which may apply to attribution of shares under the Bonus Plan.

In principle, the positive difference between market value of shares and the purchase price (if any) is not subject to tax at the time of exercise or acquiring of shares but only at the moment of sale of shares, provided that the following conditions are met:

- (e) shares are newly issued;
- (f) shares are subscribed (not purchased) by participants or alternatively if shares are purchased by participants they are purchased from a company which earlier subscribed for them solely for the purpose of further transfer to participants;
- (g) the participants must be eligible participants according to the relevant resolution of shareholders of the issuing company.

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<sup>37</sup> Please note that the Ministry of Finance is considering implementing the tax law amendments providing for the employer obligation to file personal income annual tax return on behalf of its employee.



Capital gain realized on sale of shares received under the Bonus Plan will be subject to personal income tax at the flat rate 19%. The capital gain is the sale price decreased with the amount taxed at the moment of attribution of shares and the costs of acquiring shares.

As to the rule dividends derived from J&J shares are taxed in Poland at a flat rate of 19%. In principle, the withholding collected in the source country may be credited under some conditions.

We would encourage the eligible Participants to seek personal tax advice in case of planned sale of the shares as the tax law may change over the time.

(ii) Social security and health insurance treatment

The taxable amount will be subject to employee social security contributions of 11.26% on taxable income up to the amount of PLN 94,380 for 2010 additionally 2.45% rate (sickness insurance) and also health insurance contribution of 9% rate, where 7.75% is tax deductible. The employer shall withhold these social security and health insurance contributions together with its part of the contributions amounting to 18.43 %. In certain cases the employer may be also obliged to pay the additional contribution at a rate of 1.50% to the Temporary Retirement Fund.

There will be no social security contribution payable on the income derived from the sale of shares.

#### 18.1.4 Example

(i) Assumptions

- Polish tax resident
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 147	- € 147
Less : health insurance contribution (**)	- € 540	- € 540
Less : income tax (***)	- € 1,407.96	- € 1,407.96
<b>Net bonus</b>	<b>€ 3,905.04</b>	<b>€ 3,905.04</b>

(\*) Social security rate only of 2.45% because the Participant's annual income exceeds cap over which retirement and disability insurance contributions are not collected

(\*\*) Health insurance amounts to 9% of the income (7,75% is deductible for income tax purposes)

(\*\*\*) Highest tax rate reached (32%) as the regular income of EUR 80,000 exceeds the threshold for the application of the highest tax rate.

## 19 Portugal

### 19.1 Tax analysis: Bonus Plan

#### 19.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, **as professional income at progressive income tax rates**, varying from 11.08% up to 45.88%.

The employer of the eligible participant will withhold salary tax (up to 35%) on the cash payment. The salary tax withheld is fully creditable with the income tax due by the eligible participant. The employer will also report the cash payment towards the Portuguese tax authorities.

(ii) Social security treatment

The cash payment will be subject to employee social security contributions. The **employee contributions amount to 11% uncapped**. The employer of the eligible participant will withhold these employee social security contributions and will pay a 23.75% contribution.

#### 19.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the moment of award, **as professional income at progressive tax rates**, varying from 11.08% up to 45.88%.

The taxable amount is equal to the fair market value of the J&J shares granted at the date the stock is awarded.

The employer of the eligible participant will not withhold salary tax on the shares granted to the employee. However, the employer will have to (i) report the attribution of shares to the Portuguese Tax Authorities (by the end of June the following year, on form *Modelo 19*); (ii) hold an updated registry of the employees that have actually benefited from the attribution of shares (e.g. name, taxpayer number and its respective code, date and value of the income that has arisen from the attribution of shares); (iii) deliver to the Portuguese Tax Authorities a statement in which a report of the aforementioned income is made (by the end of February the following year on form *Modelo 10*); (iv) deliver to the employee a statement outlining the amounts correspondent to the income that has arisen from the attribution of the shares paid to such employee in the previous year (by the 20 January the following year).

Upon sale of the shares, capital gains will be liable to tax at a flat tax rate of 20% (the taxpayer may, however, elect to include such income in his overall taxable income and, by reason of that, be liable to the Portuguese progressive tax rates varying between 11.08 and 45.88%). Any losses can be offset and can be carried forward (but only within income relating to the capital gains basket), if the individual elects to include such capital gains within his overall taxable income, for a 2 years period. **Dividends derived from J&J shares are** either liable to (i) a 21.5% final withholding tax if there is a paying agent in Portugal or to (ii) a 20% flat tax rate if there is no such paying agent (the taxpayer may, however, elect to include such income, in either case, in his overall taxable income and, by reason of that, be liable to the Portuguese

progressive tax rates varying between 11.08 and 45.88% with a credit given for the tax withheld).

We would encourage the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

At this stage, the social security services do not have a formal policy regarding this kind of plans and, according to the general market practice, companies in Portugal are not paying social security contributions related with these schemes. However, please note that Portuguese law is not clear on the type of benefits subject to the payment of social security contributions and therefore it is not possible to guarantee that there will be no social security constraints (although this may be qualified as an unlikely scenario).

For your information, the social security contributions amount to 34.75% of the benefit. The employer has to pay 23.75% and the employee shall withhold 11% (to be withheld by the employer).

A new set of Social Security legislation is expected to come into force in Portugal in the beginning of 2011. Under this legislation, the discount granted to the employees referent to the acquisition of employer shares or employer group companies' shares shall not be subject to any social security contribution.

**19.1.3 Example**

(i) Assumptions

- Portuguese resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- Employee is not a board member

(ii) Result

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security	- € 660	- € 660 (please see above 19.1.1(ii))
Less : income tax	- between € 1,710 and € 1,770 will be withheld – assuming the relevant withholding tax rates will vary from 28.5 up to 29.5% (applicable to individuals without any deficiency). These withholding tax rates will depend, in any case, from the individuals personal/familiar	- There will be no withholding tax liability on the share awards. However, the Personal Income Tax progressive tax rates will include, within the overall income of the employee, the share awards.

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
	particularities. The cash bonus will be, within the overall income of the employee, liable to the progressive Personal Income Tax rates (but with a deduction for any professional income withheld within such year).	
<b>Net bonus at the time the cash bonus and share awards are granted. The effective tax rate will, in any case, be similar at the end of the year in both situations.</b>	<b>Between € 3,630 and € 3,570</b>	<b>€ 5,340</b>

(\*) Social security rate of 11%

(\*\*) - Highest tax rate reached (45.88%) as of taxable income of EUR 150,000

- Social security is tax deductible.

## 19.2 Translated tax analysis: Bonus Plan

### 19.2.1 Tratamento em sede fiscal e de segurança social dos pagamentos em numerário

#### (i) Tratamento fiscal

O montante em numerário recebido pelo participante elegível para o bónus em numerário será tributável no momento do pagamento, como rendimento do trabalho dependente, às taxas progressivas de imposto (IRS), que variam entre 11,08% e 45,88%.

O empregador do participante reterá na fonte, por conta do imposto devido a final, uma parte do rendimento pago (retenção que pode chegar aos 35%). O imposto retido é inteiramente dedutível à colecta de imposto sobre o rendimento devido pelo participante. O empregador terá igualmente de cumprir com as respectivas obrigações declarativas perante a administração fiscal portuguesa neste domínio.

#### (ii) Tratamento em sede de contribuições para a segurança social

Os pagamentos em numerário ficarão sujeitos às contribuições para segurança social do participante. As contribuições dos trabalhadores correspondem a 11%, sem qualquer limite legal. O empregador do participante reterá, por sua vez, a contribuição devida pelo participante e pagará, ele próprio, uma contribuição de 23,75% sobre o respectivo valor.

### 19.2.2 Tratamento em sede fiscal e de segurança social na atribuição de acções

#### (i) Tratamento fiscal

As acções atribuídas ao participante elegível para o bónus em acções serão tributáveis, no ano da atribuição, como rendimento do trabalho dependente, às taxas progressivas de IRS, que variam entre 11,08% e 45,88%.

O valor tributável é igual ao do valor de mercado das acções J&J à data em que as acções são atribuídas.

O empregador do participante não reterá, nesta sede, qualquer imposto sobre o valor das acções atribuídas ao participante. Contudo, o empregador terá que (i) comunicar a atribuição das acções à Direcção-Geral dos Impostos (até final de Junho do ano seguinte, através da entrega do Modelo 19); (ii) possuir um registo actualizado dos empregados que beneficiam dos rendimentos resultantes da atribuição de acções (do qual deverá constar, por exemplo, o nome, o número fiscal e o respectivo código, a data e o valor do rendimento que resulta da atribuição de acções); (iii) entregar à Direcção-Geral dos Impostos uma declaração referente aos rendimentos pagos no ano anterior (até final de Fevereiro do ano seguinte, através do Modelo 10); (iv) entregar ao participante um documento comprovativo das importâncias pagas no ano fiscal anterior (até ao dia 20 de Janeiro do ano seguinte).

A venda de acções faz com que o saldo positivo entre as mais-valias e as menos-valias esteja sujeito à taxa especial de 20% (o contribuinte pode, contudo, optar por englobar tais rendimentos no seu rendimento global, circunstância que implicará, nessa medida, uma sujeição a imposto às taxas de progressivas previstas na lei, que variam entre 11,08 e 45,88%). O saldo negativo apurado entre as mais-valias e as menos-valias registadas num determinado ano podem ser reportadas para os dois anos seguintes aos rendimentos com a mesma natureza, mas apenas quando o participante opte pelo seu englobamento. Os dividendos resultantes das acções J&J estão sujeitos, em alternativa a (i) uma retenção na fonte de 21,5%, se existir em Portugal uma entidade que pague ou coloque à disposição dos respectivos participantes os dividendos em apreço, ou a (ii) uma taxa de imposto especial de 20%, se não existir tal entidade em Portugal (o contribuinte pode, no entanto, optar por englobar esses dividendos, em qualquer dos casos, no seu rendimento global e, por esse motivo, ficar sujeito às taxas progressivas de imposto que variam entre 11,08% e 45,88%, podendo no entanto, neste caso, deduzir como crédito de imposto por dupla tributação internacional qualquer retenção na fonte que tenha ocorrido no estrangeiro).

Gostaríamos de aconselhar os participantes elegíveis para o bónus em acções a procurarem aconselhamento fiscal pessoal caso planeiem vender as acções.

(ii) Tratamento em sede de contribuições para a segurança social

Neste momento, os serviços de segurança social não adoptam uma posição formal quanto à incidência das taxas contributivas sobre este tipo de planos. De acordo com a prática geral, as sociedades comerciais não estão a fazer incidir as taxas contributivas sobre este tipo de remunerações. Em todo o caso, uma vez que continuam a suscitar-se dúvidas neste domínio, não é possível garantir que as taxas contributivas não incidam de facto sobre os rendimentos resultantes de planos do género (apesar de tal poder ser identificado como um cenário improvável).

Para todos os efeitos, as contribuições para a segurança social correspondem a 34,75% do rendimento. O empregador teria de pagar 23,75% e o trabalhador 11% (a ser retido pelo empregador).

Um novo regime – o Código dos Regimes Contributivos do Sistema Previdencial de Segurança Social – é suposto entrar em vigor em Portugal no início de 2011. De acordo com o novo enquadramento legal, este tipo de planos não estará sujeito às taxas contributivas.

### 19.2.3 Exemplo

(i) Pressupostos

- Tributação aplicável a residentes em Portugal
- Rendimento ordinário de €EUR 80.000
- Pagamento de bónus de EUR 6.000 ou atribuição de 100 acções ao valor de EUR 60/acção
- Participante não membro do conselho de administração

(ii) Resultado

	<b>Bónus em numerário</b>	<b>Bónus em acções (100 acções x € 60)</b>
<b>Valor do bónus / acções</b>	<b>€ 6 000</b>	<b>€ 6 000</b>
Menos: segurança social	- € 660	- € 660 ( <i>vide</i> 19.2.2(ii))
Menos: imposto sobre os rendimentos (IRS)	- Entre 1 710 e € 1 770 será retido – assumindo uma retenção na fonte que varia entre os 28,5 e os 29,5% (aplicáveis a pessoas singulares sem deficiência). Estas retenções na fonte dependem, em qualquer caso, das circunstâncias pessoais/familiares do sujeito passivo. Os pagamentos em numerário estarão sujeitos, na esfera do rendimento global do sujeito passivo, às taxas progressivas de IRS, mas sujeitas a retenção na fonte aquando da sua entrega.	- Não haverá lugar a retenção na fonte aquando da atribuição das acções. No entanto, as taxas progressivas de IRS aplicar-se-ão nos mesmos termos que no bónus em numerário.
<b>Bónus líquido à data em que o bónus em numerário e o bónus em acções são entregues. A taxa efectiva de tributação será a mesma em ambas as situações (a diferença reside apenas ao nível da vantagem de tesouraria que o bónus em acções representa)</b>	<b>Entre € 3 630 e € 3 570</b>	<b>€ 5,340</b>

(\*) Percentagem da contribuição para a segurança social de 11%

(\*\*) - Taxa de IRS mais elevada (45,88%) como resultado de um rendimento tributável que exceda EUR 150 000

- As contribuições para a segurança social são fiscalmente dedutíveis.

## 20 Romania

### 20.1 Tax analysis: Bonus Plan

#### 20.1.1 Tax and social security treatment of cash payments by the Romanian entity

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as personal income at the flat tax rate of 16%.

The employer of the eligible participant will withhold salary tax on the cash payment. The salary tax withheld is fully creditable with the personal income tax due by the eligible participant. The employer will also report the cash payment on the notice of payroll tax of the eligible participant.

(ii) Social security treatment

The cash payment is included in the employee's gross salary (GS). Hence, the cash payment will be subject to employee social security contributions. The employer of the eligible participant will withhold these employee social security contributions.

(a) Salary Costs borne by the employee and deducted from the GS

- (I) Social insurance contribution (for pension and other social security purposes) which is calculated as 10.5% of the GS.
- (II) Health insurance contribution, which represents 5.5% of the GS.
- (III) Contribution to the unemployment fund, which is computed as 0.5% of the gross base salary (i.e., the gross salary without the permanent benefits and/or bonuses).

The GS minus all contributions mentioned under (a) to (c) above represent the net salary (NS). The NS (i.e., the salary actually paid to the employee) is computed as the GS minus the income tax (current applicable rate 16%). Only for the purposes of computing the applicable income tax, the following other contributions may be deducted from the net income, as applicable:

- (IV) Trade Union contribution (if the case), which is payable for the benefit of the trade union to which the employee is affiliated, if any. The quantum of such contribution is not determined by law, but established by the respective trade union.
- (V) Contribution to optional pension funds, which is deductible only within the limit of EUR 400 per year.
- (VI) Personal deduction, which is calculated based on the number of persons in the employee's care (dependants).

The income tax shall be computed as  $16\% \times (\text{the NS minus all contributions mentioned under (IV) to (VI) above})$ .

(b) Salary Costs payable by the employer in connection to salaries.

In addition to the salary costs detailed under section a above, the employer has to bear and pay the following contributions, calculated in relation to the aggregate salary fund of the company:

- (I) Social insurance - between 20.8% and 30.8%, depending on the working conditions \* the average number of company employees in that respective month;
- (II) Holidays and health indemnifications – 0.85%;
- (III) Health insurance – 5.2%;
- (IV) Unemployment fund – 0.5%;
- (V) Guarantee fund for payment of salaries - 0.25%;
- (VI) Work accidents and professional diseases insurance - between 0.15% and 0.85%, depending on working conditions;

Fee to the labour authorities - 0.75% if such authorities keep the labour books and 0.25% if the employer keeps the work books. Also, the employer might be required to pay a contribution triggered by not hiring a certain number of disabled persons. The law requires that each employer having more than 50 employees hire a number of disabled persons counting at least 4% of the total number of employees. Otherwise, it shall pay a contribution amounting 50% from the minimum gross salary in Romania \* the number of disabled employees that should have been hired by the employer.

Please be advised that the contribution quotas and computation methods are subject to frequent changes.

#### **20.1.2 Tax and social security treatment of attribution of shares by the Romanian entity**

##### **(i) Tax treatment**

The shares granted to the eligible participant will be taxable, upon the moment of delivery, as personal income at the flat tax rate of 16%.

The taxable amount is equal to the stock price of the J&J shares granted upon the date of delivery of these shares.

The employer of the eligible participant will withhold salary tax which will be fully creditable with the personal income tax due by the eligible participant. The employer will also report the taxable amount on the notice of payroll tax of the eligible participant.

Upon sale of the shares, capital gains tax will be due. However, capital gains will be taxed at the personal income tax rate of 16%.

Dividends derived from J&J shares are taxed at 16%.

We would encourage the eligible participants to seek personal tax advice in case of planned sale of the shares.

##### **(ii) Social security treatment**

The award in shares, therefore granted as the equivalent of a bonus, is, as a general principle, considered salary revenue. Thus, the value of the shares at the moment they are effectively awarded is included in the gross salary, where applicable, in order to compute the income tax and social security charges. As such, employment related contributions shall be levied where applicable.



### 20.1.3 Example

(i) Assumptions

- Latvian resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of € 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security	- € 990	- € 990
Less : income tax (*)	- € 801,6	- € 801,6
<b>Net bonus</b>	<b>€ 4,200</b>	<b>€ 4,200</b>

(\*) flat tax rate of 16% did not consider 4 to 6 above

## 20.2 Translated tax analysis: Bonus Plan

### 20.2.1 Regimul fiscal al asigurărilor sociale și al plăților în numerar efectuate de entitatea din Romania

(i) Regim fiscal

Suma în numerar primită de participantul eligibil va fi taxabilă, din momentul plății, ca venit personal la cota de impozitare fixă de 16%.

Angajatorul participantului eligibil va reține impozitul pe salariu la plata în numerar. Impozitul pe salariu reținut este complet estimabil din impozitul pe venit personal de către participantul eligibil. Angajatorul va raporta de asemenea plata în numerar în impozitul pe salariu al participantului eligibil.

(ii) Regimul asigurărilor sociale

Plata în numerar este inclusă în salariul brut al angajatului (SB). Prin urmare, plata în numerar va fi pasibilă de contribuții de asigurări sociale ale angajatului. Angajatorul participantului eligibil va reține aceste contribuții de asigurări sociale.

(a) Costuri salariale suportate de angajat și deduse din SB

- (I) Contribuția de asigurări sociale (pentru pensie și alte scopuri de asigurare socială) care este calculată ca fiind 10,5% din SB.
- (II) Contribuția la asigurări de sănătate, ce reprezintă 5,5% din SB.
- (III) Contribuția la fondul de șomaj, calculată ca 0.5% din salariul brut de bază (adică salariul brut fără beneficii permanente și/sau bonusuri).

SB minus toate contribuțiile menționate la punctele (a) până la (c) mai sus reprezintă salariul net (SN). SN (adică salariul efectiv plătit angajatului) se calculează ca SB minus impozitul pe venit (procentul aplicabil în prezent este de 16%). Doar în scopul calculării impozitului pe venit aplicabil, următoarele contribuții suplimentare pot fi deduse din venitul net, dacă este cazul:

- (IV) Contribuție la sindicat (dacă este cazul), plătită în beneficiul sindicatului la care este afiliat angajatul, dacă este cazul. Cuantumul unei asemenea contribuții nu este determinat prin lege, ci stabilit de către respectivul sindicat.
- (V) Contribuția la fonduri de pensii facultative, deductibilă doar în limita a 400 Euro pe an.
- (VI) Decont personal, ce se calculează în funcție de numărul de persoane aflate în grija angajatului (persoane aflate în întreținere).

Impozitul pe venit va fi calculat ca  $16\% * (SN \text{ minus toate celelalte contribuții menționate la punctele (IV) până la (VI) de mai sus})$ .

- (b) Costuri salariale plătite de angajator referitoare la salarii.

Pe lângă costurile salariale detaliate în secțiunea de mai sus, angajatorul trebuie să suporte și să plătească următoarele contribuții, calculate în raport cu fondul salarial total al companiei:

- (I) Asigurări sociale – între 20,8% și 30,8%, în funcție de condițiile de muncă \* numărul mediu de angajați ai companiei în luna respectivă (18% din Decembrie 2008);
- (II) Îndemnizații de sărbători și de sănătate – 0. 85%;
- (III) Asigurare de sănătate – 5.2%;
- (IV) Fond de șomaj – 0,5%;
- (V) Fond de garanție pentru plata salariilor - 0,25%;
- (VI) Asigurare accidente de muncă și boli profesionale – între 0,15% și 0,85%, în funcție de condițiile de muncă;
- (VII) Taxă către autoritățile de muncă - 0,75% dacă acestea țin registrele de lucru, și 0,25% dacă angajatorul ține registrele de lucru. De asemenea, angajatorului i se poate solicita să plătească o contribuție rezultată din faptul că nu a angajat un anumit număr de persoane cu dezabilități. Legea cere ca fiecare angajator care are mai mult de 50 angajați să angajeze un număr de persoane cu dezabilități care să reprezinte cel puțin 4% din numărul angajaților. În caz contrar, acesta este obligat să plătească o contribuție însumând 50% din salariul minim brut în România \* numărul de angajați cu dezabilități care ar fi trebuit să fie angajați de către angajator.

Rețineți că cotele contribuției și metodele de calculare sunt supuse frecvent la modificări.

## **20.2.2 Regimul fiscal și al asigurărilor sociale aplicabil atribuirii de acțiuni de către entitatea din România**

- (i) Regim fiscal

Acțiunile acordate participantului eligibil vor fi taxabile, din momentul livrării, ca venit personal la cota de impozitare fixă de 16%.

Suma impozitabilă este egală cu prețul acțiunilor J&J acordate la data livrării acestor acțiuni.

Angajatorul participantului eligibil va reține impozitul pe salariu care va fi în totalitate estimabil din impozitul pe venit personal datorat de participantul eligibil. Angajatorul va raporta de asemenea suma impozitabilă în impozitului pe salariu al participantului eligibil.

La vânzarea acțiunilor, va trebui plătit impozitul pe câștiguri de capital. Totuși, câștigurile de capital vor fi impozitate la cota de 16% din impozitul pe venit personal.

Dividende derivate din acțiunile J&J sunt impozitate la 16%.

Încurajăm participanții eligibili să ceară consiliere în ceea ce privește impozitul personal în cazul în care planifică să vândă acțiunile.

(ii) Regimul asigurărilor sociale

Prima în acțiuni, acordată deci ca echivalent al unui bonus, este de principiu considerată venit salarial. Astfel, valoarea acțiunilor la momentul în care au fost efectiv alocate ca primă este inclusă în salariul brut, dacă este cazul, pentru a se putea calcula impozitul pe venit și modificările la asigurările sociale. Astfel, contribuțiile legate de angajare vor fi percepute dacă este cazul.

### 20.2.3 Exemplu

(i) Ipoteze

- Impozitare rezident leton
- Venit regulat 80.000 EUR
- Plată bonus 6.000 EUR sau alocare acțiuni în număr de 100 în valoare de 60 EUR/acțiune

(ii) Rezultat

	<b>Bonus în numerar</b>	<b>Prima acțiuni (100 acțiuni x 60€)</b>
<b>Valoarea bonusului / acțiunilor</b>	<b>6.000 €</b>	<b>6.000 €</b>
Mai puțin la: asigurările sociale	- 990 €	- 990 €
Mai puțin la: impozitul pe venit (*)	- 801,6 €	- 801,6 €
<b>Bonus net</b>	<b>4.200 €</b>	<b>4.200 €</b>

(\*) cota de impozitare fixă de 16% nu a luat în considerare 4 - 6 de mai sus

## 21 Slovakia

### 21.1 Tax analysis: Bonus Plan

#### 21.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as professional income at a flat income tax rate of 19%.

The employer of the eligible participant will withhold salary tax on the cash payment, which will be collected through payroll. The salary tax withheld is fully creditable with the income tax due by the eligible participant.

(ii) Social security treatment

The cash payment will be subject to employee social security contributions, if the normal threshold has not yet been reached. The employee contributions amount to 13.40% (capped at earnings of approximately EUR 2,978 per month for old age, disability, unemployment, EUR 1,116 per month for sickness and EUR 2,170 per month for health). The employer of the eligible participant will withhold these employee social security contributions.

#### 21.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the moment of award, as professional income at a flat income tax rate of 19%.

The taxable amount is equal to the fair market value of the J&J shares granted at the date the stock is awarded.

The employer of the eligible participant will withhold salary tax on the taxable amount, which will be collected through the payroll. The salary tax withheld is fully creditable with the income tax due by the eligible participant.

Upon sale of the shares, capital gains tax of 19% will be due on the sale proceeds less the market value at award. An exemption of capital gains to a level of EUR 925 (for 2010) is available.

Dividends deriving from the J&J shares are not subject to taxation. Please note however, that the Slovak government has recently proposed a draft law under which dividends received by Slovak residents should be subject to health insurance contributions, and the law is expected to be effective as from 1 January 2011. Further advice should be obtained on this issue once the law has been approved by the Parliament.

The eligible participants are encouraged to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The taxable amount will be subject to employee social security contributions, if the normal threshold has not yet been reached. The employee contributions amount to 13.40% (capped at earnings of approximately EUR 2,978 per month for old age, disability, unemployment, EUR 1,116 per month for sickness and EUR 2,170 per

month for health). The employer of the eligible participant will withhold these employee social security contributions.

### 21.1.3 Example

(i) Assumptions

- Slovak resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- € 0	- € 0
Less : income tax (**)	- € 1,140	- € 1,140
<b>Net bonus</b>	<b>€ 4,860</b>	<b>€ 4,860</b>

(\*) no social security contributions due, as normal threshold has already been reached

(\*\*) flat tax rate of 19%

## 21.2 Translated tax analysis: Bonus Plan

### 21.2.1 Daň z príjmu a sociálne zabezpečenie pri výplate hotovosti

(i) Daň z príjmu

Finančná čiastka vyplatená spôsobilému účastníkovi sa stane zdaniteľnou v momente vyplatenia príjmu zo závislej činnosti **a zdaňuje sa rovnou daňou vo výške 19%**.

Zamestnávateľ zrazí spôsobilému účastníkovi daň z príjmu vyplateného v hotovosti pri zúčtovaní mzdy. Zrážka na daň zo mzdy sa plne započítava na celkovú daňovú povinnosť spôsobilého účastníka za daný kalendárny rok.

(ii) Sociálne zabezpečenie

Z výplaty v hotovosti sa zrazia príspevky zamestnanca do systému sociálneho zabezpečenia, pokiaľ už nedosiahol maximálny vymeriavací základ. Suma **príspevku zamestnanca predstavuje 13,40% (pričom maximálny vymeriavací základ je približne EUR 2 978 na dôchodkové poistenie, invalidné poistenie a príspevok do fondu zamestnanosti, EUR 1 116 mesačne na nemocenské a EUR 2 170 mesačne na zdravotné poistenie)**. Zamestnávateľ spôsobilého účastníka zrazí tieto príspevky sociálneho zabezpečenia zamestnancovi zo mzdy.

### 21.2.2 Daň z príjmu a sociálne zabezpečenie pri pridelení akcií

(i) Daň z príjmu

Akcie pridelené spôsobilému účastníkovi sú zdaniteľné v momente realizácie príjmu (pridelenia akcií) **a tento sa zdaňuje rovnou daňou vo výške 19%**.

Zdaniteľná suma sa rovná reálnej trhovej hodnote akcií spoločnosti J&J v deň odovzdania akcií.

Zamestnávateľ spôsobilého účastníka zrazí daň zo mzdy zo zdaniteľnej čiastky pri zúčtovaní mzdy. Zrážka na daň zo mzdy sa plne započítava na celkovú daňovú povinnosť spôsobilého účastníka za daný kalendárny rok.

Pri predaji akcií bude spôsobilý účastník spravidla platiť daň z príjmu vo výške 19% z rozdielu medzi výnosom z predaja a trhovou hodnotou pri kúpe akcií (zo zisku z predaja). Od dane je oslobodený zisk z predaja do výšky EUR 925 (pre rok 2010).

**Dividendy vyplácané z akcií spoločnosti J&J nie sú predmetom zdanenia. Je však potrebné upozorniť, že slovenská vláda nedávno pripravila návrh novely zákona, podľa ktorého budú dividendy prijaté slovenskými rezidentmi predmetom odvodov na zdravotné poistenie, pričom táto novela by mala platiť od 1. januára 2011. Je preto potrebné získať k tejto otázke ďalšie odborné stanovisko po schválení novely parlamentom.**

V prípade záujmu o predaj akcií odporúčame spôsobilým účastníkom obrátiť sa na osobného daňového poradcu.

(ii) Režim sociálneho zabezpečenia

Zo zdaniteľnej sumy sa zrazia príspevky zamestnanca do systému sociálneho zabezpečenia, pokiaľ už nedosiahol maximálny vymeriavací základ. Suma **príspevku zamestnanca predstavuje 13,40% (pričom maximálny vymeriavací základ je približne EUR 2 978 na dôchodkové poistenie, invalidné poistenie a príspevku do fondu zamestnanosti, EUR 1 116 mesačne na nemocenské a € 2 170 mesačne na zdravotné poistenie)**. Zamestnávateľ spôsobilého účastníka zrazí tieto príspevky sociálneho zabezpečenia zamestnancovi zo mzdy.

### 21.2.3 Príklad

(i) Predpoklady

- Zdaňovanie slovenského daňového rezidenta
- Pravidelný (ročný) príjem vo výške EUR 80 000
- Vyplácanie bonusov vo výške EUR 6 000 alebo pridelenie 100 akcií v hodnote EUR 60 za akciu

(ii) Výsledok

	Hotovosť	Pridelenie akcií (100 akcií x € 60)
<b>Hodnota bonusu / akcií</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Mínus: sociálne zabezpečenie (*)	- € 0	- € 0
Mínus: daň z príjmu (**)	- € 1,140	- € 1,140
<b>Čistý bonus</b>	<b>€ 4,860</b>	<b>€ 4,860</b>

(\*) príspevky na sociálne zabezpečenie sú nulové, pretože účastníkov pravidelný príjem presiahol maximálny vymeriavací základ

(\*\*) rovná daň vo výške 19%

## 22 Slovenia

### 22.1 Tax analysis: Bonus Plan

Note that the tax analysis below does not consider the Act on additional taxation of income of management and supervisory board members in the period of financial and economical crisis (*Zakon o dodatnem davku od dohodkov članov poslovdstev in nadzornih organov v času finančne in gospodarske krize (ZDDDČPNO)*). The provisions of this Act might apply to the management board members of J&J's Slovenian subsidiary if J&J's Slovenian subsidiary received state guarantee / surety or state funds for mitigation of the effects of financial and economical crisis.

#### 22.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, as **employment income at progressive income tax rates** (varying from 16% to 41%).

The employer of the eligible participant will withhold advance income tax on the cash payment. The tax withheld is fully creditable with the income tax due by the eligible participant.

The employer will also report the cash payment on the annual salary slip of the eligible participant by 31 January of the following year.

(ii) Social security treatment

The cash payment will be subject to employee and employer social security contributions. The **employee social security contributions amount to 22.10% and employer social security contributions amount to 16.10%**. The employer of the eligible participant will withhold the employee's social security contributions and pay the employer's social security contributions.

#### 22.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable when the employee acquires a beneficial interest in the shares as **employment income at the progressive income tax rates** (ranging from 16% to 41%).

The taxable amount is equal to the stock (market) price of the J&J shares granted upon the date of acquiring a beneficial interest in the shares.

The employer of the eligible participant will withhold advance income tax at the moment the employee acquires a beneficial interest in the shares. The tax withheld is fully creditable with the income tax due by the eligible participant.

The employer will also report the income on the annual salary slip of the eligible participant by 31 January of the following year.

Upon sale of the shares, a capital gains tax will be due on the sale proceeds less the fair market value of the shares at the date of acquisition. The capital gains is taxed at the flat tax rate of 20% for a holding period of up to 5 years, 15% for a holding period from 5 to 10 years, 10% for a holding period from 10 to 15 years, 5% for a holding period from 15 to 20 years and 0% for a holding period greater than 20 years and is not included in the annual tax bill.

Dividends **derived from J&J shares are taxed at a flat tax rate of 20%**.

The eligible participants should seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The cash payment will be subject to employee and employer social security contributions. The **employee social security contributions amount to 22.10% and employer social contributions to 16.10%**. The employer of the eligible participant will withhold the employee's social security contributions and pay the employer's social security contributions.

### 22.1.3 Example

(i) Assumptions

- Slovenian resident taxation
- Regular income of EUR 79,200, monthly income of EUR 6,600 gross
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
Value of bonus / shares	€ 6,000	€ 6,000
Less : social security (*)	- € 1,326	- € 1,326
Less : income tax (**)	- € 1,916	- € 1,916
<b>Net bonus</b>	<b>€ 2,758</b>	<b>€ 2,758</b>

(\*) social security rate of 22.10%

(\*\*) - highest tax rate reached (41%) if annual income exceeds € 15,057.96 (income tax € 3,237.46 + 41% of the amount over € 15,057.96)

- social security is tax deductible

## 22.2 Translated tax analysis: Bonus Plan

### 22.2.1 Davčni in socialno varnostni vidiki gotovinskih izplačil

(i) Davčni vidiki

Denarni znesek, ki ga prejme upravičeni udeleženec, bo obdavčen ob času plačila, kot **dohodek iz zaposlitve po progresivni davčni lestvici** (od 16% do 41%).

Delodajalec upravičenega udeleženca odvede akontacijo dohodnine na denarni znesek. Akontirani davek se v celoti uporabi za plačilo dohodnine, ki jo dolguje upravičeni udeleženec.

Delodajalec denarno plačilo prav tako navede na potrdilu o izplačanih plačah za odmero dohodnine upravičenega udeleženca, ki ga odda do 31. januarja prihodnjega leta.

(ii) Vidiki socialne varnosti

Denarno plačilo je podvrženo prispevkom delavca in delodajalca za socialno varnost. **Prispevki delavca za socialno varnost znašajo 22,10%, prispevki delodajalca za**



**socialno varnost pa 16,10%.** Delodajalec upravičenega udeleženca odvede delavčeve prispevke za socialno varnost in plača delodajalčeve prispevke za socialno varnost.

## 22.2.2 Davčni in socialno varnostni vidiki pridobitve delnic

### (i) Davčni vidiki

Delnice, podeljene upravičenemu udeležencu, bodo obdavčene, ko jih zaposleni pridobi, in sicer kot **dohodek iz zaposlitve po progresivni davčni lestvici** (od 16% do 41%).

Obdavčljivi znesek je enak tržni (borzni) vrednosti prejetih delnic družbe J&J na dan pridobitve.

Delodajalec upravičenega udeleženca odvede akontacijo dohodnine v trenutku, ko delavec pridobi delnice. Akontirani davek se v celoti uporabi za plačilo dohodnine, ki jo dolguje upravičeni udeleženec.

Delodajalec denarno plačilo prav tako navede na potrdilu o izplačanih plačah za odmero dohodnine upravičenega udeleženca, ki ga odda do 31. januarja prihodnjega leta.

Ob prodaji delnic se na dohodek od prodaje, zmanjšan za pravično tržno vrednost delnic na dan pridobitve, odmeri davek od dobička iz kapitala. Davek od dobička iz kapitala je odmerjen po pavšalni davčni stopnji 20% za imetništvo delnic do 5 let, 15% za imetništvo delnic od 5 do 10 let, 10% za imetništvo delnic od 10 do 15 let, 5% za imetništvo delnic od 15 do 20 let in 0% za imetništvo delnic 20 let ali več. Davek od dobička iz kapitala ni vključen v letno odmero dohodnine.

**Dividende delnic družbe J&J so obdavčene po 20% pavšalni davčni stopnji.**

V primeru načrtovane prodaje delnic upravičenim udeležencem priporočamo posvetovanje z osebnim davčnim svetovalcem.

### (ii) Vidiki socialne varnosti

Denarno plačilo je podvrženo prispevkom delavca in delodajalca za socialno varnost. **Prispevki zaposlenega za socialno varnost znašajo 22,10%, prispevki delodajalca za socialno varnost pa 16,10%.** Delodajalec upravičenega udeleženca odvede delavčeve prispevke za socialno varnost in plača delodajalčeve prispevke za socialno varnost.

## 22.2.3 Primer

### (i) Predpostavke

- Obdavčitev slovenskega davčnega rezidenta;
- redni dohodek 79.200 EUR, mesečni dohodek znaša 6.600 EUR bruto;
- izplačilo nagrade 6.000 EUR ali dodelitev delniške nagrade 100 delnic po vrednosti 60 EUR na delnico.

### (ii) Rezultat

	Denarna nagrada	Nagrada v delnicah (100 delnic x 60 EUR)
Vrednost gotovine / delnic	6.000 EUR	6.000 EUR

	<b>Denarna nagrada</b>	<b>Nagrada v delnicah (100 delnic x 60 EUR)</b>
Zmanjšano za: prispevke za socialno varnost (*)	- 1.326 EUR	- 1.326 EUR
Zmanjšano za: dohodnino (**)	- 1.916 EUR	- 1.916 EUR
<b>Neto nagrada</b>	<b>2.758 EUR</b>	<b>2.758 EUR</b>

(\*) Stopnja prispevkov za socialno varnost je 22,10%.

(\*\*) - Najvišja davčna stopnja (41%) je dosežena, če letni dohodek presega 15.057,96 EUR (dohodnina 3.237,46 EUR + 41% zneska, ki presega 15.057,96 EUR);

- prispevki za socialno varnost se odštejejo.

## 23 Spain

### 23.1 Tax analysis: Bonus Plan

#### 23.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, upon the moment of payment, **as labour income at progressive income tax rates** up to 43%. The draft bill of the 2011 State Budget increases the progressive income tax rate up to 45% for income higher than EUR 175,000.20 and to 44% for income between EUR 120,000.20 to EUR 175,000.20.

The employer of the eligible participant will withhold salary tax. The employer will report the cash payment on the employee's pay slip and a reporting in the individual income tax return will be required.

(ii) Social security treatment

The cash payment will be subject to **employee social security** contributions of **6,35% on earnings up to EUR 38,376 for year 2010**. The draft bill of the 2011 State Budget regulates an annual cap for social security contributions of EUR 38,761.20 to apply as at 1 January 2011. The employer of the eligible participant will withhold these employee social security contributions.

#### 23.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable, upon the moment of award, **as labour income at progressive tax rates** up to 43%. The draft bill of the 2011 State Budget increases the progressive income tax rate up to 45% for income higher than EUR 175,000.20 and to 44% for income between EUR 120,000.20 to EUR 175,000.20. The taxable amount is in principle equal to the fair market value of the J&J shares granted upon the date when the stock is awarded.

An exemption up until EUR 12,000 annually may apply in case of delivery of shares to own employees or group company employees for free or below market value under certain conditions: (i) the offer of shares is made under the general remuneration policy of the group of companies and must contribute to the participation of the employees in the company (ii) the employees, their spouses or other relatives must not have any joint interest in the share capital of the company higher than 5% (iii) the shares must be retained by the employees for at least three years after acquisition. The excess amount over and above EUR 12,000 will be subject to tax and tax withholding and to social security contributions.

The employer of the eligible participant will withhold salary tax. The employer will report the cash payment on the employee's pay slip and a reporting in the individual income tax return will be required.

Upon sale of the shares, capital gains tax will be payable on the difference between the sale price and the acquisition cost (i.e fair market value of the shares at the time of the award) at the rate of 19% up to EUR 6,000 and 21% onwards. **Dividends derived from J&J shares will be taxed** at a rate of 19% up to EUR 6,000 and 21% onwards. There is an exemption of EUR 1,500 applicable to all dividends received from any source. However, dividends received on shares that are bought and sold

within a two month period are excluded from this exemption. This exemption is claimed in the individual Personal Income Tax return.

We would encourage the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The taxable amount will be subject to **employee social security** contributions of **6,35% on earnings up to EUR 38,376 for year 2010**. The draft bill of the 2011 State Budget regulates an annual cap for social security contributions of EUR 38,761.20 to apply as at 1 January 2011. The exemption regulated in 23.1.1(i) above (EUR 12,000) also applies for social security contributions if the requirements set forth therein are met. The employer of the eligible participant will withhold these employee social security contributions.

### 23.1.3 Example

(i) Assumptions

- Spanish resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security	0	0
Less : income tax	- € 2,580	- € 2,580
<b>Net bonus</b>	<b>€ 3,420</b>	<b>€ 3,420</b>

(\*) No social security contributions due, as normal threshold has already been reached

(\*\*) - Highest tax rate reached (43%) as of taxable income of EUR 53,360. Please be aware that the draft bill of the 2011 State Budget increases the progressive income tax rate up to 45% for income higher than EUR 175,000.20 and to 44% for income between EUR 120,000.20 to EUR 175,000.20.

(\*\*\*) It has been assumed that the EUR 12,000 exemption will not be applicable (e.g. shares are immediately sold).

## 23.2 Translated tax analysis: Bonus Plan

### 23.2.1 Tratamiento fiscal y de cotización a la seguridad social de los pagos en efectivo

(i) Tratamiento fiscal

El importe en efectivo recibido por el participante admitido estará sujeto a impuestos, en el momento del pago, **en calidad de retenciones a cuenta de rendimientos del trabajo dinerarios a los tipos progresivos del impuesto sobre la renta** hasta 43%. El proyecto del Ley del Presupuestos Generales del Estado para el ejercicio 2011 incrementa el tipo de retención hasta el 45% para rentas superiores a 175,000.20 Euros y al 44% para rentas comprendidas entre 120,000.20 y 175,000.20 Euros.

El empresario del participante retendrá el impuesto sobre sueldos y salarios. El empresario indicará el pago en efectivo en la nómina del empleado y asimismo se exigirá que se indique en la declaración individual del Impuesto sobre la Renta de las Personas Físicas..

(ii) Tratamiento de la cotización a la seguridad social

El pago en efectivo estará sujeto a **cotización a la seguridad social ascendiendo la cuota del empleado a 6,35% sobre unos ingresos anuales para el año 2010 de hasta 38,376 EUR**. El proyecto de Ley General de Presupuestos para el año 2011 prevé un incremento de los ingresos anuales máximos sujetos a cotización de hasta 38,761.20 EUR. El empresario del participante retendrá estas cotizaciones a la seguridad social de la nómina del empleado.

### 23.2.2 Tratamiento fiscal y de las cotizaciones a la seguridad social por la asignación de acciones

(i) Tratamiento fiscal

Las acciones concedidas al participante estarán sujetas a impuestos, en el momento de su concesión, **en calidad de ingreso a cuenta sobre rendimientos del trabajo en especie a unos tipos impositivos progresivos** hasta 43%. El proyecto de la Ley del Presupuestos Generales del Estado para el ejercicio 2011 incrementa el tipo de retención hasta el 45% para rentas superiores a 175,000.20 Euros y al 44% para rentas comprendidas entre 120,000.20 y 175,000.20 Euros.

El importe sujeto a impuesto equivale en principio al valor normal de mercado de las acciones J&J concedidas en la fecha en que se otorgaron las acciones.

Podría aplicarse una exención de hasta 12.000 EUR anuales en caso de entrega de acciones gratuitas o por debajo del valor normal de mercado a empleados propios o a empleados de las compañías del grupo cuando se cumplan determinadas condiciones: (i) la oferta debe realizarse en el marco de la política retributiva general de la empresa o del grupo y fomentar la participación de los trabajadores, (ii) cada uno de los trabajadores, conjuntamente con sus cónyuges o familiares hasta segundo grado, no pueden tener una participación directa o indirecta, en la sociedad en la que prestan sus servicios o en otra cualquiera del grupo superior al 5% (ii) los títulos deben mantenerse, al menos, durante tres años. El importe que supere los 12.000 EUR estará sujeto a impuestos y a retenciones fiscales y a cotización a la seguridad social.

El empresario del participante admitido retendrá el impuesto sobre sueldos y salarios. El empresario indicará el pago en efectivo en la nómina del empleado y asimismo éste tendrá que declararlo en su correspondiente declaración del impuesto sobre la renta de las personas físicas.

En el momento de la venta de las acciones, el impuesto sobre la ganancia de capital estará sujeto a impuestos por la diferencia entre el precio de venta y el coste de adquisición (i.e. valor normal de mercado de las acciones en el momento de la consecución de las acciones) a un tipo del del 19% hasta 6,000 Euros y del 21% en adelante

**Los dividendos derivados de las acciones J&J tributarán al tipo del 19%** hasta 6,000 Euros y del 21% en adelante. **Se establece una exención en dividendos de cualquier fuente hasta un importe máximo de 1,500 euros anuales. Esta exención no se aplicará respecto a los dividendos adquiridos dentro de los dos meses anteriores a la fecha en que aquellos hubieran sido satisfechos cuando,**

**con posterioridad a esta fecha, dentro del mismo plazo, se produzca su transmisión. Esta exención se aplicará en la declaración del Impuesto sobre la Renta de las Personas Físicas individual del empleado**

Aconsejamos a los participantes admitidos, que planeen vender las acciones, recurran a un asesor fiscal.

(ii) Tratamiento de las cotizaciones a la seguridad social

El importe sujeto a tributación estará sometido a **cotización a la seguridad social ascendiendo la cuota del empleado a 6,35% sobre unas ganancias anuales para el año 2010 de hasta 38,376EUR**. El proyecto de Ley General de Presupuestos para el año 2011 prevé un incremento de los ingresos anuales máximos sujetos a cotización de hasta 38,761.20 EUR. La entrega de acciones puede dar lugar a la aplicación de determinadas exenciones en material de seguridad social (véase apartado **Error! Reference source not found.**). El empresario retendrá estas cotizaciones a la seguridad social de la nómina de empleado.

### 23.2.3 Ejemplo

(i) Supuestos

- Tributación de un residente en España
- Ingresos regulares de 80.000 EUR
- Pago de una prima de 6.000 EUR o concesión de 100 acciones por valor de 60 EUR/acción.

(ii) Resultado

	Incentivo en efectivo	Concesión de acciones (100 x 60 €)
<b>Valor del incentivo en efectivo / acciones</b>	<b>6.000 €</b>	<b>6.000 €</b>
Menos seguridad social	0	0
Menos impuesto sobre la renta	-2.580 €	-2.580 €
<b>Incentivo neto</b>	<b>3.420 €</b>	<b>3.420 €</b>

(\*) Ninguna aportación a la seguridad social, ya que se ha alcanzado el umbral normal.

(\*\*) Tipo impositivo más elevado (43%) por unos ingresos imposables de 53.360 EUR. El proyecto del Ley del Presupuestos Generales del Estado para el ejercicio 2011 incrementa el tipo de retención hasta el 45% para rentas superiores a 175,000.20 Euros y al 44% para rentas comprendidas entre 120,000.20 y 175,000.20 Euros

(\*\*\*) Se supone que la exención de EUR 12.000 no será aplicable (p.e. las acciones se venderán inmediatamente)

## 24 Sweden

### 24.1 Tax analysis: Bonus Plan

#### 24.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the eligible participant will be taxable, at the time of payment, **as employment income at progressive income tax rates** (ranging from approx. 30% to 58% depending on the participant's total yearly income and municipal residency).

The participant's employer shall withhold preliminary tax on the cash payment or other cash remuneration paid out from the employer in the month of the taxable event. The withholding obligation is limited to the amount of cash remuneration that the participant receives in that month. If the participant in the end of the year estimates that preliminary taxes paid during the year will not cover his/her final tax liability, he/she will have to make supplementary preliminary tax payments to avoid interest. The employer shall report the cash payment on the participant's annual income statement (*Sw. kontrolluppgift*).

(ii) Social security treatment

The cash payment will be subject to social security contributions at a rate of 31.42%, payable by the employer.

The cash payment will also be subject to **a general pension fee contribution of 7%, which is charged on a yearly income up to SEK 412,400 (2010)** and withheld by the employer (if applicable). The pension fee may be credited against tax on e.g. employment income.

#### 24.1.2 Tax and social security treatment of attribution of shares

(i) Tax treatment

The shares will be taxable, when delivered to the participant, **as employment income at progressive income tax rates** (ranging from 30% to 58% depending on the participant's total yearly income and municipal residency).

The taxable amount is equal to the stock price of the J&J shares at the time the shares are delivered to the participant.

The participant's employer shall withhold preliminary tax from cash remuneration paid out by the employer in the month of the taxable event. The withholding obligation is limited to the amount of cash remuneration that the participant receives in that month. If the participant in the end of the year estimates that preliminary taxes paid during the year will not cover his/her final tax liability, he/she will have to make supplementary preliminary tax payments to avoid interest. The employer shall report the value of the shares on the participant's annual income statement (*Sw. kontrolluppgift*).

At the sale of the listed shares, a capital gain tax of 30% (flat rate) will be due on the sale proceeds, decreased with the acquisition cost and any sales costs. The tax is payable in the year after the sale. The amount subject to employment taxation at delivery of the shares to the participants will be deemed as acquisition cost.

**Dividends derived from listed J&J shares are taxed at a flat rate of 30%.**

We would encourage the participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The amount subject to employment income tax will be subject to social security contributions at a rate of 31.42%, payable by the employer.

The amount subject to employment income tax will further be subject to a **general pension fee contribution of 7% which is charged on a yearly income up to SEK 412,400 (2010)** and withheld by the employer (if applicable). The pension fee may be credited against tax on e.g. employment income.

Dividends on the J&J shares and capital gains (if any) realised upon a sale of the J&J shares are not subject to social security contributions.

### 24.1.3 Example

(i) Assumptions

- Swedish resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	Cash bonus	Share award (100 shares x € 60)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less : social security (*)	- 0	- 0
Less : income tax (**)	- € 3,480	- € 3,480
<b>Net value of bonus / shares</b>	<b>€ 2,520</b>	<b>€ 2,520</b>

(\*) No pension fee contribution (as 7% cap has already been reached)

(\*\*) Highest tax rate reached (58%) as of income 532,701 SEK (approx. EUR 57,530)

## 24.2 Translated tax analysis: Bonus Plan

Beskrivningen nedan är endast en kort och generell guide avseende skattemässiga effekter av ett deltagande i planen. Den avser nu gällande regler (oktober 2010) och kan således komma att förändras i framtiden. Notera att din personliga skattesituation kan påverkas av omständigheter som gäller för dig personligen och du bör således själv undersöka skattekonsekvenserna som deltagandet i planen medför.

### 24.2.1 Skatt och sociala avgifter för kontantutbetalningar

(i) Inkomstskatt

Det kontanta beloppet som mottagits av deltagaren kommer att vara skattepliktigt, när beloppet betalas ut, som inkomst av tjänst med en progressiv skattesats (cirka 30% till 58% beroende på deltagarens totala årsinkomst och hemkommun).

Deltagarens arbetsgivare ska dra av preliminär skatt från kontantutbetalningen eller från annan kontant ersättning från arbetsgivaren den månad som den skattepliktiga händelsen inträffar. Skyldigheten att innehålla preliminär skatt är begränsad till den kontanta ersättningen som deltagaren erhåller den månaden. Om deltagaren vid



slutet av året uppskattar att den preliminärskatt som betalats in under året inte täcker hennes/hans slutliga skatteplikt, kommer hon/han att få göra en fyllnadsinbetalning av preliminärskatt för att undvika ränta. Arbetsgivaren ska rapportera kontantutbetalningen i den årliga kontrolluppgiften för deltagaren.

(ii) Sociala avgifter

Kontantutbetalningen kommer att vara föremål för sociala avgifter om 31,42% som betalas av arbetsgivaren.

Kontantutbetalningen kommer dessutom att vara föremål för allmän pensionsavgift om 7% som tas ut på inkomster upp till 412 400 SEK (2010). Deltagarens arbetsgivare kommer att innehålla (eventuell) allmän pensionsavgift på samma sätt som inkomstskatten. Den allmänna pensionsavgiften är avdragsgill mot skatt på exempelvis inkomst av tjänst.

#### 24.2.2 Skatt och sociala avgifter vid tilldelning av aktier

(i) Inkomstskatt

Aktierna som tilldelas deltagaren är skattepliktiga, vid tilldelningen, som inkomst av tjänst med en progressiv skattesats (cirka 30% till 58% beroende på deltagarens totala årsinkomst och hemkommun).

Det skattepliktiga beloppet motsvarar J&J-aktiernas marknadspris vid tilldelningen.

Deltagarens arbetsgivare ska dra preliminärskatt med anledning av de tilldelade aktierna från kontant ersättning från arbetsgivaren den månad som den skattepliktiga händelsen inträffat. Skyldigheten att innehålla preliminär skatt är begränsad till den kontanta ersättningen som deltagaren erhåller den månaden. Om deltagaren vid slutet av året uppskattar att den preliminärskatt som betalats in under året inte täcker hennes/hans slutliga skatteplikt, kommer hon/han att få göra en fyllnadsinbetalning av preliminärskatten för att undvika ränta. Arbetsgivaren ska redovisa aktiernas värde i den årliga kontrolluppgiften för deltagaren.

Eventuell vinst vid en försäljning av de marknadsnoterade aktierna beskattas i inkomstslaget kapital med en skattesats om 30%. Vinsten beräknas som försäljningspriset minus eventuella försäljningskostnader och omkostnadsbeloppet (skattemässigt anskaffningsvärde). Omkostnadsbeloppet beräknas enligt den s.k. genomsnittsmetoden, vilket innebär att anskaffningsutgiften för alla J&J-aktier beräknas gemensamt med hänsyn till inträffade förändringar i innehavet. För tilldelade aktier kommer det belopp som beskattades vid tilldelningen att räknas som aktiernas anskaffningsutgift.

För aktier som är marknadsnoterade vid avyttringstidpunkten får omkostnadsbeloppet, som ett alternativ, beräknas till 20% av försäljningspriset efter avdrag för försäljningsutgiften enligt den s.k. schablonregeln.

Utdelning som erhålls från marknadsnoterade J&J-aktier beskattas med en rak skattesats på 30%.

Vi uppmanar deltagarna att söka personlig skatterådgivning vid en planerad försäljning av aktierna.

(ii) Sociala avgifter

Det belopp som är föremål för inkomstbeskattning kommer att vara föremål för sociala avgifter med en skattesats om 31,42%. Sociala avgifter betalas av arbetsgivaren.

Det belopp som är föremål för inkomstbeskattning kommer dessutom att vara föremål för en allmän pensionsavgift om 7% som tas ut på inkomster upp till 412 400 SEK (2010). Deltagarens arbetsgivare kommer att innehålla (eventuell) allmän pensionsavgift på samma sätt som inkomstskatt. Den allmänna pensionsavgiften är avdragsgill mot skatt på exempelvis inkomst av tjänst.

Utdelning på J&J-aktier och reavinstskatt vid försäljning av J&J-aktier är inte föremål för sociala avgifter.

### 24.2.3 Exempel

(i) Antaganden/Förutsättning

- Beskattas som bofast i Sverige
- Fast inkomst på 80 000 EUR
- Bonusutbetalning på 6 000 EUR eller en aktietilldelning på 100 aktier till ett värde av 60 EUR/aktie

(ii) Resultat

	Kontant bonus	Tillskrivna aktier (100 aktier x 60 €)
<b>Värde av bonus / aktier</b>	<b>6 000 €</b>	<b>6 000 €</b>
Minus: sociala avgifter (*)	- 0	- 0
Minus: inkomstskatt (**)	- 3 480 €	- 3 480 €
<b>Nettovärde bonus / aktier</b>	<b>2 520 €</b>	<b>2 520 €</b>

(\*) Inga pensionsavgifter (eftersom taket på 7% redan har uppnåtts)

(\*\*) Högsta skattetabellen har uppnåtts (58%) för inkomst på 532 701 SEK (cirka 57 530 EUR)

## 25 United Kingdom

### 25.1 Tax analysis: Bonus Plan

#### 25.1.1 Tax and social security treatment of cash payments

(i) Tax treatment

The cash amount received by the participant will be taxable at his or her normal marginal rate, at the time of payment.

The employer of the participant will normally withhold income tax on the cash payment, through the normal PAYE system.

(ii) Social security treatment

The cash payment will be subject to employer and employee national insurance contributions (NIC). The employer of the participant will also withhold NIC through the normal PAYE system.

#### 25.1.2 Tax and social security treatment of purchase of shares

(i) Tax treatment

The shares granted to the eligible participant will be taxable at his or her normal marginal rate when the shares are bought for him or her.

The taxable amount is equal to the fair market value of the J&J shares at the date the shares are bought.

The employer of the participant will normally withhold the income tax through the normal PAYE system. The tax can only be deducted from the salary in the month in which the shares are purchased unless there is a contractual right to recover the tax from the employee in some other way. The tax must be recovered from the employee within 90 days of purchase or penalties (for the employee) will apply.

Upon sale of the shares, capital gains tax may be due on the sale proceeds. The capital gains tax would be on the sale proceeds, less the 'base cost' of the J&J shares. If the participant's only holding of J&J shares is that bought with his bonus, then the 'base cost' will be the market value of the shares at the date they were acquired. If the participant has other holdings, the calculation is more complicated. The capital gains tax is subject to the participant's annual allowance (GBP 10,100 for the 2010/11 tax year).

**The participant will have to pay income tax on any dividends paid on the J&J shares. The dividends will be taxable at the participant's normal tax rate but the participants may get credit for any US withholding. National insurance contributions are not payable on dividends and the participant has to pay the tax through self-assessment.**

We would encourage the eligible participants to seek personal tax advice in case of planned sale of the shares.

(ii) Social security treatment

The taxable amount will be subject to employer and employee national insurance contributions (NIC). The employer of the eligible participant will withhold these social security contributions through the normal PAYE system.

### 25.1.3 Example

(i) Assumptions

- UK resident, ordinarily resident and domiciled at all relevant times
- Regular income of GBP 80,000
- Bonus payment of GBP 6,000 or share grant of 100 shares at value of GBP 60/share

(ii) Result

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
<b>Value of bonus / shares</b>	<b>£ 6,000</b>	<b>£ 6,000</b>
Less : social security (*)	- £ 60	- £ 60
Less : income tax	- £ 2,400	- £ 2,400
<b>Net bonus</b>	<b>£ 3,540</b>	<b>£ 3,540</b>

(\*) Social security rate of 1% (assuming 11% cap has already been reached through salary payments)