

PROSPECTUS



(a Corporation set up under the Laws of New Jersey, U.S.A. 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 AND LONG-TERM INCENTIVE PROGRAM**

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 “**Executive Bonus Plan**”) and pursuant to the Johnson & Johnson Long-Term Incentive Program (the “**LTIP**”, and together with the Executive Bonus Plan, the “**Plans**”), as hereinafter described.

The securities to be offered consist of up to 17,895,294 shares of Johnson & Johnson Common Stock (the “**Common Stock**”), which are available for awards under the Executive Bonus Plan and 1,607,484 shares of Common Stock under outstanding stock options under the LTIP granted to employees in Germany that have vested and are exercisable, or become exercisable for the first time after the date of this Prospectus until 28 November 2012 (the “**Stock Options**”).

WARNING: participation in the Plans 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 29 November 2011.**

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## 1. SUMMARY OF THE PROSPECTUS

dated 29 November 2011 relating to the offer of Common Stock to eligible employees pursuant to the Plans,

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 international 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, environmental protection, 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;
- Increased scrutiny of the health care industry by government agencies and state attorneys general resulting in investigations and prosecutions carry the risk of significant civil and criminal penalties, including, but not limited to, debarment from government business;
- Difficulties and delays in manufacturing that cause voluntary or involuntary business interruptions or shutdowns, product shortages, substantial modifications to our business practices and operations, withdrawals or suspensions of current products from the market, or possible civil penalties and criminal prosecution;
- Product liability insurance for products may be limited, cost prohibitive or unavailable;
- 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 international counterparts) or declining sales;
- The impact of business combinations, including acquisitions and divestitures, both by and for the Company, as well as externally in the pharmaceutical, medical devices and diagnostics and consumer 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 Plans 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 Belgian Financial Services and Markets Authority

On 29 November 2011, 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 Belgian Financial Services and Markets Authority 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 Plans, 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 29 November 2011 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 Plans and features of the Common Stock under the Plans |

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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, Slovak, Slovenian, Spanish and Swedish.

**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 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 Executive Bonus Plan**

*The following is a brief, but not comprehensive, summary of the Executive Bonus 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 Executive Bonus 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 Executive Bonus Plan.** The Executive Bonus 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 Executive Bonus Plan) to, among other things:

- select the persons to be granted awards under the Executive Bonus 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 Executive Bonus 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 Executive Bonus Plan also provides that eligible employees may be allowed to elect to receive certain other payments, to be designated in the Executive Bonus Plan, in cash, in shares of Common Stock, or in a combination of such shares and cash.

**Eligibility.** Participants in the Executive Bonus 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 Executive Bonus 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 Executive Bonus Plan.

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

**Categories of Awards.** The Executive Bonus 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 Executive Bonus Plan.** Up to 17,895,294 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 Executive Bonus 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 under the Executive Bonus Plan shall not be issued pursuant to the terms of Johnson & Johnson's LTIP and shall not be subject to the terms of the LTIP. For more information on the LTIP, please see pages 11-15 and pages 148-153 of this Prospectus.

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.

The choice with respect to source of shares is determined in principle on an annual basis, based on historical exercise patterns, RSU vesting and estimated bonus choice.



**Award Limitations.** The Executive Bonus Plan does not provide for any limitations on awards to be granted under the Executive Bonus Plan. However, an award under the Executive Bonus Plan may not be paid until and unless the Committee approves the award, and, in addition, the Compensation & 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 Executive Bonus 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 & 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 Executive Bonus 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, 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 Executive Bonus Plan.

**No Assignment or Transfer.** No award under the Executive Bonus 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 Executive Bonus 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 Executive Bonus 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 Executive Bonus 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 Executive Bonus 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 LLC (Symbol: JNJ)
<b>Subscription period</b>	5 December 2011 up to 23 December 2011

**Applicable law**

State of New Jersey

### **Summary of the LTIP**

*The following is a brief, but not comprehensive, summary of the LTIP, the complete text of which is annexed to the Prospectus as Annex 2 to the Securities Note. Reference is hereby made to that Annex for a complete statement of the provisions of the LTIP, 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 2 to the Securities Note, the Annex shall take precedence over the summary.*

*The exercise of vested stock options is deemed to be a public offer in Germany, requiring this Prospectus. Consequently, the offer of Stock Options as set out in this Prospectus is limited to Johnson & Johnson employees in Germany. Notwithstanding the various categories of awards offered under the LTIP, only stock options that have vested and are exercisable, or become exercisable by Johnson & Johnson employees in Germany for the first time after the date of this Prospectus until 28 November 2012 require this Prospectus in Germany. Therefore, while this Summary provides an overview of the LTIP and the various categories of awards offered under the LTIP, the Securities Note in relation to the LTIP only relates to the conditions of vesting of the Stock Options and the modalities of exercising the Stock Options. In other EEA Member States, an exemption from the prospectus requirement is available for the exercise of the Stock Options under the LTIP.*

**Administration of the LTIP.** The LTIP shall be administered by the Compensation & Benefits Committee of Johnson & Johnson (the "**C&B Committee**"), the members of which are appointed annually by the Board of Directors. The primary function of the C&B Committee is to discharge the Board's duties and responsibilities relating to compensation of the Company's Non-Employee Directors and executive officers and oversee the design and management of the various pension, long-term incentive, savings, health and welfare plans that cover the Company's employees. The C&B Committee has the authority (within the limitations described in the LTIP) to, among other things:

- select the persons to be granted awards under the LTIP;
- determine the type, 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;
- establish objectives and conditions for awards;
- determine whether an award shall be evidenced by an agreement and, if so, to determine the terms and conditions of such agreement (which shall not be inconsistent with the LTIP) and who must be the parties to such agreement;
- determine whether any conditions applicable to an award have been met and whether an award will be paid at the end of a performance period;
- determine if, when, and under what conditions payment of all or any part of an award shall be deferred; and
- determine the guidelines and/or procedures for the payment or exercise of awards.

**Awards.** The LTIP provides for the grant of incentive stock options that satisfy the requirements of Section 422 of the U.S. Internal Revenue Code of 1986 (as amended), non-qualified stock options, stock appreciation rights ("**SARs**"), restricted shares, **restricted share units**, stock awards and performance shares, each as defined in the LTIP.

**Eligibility and Participation.** Participants in the LTIP will be selected on the basis of demonstrated ability to contribute substantially to the effective management or financial performance of the Company. The C&B Committee will select participants in the LTIP from among those persons who are:

- directors who are employees of the Company or its domestic subsidiaries;
- employees of the Company and its domestic subsidiaries (including executive officers and officers of the Company);
- employees of international subsidiaries and joint venture operations of the Company and its subsidiaries; and
- employees of joint venture partners who are assigned to any such joint ventures.

Participants will also include non-employee directors of the Company who are eligible to receive stock awards and restricted shares under the LTIP. It is not possible to state the number of employees who will participate in the LTIP in the future or the extent of their participation. Awards shall vest, and be subject to forfeiture, upon terms determined by the C&B Committee; provided, however, that awards granted to non-employee directors pursuant to the LTIP shall be vested and nonforfeitable at all times.

**Categories of Awards.** The following awards may be granted under the LTIP.

*Stock Options.* Stock Options may be granted alone or together with SARs. A Stock Option may be granted in the form of a non-qualified stock option or an incentive stock option. The Stock Option exercise price may not be less than the fair market value of a share of Common Stock on the date the Stock Option is granted, unless the Stock Option was granted through the assumption of, or in substitution for, an outstanding award previously granted by a corporation acquired by or merged with the Company. The C&B Committee may establish the term of each Stock Option, but no Stock Option will be exercisable after 10 years from the grant date.

Except for adjustments made to adjust for dilutive or similar events, or except as otherwise approved by the shareholders, the exercise price of a Stock Option may not be decreased after the date of grant and no outstanding Stock Option may be surrendered to the Company as consideration for the grant of a new Stock Option with a lower exercise price.

*Incentive stock options.* An incentive stock option is a stock option that may qualify for certain U.S. income tax advantages. The aggregate fair market value of the shares of Common Stock with respect to which incentive stock options become exercisable by an individual participant for the first time in any calendar year may not exceed USD100,000 or such other amount as may subsequently be specified by the US Internal Revenue Code of 1986 (as amended) and/or applicable regulations, based on the fair market value of the underlying Common Stock on the date of grant. If this limit is exceeded, any options on shares in excess of the limit will be treated as non-qualified stock options.

*SARs.* A SAR is an award that entitles the recipient to receive the appreciation in value of a set number of shares of Common Stock over a set period of time. SARs may be granted either alone or in tandem with Stock Options. The exercise price of a SAR must be equal to or greater than the fair market value of the underlying Common Stock on the date of grant, unless the SAR was granted through the assumption of, or in substitution for, an outstanding award previously granted by a corporation acquired by or merged with the Company. The C&B Committee may establish the term of each SAR, but no SAR will be exercisable after 10 years from the grant date.

*Restricted shares and restricted share units ("RSUs").* A restricted share is an award of a share of Common Stock that may not be traded or sold until a predetermined date set by the C&B Committee. A RSU is an award of an amount, payable in cash, shares of Common Stock, or a combination thereof, as determined by the C&B Committee, based on the value of a specified number of shares of Common Stock. The restrictions on such awards shall be determined by the C&B Committee, and may include stipulated purchase prices, forfeiture conditions, transfer restrictions, restrictions based on performance goals and time-based restrictions on vesting. Unless

otherwise determined by the C&B Committee, any time-based restriction must be for a minimum of three years. Holders of RSUs will have no ownership interest in the shares of Common Stock to which such RSUs relate until and unless payment with respect to such restricted RSUs is actually made in shares of Common Stock. Except as otherwise determined by the C&B Committee, during the restriction period, participants who hold restricted shares will have voting rights and any dividends payable to participants on restricted shares during the restriction period will be distributed to participants only if and when the restrictions imposed on the restricted shares lapse. Unless otherwise determined by the C&B Committee, during the restriction period, participants who hold RSUs will be credited with dividend equivalents in respect of such RSUs, which will be immediately converted, subject to certain terms and conditions as determined by the C&B Committee, to RSUs with an initial value equal to the amount of such dividend equivalents.

**Stock awards.** Stock awards may be granted to eligible participants, either alone or in combination with other awards under the LTIP. The C&B Committee will determine the terms and conditions governing each stock award.

**Performance shares.** A performance share is an award of shares of Common Stock based on the achievement of certain performance goals set during a performance period. Performance shares may be issued to eligible participants, either alone or in combination with other awards made under the LTIP. The C&B Committee will determine the performance goals, and unless it determines otherwise, the performance period will be three years. The performance measures to be used for performance shares may be based on one or more performance criteria, including: income measures (such as gross profit, operating income, earnings before or after taxes, net income and earnings per share); return measures (including return on assets, investment, equity or sales); cash flow; costs; revenue measures; and stock price (such as growth measures and total shareholder return). Notwithstanding the attainment of any performance goal, the C&B Committee has the discretion to reduce any award payment.

**Award Limitations.** During any fiscal year, Stock Options and SARs may be granted, in the aggregate, to an individual participant with respect to a maximum of 2 million shares of Common Stock. In addition, during any fiscal year, awards other than Stock Options and SARs may be granted, in the aggregate, to an individual participant with respect to a maximum of USD15 million, based on the fair market value (as such term is defined in the LTIP) of the underlying shares of Common Stock on the day the award is granted.

**Source of Shares.** The source of shares of Common Stock to be delivered by the Company under the LTIP shall be determined by the C&B Committee and may consist in whole or in part of authorized but unissued shares, treasury shares or shares acquired on the open market.

The choice with respect to source of shares is determined in principle on an annual basis, based on historical exercise patterns, RSU vesting and estimated bonus choice.

**Exercise of Stock Options.** The LTIP provides that the exercise price per share for each Stock Option and SAR granted thereunder shall not be less than the fair market value on the date the Stock Option or SAR is granted.

**Payment.** When a Stock Option is exercised, the option exercise price will be payable to the Company in full

(a) in cash or its equivalent;

(b) by tendering previously acquired shares of Common Stock having an aggregate fair market value on the date of exercise equal to the total option exercise price (provided that the shares that are tendered must have been beneficially owned by the participant for at least six months prior to their tender); or

(c) by a combination of (a) and (b).

With respect to SARs, the C&B Committee may authorize payment in the form of cash, Common Stock that (when valued at its fair market value on the date of exercise) has a value equal to such cash amount, a combination thereof, or any other method as the C&B Committee may determine.

**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 C&B Committee will make appropriate adjustments in the class and aggregate number of shares that may be delivered under the LTIP, the individual award maximums, the class, number and exercise price of outstanding Stock Options and SARs, and the class and number of shares subject to any other awards granted under the LTIP.

**No Assignment or Transfer.** No award under the LTIP or any rights or interests therein shall be transferable other than by will or the laws of descent and distribution, and all awards under the LTIP shall be exercisable, during the participant's lifetime, only by the participant. Once awarded, Common Stock (other than restricted shares) received by participants may be freely transferred, assigned, pledged, or otherwise subjected to lien, subject to restrictions imposed by the U.S. Securities Act of 1933, Section 16 of the U.S. Securities Exchange Act of 1934 and the Company's Insider Trading Policy.

**Effective Date, Amendments and Termination.** The LTIP became effective as of 28 April 2005. No awards will be made under the LTIP after 28 April 2015. The C&B Committee may terminate or amend the LTIP 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 stock exchange rules and regulations. Unless the Company's shareholders have first approved the amendment, no amendment may (a) increase the number of authorized shares or the maximum individual award limitation, (b) extend the maximum period during which awards may be granted, (c) add to the types of awards that may be made, (d) change the performance measures pursuant to which performance shares are earned, (e) modify the requirements governing eligibility for participation in the LTIP or (f) amend the LTIP in a manner that would require shareholder approval pursuant to the LTIP, applicable law or the rules of the New York Stock Exchange.

***Features of the Stock Options offered under the LTIP in Germany***

<b>Company</b>	Johnson & Johnson
<b>Form of Securities</b>	Stock Options
<b>Nominal Amount of underlying Common Stock</b>	Par Value US\$1.00 per Share
<b>Listing of underlying Common Stock</b>	New York Stock Exchange LLC (Symbol: JNJ)
<b>Vesting period and exercise period</b>	The Stock Options vest 3 years after the grant date of the Stock Options, contingent upon continued employment. Only vested Stock Options may be exercised. This Prospectus relates to the Stock Options which have vested and are exercisable, or become exercisable by Johnson & Johnson employees in Germany for the first time after the date of this Prospectus until 28 November 2012. Stock Options must be exercised within 10 years from the grant date or they expire.

**Applicable law**

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 and certain of its subsidiaries are involved in various lawsuits and claims regarding product liability, intellectual property, commercial and other matters; governmental investigations; and other legal proceedings that arise from time to time in the ordinary course of their business.

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 position. However, the resolution in any reporting period of one or more of these matters, either alone or in the aggregate, may have a material adverse effect on the Company’s results of operations, and cash flows for that period.

For further information on the Company’s legal proceedings, please consult Section 19.7 of the Registration Document.



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

*On 2 January 2011, 3 January 2010 and 28 December 2008 (Dollars in Millions Except Share and Per Share Data)(Note 1 to the Consolidated Financial Statements – see Section 19 of the Registration Document)*

	2010	2009	2008
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 1 and 2)	\$19,355	\$15,810	\$10,768
Marketable securities (Notes 1 and 2)	8,303	3,615	2,041
Accounts receivable trade, less allowances for doubtful accounts \$340 (2009, \$333)	9,774	9,646	9,719
Inventories (Notes 1 and 3)	5,378	5,180	5,052
Deferred taxes on income (Note 8)	2,224	2,793	3,430
Prepaid expenses and other receivables	2,273	2,497	3,367
<b>Total current assets</b>	<b>47,307</b>	<b>39,541</b>	<b>34,377</b>
Property, plant and equipment, net (Notes 1 and 4)	14,553	14,759	14,365
Intangible assets, net (Notes 1 and 5)	16,716	16,323	13,976
Goodwill (Notes 1 and 5)	15,294	14,862	13,719
Deferred taxes on income (Note 8)	5,096	5,507	5,841
Other assets	3,942	3,690	2,634
<b>Total assets</b>	<b>\$102,908</b>	<b>\$94,682</b>	<b>\$84,912</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Loans and notes payable (Note 7)	\$7,617	\$6,318	\$3,732
Accounts payable	5,623	5,541	7,503
Accrued liabilities	4,100	4,625	4,599
Accrued rebates, returns and promotions	2,512	2,028	2,237
Accrued compensation and employee related obligations	2,642	2,777	2,364
Accrued taxes on income	578	442	417
<b>Total current liabilities</b>	<b>23,072</b>	<b>21,731</b>	<b>20,852</b>
Long-term debt (Note 7)	9,156	8,223	8,120
Deferred taxes on income (Note 8)	1,447	1,424	1,432

<sup>2</sup> The financial information is derived from the audited financial statements of Johnson & Johnson and has to be consulted together with the 2010 and 2009 Annual Reports.

Employee related obligations (Notes 9 and 10)	6,087	6,769	7,791
Other liabilities	6,567	5,947	4,206
<b>Total liabilities</b>	<b>46,329</b>	<b>44,094</b>	<b>42,401</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)	(3,531)	(3,058)	(4,955)
Retained earnings	77,773	70,306	63,379
	77,362	70,368	61,544
Less: common stock held in treasury, at cost (Note 12) (381,746,000 and 365,522,000 shares)	20,783	19,780	19,033
<b>Total shareholders' equity</b>	<b>56,579</b>	<b>50,588</b>	<b>42,511</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$102,908</b>	<b>\$94,682</b>	<b>\$84,912</b>

<i>(Dollars in Millions Except for Share Figures)</i>	2010	2009	2008	% Change	
				2010	2009
Sales to customers	\$61,587	\$61,897	\$63,747	(0.5)%	(2.9)%
Net earnings	\$13,334	\$12,266	\$12,949	8.7%	(5.3)%
Percent return on average shareholders' equity	24.9%	26.4%	30.2%	-	-
Diluted net earnings per share	\$4.78	\$4.40	\$4.57	8.6%	(3.7)%
Cash dividends paid per share	\$2.110	\$1.930	\$1.795	9.3%	7.5%
Market price (year-end close)	\$61.85	\$64.41	\$58.56	(4.0)%	10%

#### *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, Senior Advisor, Apax Partners; Former Chairman and Worldwide Managing Director, 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, Former 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, 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

Ronald A. Williams, Former Chairman and Chief Executive Officer, Aetna Inc.

### *Employees*

As on the date of this summary, the operating companies of Johnson & Johnson employ approximately 117,000 employees worldwide.

### *Statutory auditor*

PricewaterhouseCoopers LLP, New York, New York, U.S.A. have served as the Company's independent registered public accounting firm for all fiscal periods presented in the Prospectus. The Consolidated Financial Statements of the Company have been drawn up in accordance with U.S. GAAP (Generally Accepted Accounting Principles). Page 72 of the Company's Annual Report 2010, Page 64 of the Company's Annual Report 2009 and page 69 of the Company's Annual Report 2008 contain the Report of the Company's independent registered public accounting firm. 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 3 to the Securities Note of this Prospectus contains a general description of the tax treatment of the Executive Bonus Plan in the Member States of residence of the eligible participants in the Executive Bonus Plan, as well as a general description of the tax treatment of the LTIP for employees of the Company in Germany. This description deals in particular with the income tax and social security treatment of a participation in the Executive Bonus Plan as well as a participation in the LTIP for employees of the Company in Germany. It does not purport to be a complete analysis of all tax and social security considerations relating to the Executive Bonus Plan or the LTIP (for employees of the Company in Germany only). 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 and receiving dividends under the Common Stock under the Executive Bonus Plan, and for employees of the Company in Germany only, the consequences under the tax and social security laws of Germany of receiving, holding, disposing and exercising any Stock Options under the LTIP. The overviews set out in Annex 3 to the Securities Note of this Prospectus are based upon the law as in effect on the date of this 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 Plans shall be borne by the Company and shall not be charged to any Award (as defined in the rules of the Executive Bonus Plan and the LTIP) 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 U.S.A. (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, U.S.A. (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, U.S.A. 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 U.S. GAAP (Generally Accepted Accounting Principles). Page 72 of the Company’s Annual Report 2010, Page 64 of the Company’s Annual Report 2009 and page 69 of the Company’s Annual Report 2008 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>	2010	2009	2008	% Change	
				2010	2009
Sales to customers	\$61,587	\$61,897	\$63,747	(0.5)%	(2.9)%
Net earnings	\$13,334	\$12,266	\$12,949	8.7%	(5.3)%
Percent return on average shareholders’ equity	24.9%	26.4%	30.2%	-	-
Diluted net earnings per share	\$4.78	\$4.40	\$4.57	8.6%	(3.7)%
Cash dividends paid per share	\$2.110	\$1.930	\$1.795	9.3%	7.5%
Market price (year-end close)	\$61.85	\$64.41	\$58.56	(4.0)%	10%

<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 2 January 2011, 3 January 2010 and 28 December 2008 (Dollars in Millions Except Share and Per Share Data)(Note 1 to the Consolidated Financial Statements – see Section 19 of the Registration Document)

	2010	2009	2008
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Notes 1 and 2)	\$19,355	\$15,810	\$10,768
Marketable securities (Notes 1 and 2)	8,303	3,615	2,041
Accounts receivable trade, less allowances for doubtful accounts \$340 (2009, \$333)	9,774	9,646	9,719
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Deferred taxes on income (Note 8)	5,096	5,507	5,841
Other assets	3,942	3,690	2,634
<b>Total assets</b>	<b>\$102,908</b>	<b>\$94,682</b>	<b>\$84,912</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Loans and notes payable (Note 7)	<b>\$7,617</b>	<b>\$6,318</b>	<b>\$3,732</b>
Accounts payable	5,623	5,541	7,503
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<b>Total current liabilities</b>	<b>23,072</b>	<b>21,731</b>	<b>20,852</b>
Long-term debt (Note 7)	9,156	8,223	8,120

<sup>9</sup> The financial information is derived from the audited financial statements of Johnson & Johnson and has to be consulted together with the 2010 and 2009 Annual Reports.

Deferred taxes on income (Note 8)	1,447	1,424	1,432
Employee related obligations (Notes 9 and 10)	6,087	6,769	7,791
Other liabilities	6,567	5,947	4,206
<b>Total liabilities</b>	<b>46,329</b>	<b>44,094</b>	<b>42,401</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)	(3,531)	(3,058)	(4,955)
Retained earnings	77,773	70,306	63,379
	77,362	70,368	61,544
Less: common stock held in treasury, at cost (Note 12) (381,746,000 and 365,522,000 shares)	20,783	19,780	19,033
<b>Total shareholders' equity</b>	<b>56,579</b>	<b>50,588</b>	<b>42,511</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$102,908</b>	<b>\$94,682</b>	<b>\$84,912</b>

The above information for the fiscal years ended 28 December 2008, 3 January 2010 and 2 January 2011 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 28 December 2008, 3 January 2010 and 2 January 2011 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 U.S.A. (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 Executive Bonus Plan and/or exercising stock options under the LTIP 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

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



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 international 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, environmental protection, 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;
- Increased scrutiny of the health care industry by government agencies and state attorneys general resulting in investigations and prosecutions carry the risk of significant civil and criminal penalties, including, but not limited to, debarment from government business;
- Difficulties and delays in manufacturing that cause voluntary or involuntary business interruptions or shutdowns, product shortages, substantial modifications to our business practices and operations, withdrawals or suspensions of current products from the market, or possible civil penalties and criminal prosecution;
- Product liability insurance for products may be limited, cost prohibitive or unavailable;
- 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 international counterparts) or declining sales;
- The impact of business combinations, including acquisitions and divestitures, both by and for the Company, as well as externally in the pharmaceutical, medical devices and diagnostics and consumer 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:

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 web-based 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 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 privately held medical technology company dedicated to designing, developing and commercializing devices that address conditions affecting the ear, nose and throat (ENT); 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.

During the fiscal first quarter of 2011 the Company acquired substantially all of the outstanding equity of Crucell N.V. that it did not already own. Crucell is a global biopharmaceutical company focused on the research and development, production and marketing of vaccines and antibodies against infectious disease worldwide.

During the fiscal second quarter of 2011, the Company entered into a definitive agreement to acquire Synthes, Inc. Synthes, Inc. is a premier global developer and manufacturer of

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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.

orthopaedics devices. During the fiscal third quarter of 2011, the Company acquired full ownership of the Johnson & Johnson - Merck Consumer Pharmaceuticals Co. joint venture in the United States. The joint venture has been renamed McNeil Consumer Pharmaceuticals Co. In addition, the Company acquired from Merck Canada Inc. its partnership interest in the Canadian joint venture.

On 4 November 2011, the Company announced the closing of the transaction to acquire SterilMed, Inc., a leader in the reprocessing and remanufacturing of medical devices in the U.S.

Please also refer to section 10 of this Registration Document for further information on the resources for these investments. Company history prior to 2008 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 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, and wellness and prevention platforms. 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<sup>™</sup>; 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 and Neosporin<sup>®</sup> First Aid products. Major brands in the Women's Health franchise are the CAREFREE<sup>®</sup> Pantliners; o.b.<sup>®</sup> tampons and STAYFREE<sup>®</sup> sanitary protection products. The nutritional and over-the-counter lines include SPLENDA<sup>®</sup>, No Calorie Sweetener; the broad family of TYLENOL<sup>®</sup> acetaminophen products; SUDAFED<sup>®</sup> cold, flu and allergy products; ZYRTEC<sup>®</sup> allergy products; MOTRIN<sup>®</sup> IB ibuprofen products; and PEPCID<sup>®</sup> AC Acid Controller from Johnson & Johnson • Merck Consumer Pharmaceuticals Co. These products are marketed to the general public and sold both to retail outlets and distributors throughout the world.

#### **PHARMACEUTICAL**

The Pharmaceutical segment includes products in the following areas: anti-infective, antipsychotic, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management 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<sup>®</sup> (infliximab), a treatment for a number of

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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.

immune mediated inflammatory diseases; STELARA® (ustekinumab), a treatment for moderate to severe plaque psoriasis; SIMPONI® (golimumab), a treatment for adults with moderate to severe rheumatoid arthritis, psoriatic arthritis, and ankylosing spondylitis; VELCADE® (bortezomib), a treatment for multiple myeloma; PREZISTA® (darunavir) and INTELENCE® (etravirine), treatments for HIV/AIDS; NUCYNTA® (tapentadol), a treatment for moderate to severe acute pain; INVEGA® SUSTENNA™ (paliperidone palmitate), for the acute and maintenance treatment of schizophrenia in adults; RISPERDAL® CONSTA® (risperidone), a treatment for the management of Bipolar I Disorder and schizophrenia; PROCRT® (Epoetin alfa, sold outside the U.S. as EPREX®), to stimulate red blood cell production; LEVAQUIN® (levofloxacin) for the treatment of bacterial infections; CONCERTA® (methylphenidate HCl), a treatment for 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.

#### 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 Biosense Webster's electrophysiology products; Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care, neurological and sports medicine products; Ethicon's surgical care, aesthetics and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products and advanced sterilization 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 business of Johnson & Johnson is conducted by more than 250 operating companies located in 60 countries, including 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>

(Dollars in Millions)	2010	2009	2008
United States	\$29,450	30,889	32,309
Europe	15,510	15,934	16,782
Western Hemisphere excluding U.S.	5,550	5,156	5,173
Asia-Pacific – Africa	11,077	9,918	9,483

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

<sup>16</sup> Export sales are not significant. In 2010, 2009 and 2008, the Company did not have a customer that represented 10% or more of total revenues.

<b>Segments Total</b>	<b>\$61,587</b>	<b>61,897</b>	<b>63,747</b>
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### **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 2000–2010, 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 accounted 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 2010 would have increased or decreased the translation of foreign sales by approximately \$300 million and income by \$65 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, may 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).

## **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 the Company. This Committee oversees and coordinates the activities of the Consumer, Pharmaceutical and

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

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

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 the 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 2010, 2009 and 2008, property, plant and equipment at cost and accumulated depreciation were:

<b>(Dollars in Millions)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Land and land improvements	\$738	714	886
Buildings and building equipment	9,079	8,863	7,720
Machinery and equipment	18,032	17,153	15,234
Construction in progress	2,577	2,521	3,552
Total property, plant and equipment, gross	\$30,426	29,251	27,392
Less accumulated depreciation	15,873	14,492	13,027
Total property, plant and equipment, net	\$14,553	14,759	14,365

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2010, 2009 and 2008 was \$73 million, \$101 million and \$147 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2010, 2009 and 2008 was \$2.2 billion, \$2.1 billion and \$2.0 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 are recorded in earnings.

#### **Rental Expense and Lease Commitments**

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately \$299 million in 2010, \$322 million in 2009 and \$309 million in 2008.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year at 2 January 2011 are:

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

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

(Dollars in Millions)

2011	2012	2013	2014	2015	After 2015	Total
\$182	159	130	106	89	74	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 U.S. and international 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 the past year, 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 \$19.4 billion at the end of 2010 as compared with \$15.8 billion at the end of 2009. The primary sources of cash that contributed to the \$3.6 billion increase versus prior year were \$16.4 billion of cash generated from operating activities, \$2.4 billion net proceeds from long and short-term debt and \$0.5 billion proceeds from the disposal of assets. The major uses of cash were capital spending of \$2.4 billion, acquisitions of \$1.3 billion, net investment purchases of \$4.7 billion, dividends to shareholders of \$5.8 billion and the repurchase of common stock, net of proceeds from the exercise of options, of \$1.6 billion.

Cash flow from operations were \$16.4 billion in 2010. The major sources of cash flow were net income of \$13.3 billion, adjusted for non-cash charges for depreciation, amortization, stock based compensation and deferred tax provision of \$3.9 billion. The remaining changes to operating cash flow were increases in accounts receivable, inventories and other assets.

In 2010, 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 2011.

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>

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<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.

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



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

In 2010, worldwide sales decreased 0.5% to \$61.6 billion, compared to a decrease of 2.9% in 2009 and an increase of 4.3% in 2008. Sales by U.S. companies were \$29.5 billion in 2010, \$30.9 billion in 2009 and \$32.3 billion in 2008. This represents a decrease of 4.7% in 2010, a decrease of 4.4% in 2009 and a decrease of 0.4% in 2008. Sales by international companies were \$32.1 billion in 2010, \$31.0 billion in 2009 and \$31.4 billion in 2008. This represents an increase of 3.6% in 2010, a decrease of 1.4% in 2009 and an increase of 9.7% in 2008. The five-year compound annual growth rates for worldwide, U.S. and international sales were 4.0%, 0.7% and 7.7%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 7.8%, 5.5% and 10.5%, respectively. Sales in Europe experienced a decline of 2.7% including operational growth of 0.5% and a negative impact from currency of 3.2%. Sales in the Western Hemisphere (excluding the U.S.) achieved growth of 7.6% including operational decline of 0.5% and an increase of 8.1% related to the positive impact of currency. Sales in the Asia-Pacific, Africa region achieved growth of 11.7%, including operational growth of 5.5% and an increase of 6.2% related to the positive impact of currency.

In 2010, 2009 and 2008, 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% due to the 53rd week.

#### **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 2010 impact was an increase in sales rebates reducing sales revenue by approximately \$400 million. The 2011 full year impact to sales of the legislation is estimated to be \$400-\$500 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 total branded prescription drug sales from the prior year. The estimate of the impact on the Company in 2011 \$150-\$200 million. Beginning in 2013, the Company will be required to pay a tax deductible 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:

#### **CONSUMER SEGMENT**

Consumer segment sales in 2010 were \$14.6 billion, a decrease of 7.7% from 2009, with 8.9% of this change due to an operational decline partially offset by positive currency impact of 1.2%. U.S. Consumer segment sales were \$5.5 billion, a decrease of 19.3%. International sales were \$9.1 billion, an increase of 1.2%, with an operational decline of 1.0% offset by positive currency impact of 2.2%.

#### **Major Consumer Franchise Sales:**

<b>(Dollars in Millions)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
OTC Pharmaceuticals & Nutritionals	\$4,549	5,630	5,894
Skin Care	3,452	3,467	3,381
Baby Care	2,209	2,115	2,214
Women's Health	1,844	1,895	1,911
Oral Care	1,526	1,569	1,624
Wound care/Other	1,010	1,127	1,030
<b>Total</b>	<b>\$14,590</b>	<b>15,803</b>	<b>16,054</b>

The Over-the-Counter (OTC) Pharmaceuticals and Nutritionals franchise sales were \$4.5 billion, a decrease of 19.2% from 2009. Sales were negatively impacted by the voluntary recalls of certain OTC products announced earlier in the year and suspension of production at McNeil Consumer Healthcare's Fort Washington, Pennsylvania facility. McNeil's recalls of products manufactured at both Las Piedras and Fort Washington facilities impacted the total year sales by approximately \$900 million. Alternate supplies of products are planned to be available in the latter half of 2011. During the first quarter of 2011 a consent decree was signed with the U.S. Food and Drug Administration (FDA), which will govern certain McNeil Consumer Healthcare division manufacturing operations. The consent decree identifies procedures that will help provide additional assurance of product quality to the FDA. The consent decree recognizes the work already initiated by McNeil under the Comprehensive Action Plan (CAP).

The Skin Care franchise sales were \$3.5 billion, a decline of 0.4% compared to the prior year due in part to a temporary reduction in shipments of Neutrogena products due to product supply constraints partially offset by growth in the AVEENO®, JOHNSON'S® Adult, LE PETIT MARSEILLAIS® and DABAO™ skin care lines. The Baby Care franchise sales grew by 4.4% to \$2.2 billion in 2010, primarily due to growth in the Asia Pacific region partially offset by the impact of the economic situation in Venezuela. The Women's Health franchise sales were \$1.8 billion, a decrease of 2.7% primarily due to increased competitive pressures and the impact of the economic situation in Venezuela. The Oral Care franchise sales were \$1.5 billion, a decrease of 2.7% primarily due to the divestiture of the EFFERDENT®/ Effergrip® brands in the fiscal fourth quarter of 2009 and lower sales of mouth rinses and toothbrushes in the United States. The Wound Care/Other franchise sales were \$1.0 billion, a decrease of 10.4% primarily due to private label competition and slower category growth.

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.

#### PHARMACEUTICAL SEGMENT

Pharmaceutical segment sales in 2010 were \$22.4 billion, a decrease of 0.6% from 2009, with an operational decline of 1.0% and a positive currency impact of 0.4%. U.S. sales were \$12.5 billion, a decrease of 4.0%. International sales were \$9.9 billion, an increase of 4.2%, which included 3.4% operational growth and a positive currency impact of 0.8%.

Pharmaceutical segment sales in 2010 were reduced by approximately \$400 million as a result of U.S. health care reform legislation.

REMICADE<sup>®</sup> (infliximab), a biologic approved for the treatment of a number of immune mediated inflammatory diseases, achieved sales of \$4.6 billion in 2010, with growth of 7.1% over the prior year. U.S. export sales grew 24.3% versus the prior year primarily driven by market growth. REMICADE<sup>®</sup> is competing in a market that is experiencing increased competition due to new entrants, including the successful launches of STELARA<sup>®</sup> (ustekinumab) and SIMPONI<sup>®</sup> (golimumab) and the expansion of indications for existing competitors.

PROCRT<sup>®</sup> (Epoetin alfa) and EPREX<sup>®</sup> (Epoetin alfa) had combined sales of \$1.9 billion in 2010, a decline of 13.9% compared to the prior year. Lower sales of PROCRT<sup>®</sup> and EPREX<sup>®</sup> were primarily due to the declining markets for Erythropoiesis Stimulating Agents (ESAs). EPREX<sup>®</sup> also experienced increased competition.

RISPERDAL<sup>®</sup> CONSTA<sup>®</sup> (risperidone), a long-acting injectable antipsychotic, achieved sales of \$1.5 billion in 2010, representing an increase of 5.3% as compared to the prior year. Solid growth of 16.4% was achieved outside the U.S., with very strong growth in Japan. In the U.S. the successful launch of INVEGA<sup>®</sup> SUSTENNA<sup>™</sup> (paliperidone palmitate) also increased the growth of the long-acting injectable antipsychotic market.

LEVAQUIN<sup>®</sup> (levofloxacin)/FLOXIN<sup>®</sup> (ofloxacin) sales were \$1.4 billion, a decline of 12.5% versus the prior year primarily due to the decline in the market and increased penetration of generics. Market exclusivity in the U.S. expires in June 2011. The expiration of a product's market exclusivity is likely to result in a significant reduction in sales.

CONCERTA<sup>®</sup> (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder (ADHD), achieved sales of \$1.3 billion in 2010, a decrease of 0.5% compared to the prior year. Sales growth in the U.S. was impacted by lower market share and the health care reform legislation enacted in March 2010 resulting from changes to rebates to Medicaid managed care organizations. On 1 November 2010, the Company entered into a U.S. supply and distribution agreement with Watson Laboratories, Inc. to distribute an authorized generic version of CONCERTA<sup>®</sup> beginning 1 May 2011. This authorized generic launch is likely to result in a significant reduction in CONCERTA<sup>®</sup> sales.

VELCADE<sup>®</sup> (bortezomib), a product for the treatment for multiple myeloma, for which the Company has commercial rights in Europe and the rest of the world outside the U.S., achieved sales of \$1.1 billion in 2010, representing an increase of 15.8% as compared to the prior year.

ACIPHEX<sup>®</sup>/PARIET<sup>®</sup> (rabeprazole sodium) sales were \$1.0 billion, a decline of 8.2% versus the prior year due to increased competition from generics in the category.

TOPAMAX<sup>®</sup> (topiramate), experienced a sales decline of 53.3% compared to the prior year. Market exclusivity for TOPAMAX<sup>®</sup> expired in March 2009 in the U.S. and in September 2009 in most European countries. Multiple generics have entered the market. Loss of market exclusivity for the TOPAMAX<sup>®</sup> patent has resulted in the significant reduction of sales in the U.S. and Europe.

In 2010, Other Pharmaceutical sales were \$9.1 billion, representing a growth of 6.6% over the prior year. Contributors to the increase were sales of STELARA<sup>®</sup> (ustekinumab), SIMPONI<sup>®</sup> (golimumab), PREZISTA<sup>®</sup> (darunavir), INTELENCE<sup>®</sup> (etravirine), NUCYNTA<sup>®</sup> (tapentadol) and INVEGA SUSTENNA<sup>®</sup> (paliperidone palmitate). This growth was partially

offset by lower sales of DURAGESIC<sup>®</sup>/Fentanyl Transdermal (fentanyl transdermal system) and RISPERDAL<sup>®</sup>/risperidone oral due to continued generic competition.

During 2010, several new compounds were filed for regulatory approval. These included abiraterone acetate, an investigational agent for the treatment of metastatic, advanced prostate cancer which was granted priority review in the U.S. and accepted for accelerated assessment in Europe, and telaprevir, developed in collaboration with Vertex Pharmaceuticals Incorporated, for hepatitis C which was filed and accepted for accelerated assessment in Europe. TMC 278 (rilpivirine) for HIV in treatment-naïve patients was filed in both the U.S. and Europe. Rivaroxaban, an anti-coagulant co-developed with Bayer HealthCare, has been filed in the U.S. for the prevention of stroke in patients with atrial fibrillation. The Company also responded to the FDA complete response letter for its review of the rivaroxaban filing for preventing deep vein thrombosis and pulmonary embolism following total knee and hip replacement surgery.

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.

**Major Pharmaceutical Product Revenues\*:**

<b>(Dollars in Millions)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
REMICADE <sup>®</sup> (infliximab)	\$4,610	4,304	3,748
PROCRIT/EPREX <sup>®</sup> (Epoetin alfa)	1,934	2,245	2,460
RISPERDAL <sup>®</sup> CONSTA <sup>®</sup> (risperidone)	1,500	1,425	1,309
LEVAQUIN/FLOXIN <sup>®</sup> (levofloxacin/ofloxacin)	1,357	1,550	1,591
CONCERTA <sup>®</sup> (methylphenidate HCl)	1,319	1,326	1,247
VELCADE <sup>®</sup> (bortezomib)	1,080	933	787
ACIPHEX/PARIET <sup>®</sup> (rabeprazole sodium)	1,006	1,096	1,158
TOPAMAX <sup>®</sup> (topiramate)	538	1,151	2,731
Other Pharmaceuticals	9,052	8,490	9,536
<b>Total</b>	<b>\$22,396</b>	<b>22,520</b>	<b>24,567</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 \$24.6 billion in 2010, representing an increase of 4.4% over the prior year, with operational growth of 3.4% and a positive currency impact of 1.0%. U.S. sales were \$11.4 billion, an increase of 3.6% over the prior year. International sales were \$13.2 billion, an increase of 5.0% over the prior year, with growth of 3.0% from operations and a positive currency impact of 2.0%.

The DePuy franchise achieved sales of \$5.6 billion in 2010, a 4.0% increase over the prior year. This growth was primarily due to an increase in the knee and Mitek sports medicine product lines, and outside the U.S., growth of the hip product line. Pressure on pricing

continued as a result of economic trends, however new product launches and incremental sales of newly acquired products from Micrus Endovascular Corporation have mitigated some of the impact. In August 2010, DePuy Orthopaedics, Inc. (DePuy) announced a worldwide voluntary recall of its ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System used in hip replacement surgery, principally sold between 2003 and 2009.

The Ethicon Endo-Surgery franchise achieved sales of \$4.8 billion in 2010, a 5.9% increase over the prior year. This was attributable to growth in the endoscopy, Advanced Sterilization, HARMONIC®, SurgRx and ENSEAL® product lines. The growth was partially offset by the divestiture of the Breast Care business in the third quarter of 2010.

The Ethicon franchise achieved sales of \$4.5 billion in 2010, a 9.2% increase over the prior year. The growth was attributable to sales of newly acquired products from Acclarent, Inc. in addition to growth in the sutures, Mentor, biosurgical, Women's Health and Urology, and mesh product lines.

The Vision Care franchise achieved sales of \$2.7 billion in 2010, a 6.9% increase over prior year primarily driven by 1-DAY ACUVUE® TruEye™, ACUVUE® OASYS™ for Astigmatism, and 1-DAY ACUVUE® MOIST®, partially offset by lower sales of reusable lenses. During 2010, the Company and Novartis AG, CIBA VISION Corporation and CIBA VISION AG agreed to resolve all pending patent litigation on a worldwide basis enabling the Company to reenter the markets in France and the Netherlands.

Sales in the Cordis franchise were \$2.6 billion, a decline of 4.7% 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 strong growth of the Biosense Webster business.

Sales in the Diabetes Care franchise were \$2.5 billion in 2010, a 1.2% increase over the prior year. This was primarily attributable to growth in the U.S. and Asia Pacific region partially offset by a sales decline in Europe.

The Ortho-Clinical Diagnostics franchise achieved sales of \$2.1 billion in 2010, a 4.6% increase over the prior year. Growth was primarily attributable to sales of the VITROS® 5600 and 3600 analyzers partially offset by lower sales in donor screening primarily due to more selective screening for Chagas testing in the U.S.

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% over 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 fluctuations.

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

<b>(Dollars in Millions)</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
DEPUY®	\$5,585	5,372	5,136
ETHICON ENDO-SURGERY®	4,758	4,492	4,286
ETHICON®	4,503	4,122	3,840

Vision Care	2,680	2,506	2,500
CORDIS®	2,552	2,679	2,988
Diabetes Care	2,470	2,440	2,535
ORTHO-CLINICAL DIAGNOSTICS®	2,053	1,963	1,841
Total	<b>\$24,601</b>	<b>23,574</b>	<b>23,126</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 increased by \$1.1 billion to \$16.9 billion in 2010 as compared to the \$15.8 billion earned in 2009, an increase of 7.6%. The increase was primarily related to lower selling, marketing and administrative expenses due to cost containment actions resulting from the restructuring plan initiated and implemented in 2009, income from litigation settlements and the gain on the divestiture of the Breast Care business of Ethicon Endo-Surgery, Inc. This was partially offset by costs associated with product liability expense and the impact of the OTC and DePuy ASR™ Hip recalls. Additional offsets were lower net selling prices in the Pharmaceutical business due to U.S. health care reform and price reductions in certain Medical Devices and Diagnostics businesses. The 2009 decrease of 6.9% as compared to \$16.9 billion in 2008 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. The 2008 earnings 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. As a percent to sales, consolidated earnings before provision for taxes on income in 2010 was 27.5% versus 25.4% in 2009.

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:

	<b>% of Sales 2010</b>	<b>% of Sales 2009</b>	<b>% of Sales 2008</b>
Cost of products sold	30.5%	29.8	29.1
Percent point increase over the prior year	0.7	0.7	-
Selling, marketing and administrative expenses	31.5	32.0	33.7
Percent point increase/(decrease) over the prior year	(0.5)	(1.7)	0.2

In 2010, cost of products sold as a percent to sales increased compared to the prior year primarily due to costs associated with the impact of the OTC recall and remediation efforts in the Consumer business, lower net selling prices in the Pharmaceutical business due to U.S. health care reform and price reductions in certain Medical Devices and Diagnostics

businesses. Additionally, unfavorable product mix attributable to the loss of market exclusivity for TOPAMAX<sup>®</sup> contributed to the increase. There was a decrease in the percent to sales of selling, marketing and administrative expenses in 2010 compared to the prior year primarily due to cost containment initiatives principally resulting from the restructuring plan implemented in 2009. The decrease was partially offset by lower net selling prices in the Pharmaceutical business due to U.S. health care reform and price reductions in certain Medical Devices and Diagnostics businesses.

In 2009, cost of products sold as a percent to sales increased compared to the prior year primarily due to the continued negative impact of product mix and inventory write-offs associated with the restructuring activity. Additionally, 2008 included some nonrecurring positive items. There was a decrease in the percent to sales of selling, marketing and administrative expenses in 2009 compared to the prior year primarily due to cost containment efforts across all the businesses and the annualized savings recognized from the 2007 restructuring program. In addition, in 2008 the Company 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.

**Other (Income) Expense, Net:** Other (income) expense, net includes royalty income; 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; and litigation settlements. The favorable change of \$0.2 billion in other (income) expense, net, in 2010 as compared to 2009, was primarily due to a net gain from litigation settlements and the gain on the divestiture of businesses partially offset by product liability expense.

In 2009, other (income) expense, net included net litigation settlements of \$0.4 billion. 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.

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

**Consumer segment:** In 2010, Consumer segment operating profit decreased 5.4% from 2009. The primary reasons for the decrease in the operating profit were lower sales and higher costs associated with the recall of certain OTC products and the suspension of production at McNeil Consumer Healthcare's Fort Washington, Pennsylvania facility. In 2009, Consumer segment operating profit decreased 7.4% from 2008. The primary reasons for the decrease in operating profit were \$369 million of restructuring charges, partially offset by cost containment initiatives in 2009.

**Pharmaceutical segment:** In 2010, Pharmaceutical segment operating profit increased 10.5% from 2009. The primary reasons for the increase in operating profit were lower manufacturing costs, the gain on a divestiture, and benefits from cost improvement initiatives related to the restructuring plan implemented in 2009, partially offset by \$333 million of expense related to litigation matters, increased product liability expense and the impact of the newly enacted U.S. health care reform legislation. 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<sup>®</sup> and RISPERDAL<sup>®</sup> oral.

**Medical Devices and Diagnostics segment:** In 2010, Medical Devices and Diagnostics segment operating profit increased 7.5% from 2009. The improved operating profit was due to a gain of \$1.3 billion from net litigation matters and the gain on the divestiture of the Breast Care business recorded in 2010. This was partially offset by increased product liability expense, \$280 million of costs associated with the DePuy ASR<sup>™</sup> Hip recall program and price reductions in certain Medical Devices and Diagnostics businesses. In 2009, the operating profit in the Medical Devices and Diagnostics segment increased 6.5% from 2008. The improved operating profit was due to a \$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.

**Interest (Income) Expense:**

Interest income in 2010 increased by \$17 million over the prior year due to higher average cash balances. Cash, cash equivalents and marketable securities totaled \$27.7 billion at the end of 2010, and averaged \$23.6 billion as compared to the \$15.6 billion average cash balance in 2009. The increase in the average cash balance was primarily due to cash generated from operating activities and net cash proceeds from litigation matters and divestitures.

Interest expense in 2010 was relatively flat as compared to 2009 due to a lower average rate despite a higher debt balance. The total debt balance at the end of 2010 was \$16.8 billion as compared to \$14.5 billion at the end of 2009. The higher average debt balance of \$15.7 billion in 2010 versus \$13.5 billion in 2009 was due to increased borrowings. The Company increased borrowings, capitalizing on favorable terms in the capital markets. The proceeds of the notes were used for general corporate purposes.

Interest income in 2009 decreased by \$271 million as compared to 2008 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 as compared to 2008 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 as compared to 2007 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 as compared to 2007 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.

**Provision For Taxes On Income:**

The worldwide effective income tax rate was 21.3% in 2010, 22.1% in 2009 and 23.5% in 2008. The 2010 tax rate decreased as compared to 2009 due to decreases in taxable income in higher tax jurisdictions relative to taxable income in lower tax jurisdictions and certain U.S. tax adjustments. 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.

**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	
	2010	Rate%	2009	Rate%	2008	Rate%
3% Zero Coupon Convertible Subordinated Debentures due 2020	\$194	3.00	188	3.00	183	3.00%
2.95% Debentures due 2020	541	3.15	-	-	-	-
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 1.5403) <sup>(2)</sup> /(500MM GBP	764 <sup>(2)</sup>	5.71	803 <sup>(2)</sup>	5.71	731 <sup>(3)</sup>	5.71

<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.

1.6189) <sup>(3)</sup>						
4.75% Notes due 2019 (1B Euro 1.3268) <sup>(2)</sup> / (1B Euro 1.4382) <sup>(3)</sup>	1,319 <sup>(2)</sup>	5.35	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	599	5.18
5.86% Debentures due 2038	700	5.86	700	5.86	700	5.86
4.50% Debentures due 2040	539	4.63	-	-	-	-
5.15% Debentures due 2018	898	5.15	898	5.15	898	5.15
Other (Includes Industrial Revenue Bonds)	76		101		102	-
	9,169 <sup>(4)</sup>	5.25 <sup>(1)</sup>	8,257 <sup>(4)</sup>	5.42 <sup>(1)</sup>	8,341 <sup>(4)</sup>	5.46 <sup>(1)</sup>
Less current portion	13		34		221	
	<u>\$9,156</u>		<u>8,223</u>		<u>8,120</u>	

(1) Weighted average effective rate.

(2) Translation rate at 2 January 2011.

(3) Translation rate at 3 January 2010.

(4) The excess of the fair value over the carrying value of debt was \$1.0 billion in 2010 and \$0.8 billion in 2009.

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 2010, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates \$10 billion which expires 22 September 2011. 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.

Throughout 2010 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 \$7.6 billion at the end of 2010, of which \$7.4 billion was raised under the Commercial Paper Program. The remainder represents principally local borrowing by international subsidiaries.

The Company has a shelf registration with the Securities and Exchange Commission that enables the Company to issue on a timely basis debt securities and warrants to purchase debt securities.

Aggregate maturities of long-term obligations commencing in 2010 are:

(Dollars in Millions)	2011	2012	2013	2014	2015	After 2015
	\$13	644	509	9	-	7,994

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 2 January 2011 market rates would increase the unrealized value of the Company's forward contracts by \$239 million. Conversely, a 10% depreciation of the U.S. Dollar from the 2 January 2011, market rates would decrease the unrealized value of the Company's forward contracts by \$292 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 \$212 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 2010, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates \$10 billion, which expires 22 September 2011. 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 2010 and 2009 were \$16.8 billion and \$14.5 billion, respectively. The increase in borrowings between 2010 and 2009 was a result of financing general corporate purposes and the continuation of the Company's Common Stock repurchase program announced in 2007. In 2010, net cash (cash and current marketable securities, net of debt) was \$10.9 billion compared to net cash of \$4.9 billion in 2009. Total debt represented 22.9% of total capital (shareholders' equity and total debt) in 2010 and 22.3% of total capital in 2009. Shareholders' equity per share at the end of 2010 was \$20.66 compared with \$18.37 at year-end 2009, an increase of 12.5%.

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's contractual obligations are primarily for leases, 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 2 January 2011 (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</b>	<b>Unfunded Retirement Plans</b>	<b>Interest on Debt Obligations</b>	<b>Total</b>
2011	\$182	13	54	528	777
2012	159	644	55	507	1,365
2013	130	509	59	457	1,155
2014	106	9	62	444	621
2015	89	-	69	444	602
After 2015	74	7,994	428	5,180	13,676
<b>Total</b>	<b>\$740</b>	<b>9,169</b>	<b>727</b>	<b>7,560</b>	<b>18,196</b>

For tax matters, see Note 8 to the Consolidated Financial Statements.

## 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. The Company remains committed to investing in research and development with the aim of delivering high quality and innovative products. Research and Development expense (excluding purchased in-process research and development charges) by segment of business was as follows:

<b>(Dollars in Millions)</b>	<b>2010</b>		<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>% of Sales*</b>	<b>Amount</b>	<b>% of Sales*</b>	<b>Amount</b>	<b>% of Sales*</b>
Consumer	\$609	4.2%	632	4.0	624	3.9
Pharmaceutical	4,432	19.8	4,591	20.4	5,095	20.7
Medical Devices and Diagnostics	1,803	7.3	1,763	7.5	1,858	8.0
Total research and development expense	\$6,844	11.1%	6,986	11.3	7,577	11.9
Percent (decrease)/increase over the prior year	(2.0)%		(7.8)		(1.3)	

\* As a percent to segment sales

**Purchased In-Process Research and Development:** Beginning 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 approximately \$0.2 billion of IPR&D in 2010, primarily associated with the acquisitions of Acclarent, Inc., RespiVert Ltd. and Micrus Endovascular Corporation. The Company capitalized \$1.7 billion of IPR&D in 2009,

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

primarily associated with the acquisitions of Cougar Biotechnology, Inc. and substantially all of the assets and rights of Elan related to its Alzheimer'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<sup>®</sup> 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.

## **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**

Twelve individuals currently serve as members of the Company's Board of Directors, eleven of whom are "independent" under the rules of the New York Stock Exchange. 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, 67, 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 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. Having served as President of two of the

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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.

nation's largest and most prestigious public universities and having a long and decorated career in the sciences, Dr. Coleman brings to the Company's Board a unique point of view regarding organizational management and academic research vital to a company competing in science-based industries.

**JAMES G. CULLEN, Retired President and Chief Operating Officer, Bell Atlantic Corporation**

Mr. Cullen, 68, 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 Prudential Financial, Inc. and Eisenhower Medical Center and a Director and non-executive Chairman of Neustar, Inc. and Agilent Technologies, Inc. With years of demonstrated managerial ability as CEO and COO of a large telecommunications company, and as the current independent, non-executive Chairman of the Board of Directors of Agilent Technologies, Inc. and NeuStar, Inc., Mr. Cullen brings to the Company's Board a wealth of knowledge of organizational and operational management as well as board leadership experience essential to a large public company.

**IAN E. L. DAVIS, Senior Advisor, Apax Partners; Former Chairman and Worldwide Managing Director, McKinsey & Company**

Mr. Davis, 60, 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 a Senior Advisor at Apax Partners, a private equity advisory firm. Mr. Davis retired from McKinsey & Company (management consulting) in 2010 as a Senior Partner, having served as Chairman and Worldwide Managing Director from 2003 until 2009. In his more than 30 years at McKinsey, he served as a consultant to a range of global organizations across the public, private and not-for-profit sectors. Prior to becoming Chairman and Worldwide 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; a non-executive Director of global energy group, BP plc.; a non-executive member of the UK's Cabinet Office Board and serves on the International Advisory Committee of the King Abdullah Petroleum Studies and Research Centre. Having served as Chairman and Worldwide Managing Director of one of the world's leading management consulting firms, and as a consultant to a range of global organizations across the public, private and not-for-profit sectors, Mr. Davis brings considerable global experience, management insight and business knowledge to the Company's Board.

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

Dr. Johns, 69, 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 2007, 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. Having served in numerous senior leadership positions at some of the nation's most prestigious academic institutions, hospitals and health care systems, Dr. Johns provides a valuable combination of experience at the highest levels of both patient care and medical research, as well as organizational management skills and public health policy expertise, making him an integral board member of a company in the health care industry.

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

Dr. Lindquist, 61, 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. In 2010, she received the Mendel Medal from the Genetics Society (UK), The Delbrück Medal from Bayer Schering, and the National Medal of Science (USA). She is a member of the Scientific Advisory Boards of the Stowers Institute for Medical Research and the Institut für Molekulare Biotechnologie GmbH. She is also a Co-Founder of FoldRx Pharmaceuticals, Inc., a subsidiary of Pfizer Inc. From her long and decorated career in scientific research and her global reputation as a pioneer in biomedical innovation, Dr. Lindquist brings to the Company's Board an incomparable perspective on the intersection of academic and commercial medical research critical to a company in the health care industry.

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

Ms. Mulcahy, 58, was appointed to the Board of Directors in 2009 and is a member of the Compensation & Benefits Committee and the Nominating & Corporate Governance Committee. Ms. Mulcahy was both Chairman and Chief Executive Officer of Xerox Corporation (business equipment and services) until July 2009, when she retired as CEO after eight years in the position. 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 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 The Washington Post Company and Target Corporation. Ms. Mulcahy has been a U.S. Board Chair of Save the Children since March 2010. Having served as Chairman and CEO of a large, global manufacturing and services company with one of the world's most recognized brands and track record for innovation,

Ms. Mulcahy presents valuable insight into organizational and operational management issues crucial to a large public company, as well as a strong reputation for leadership in business innovation and talent development.

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

Mr. Mullin, 68, 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 currently serves as a Senior Advisor, on a part-time basis, to Goldman Sachs Capital Partners, a private equity fund group. Mr. Mullin retired as Chief Executive Officer of Delta Air Lines, Inc. 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 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. He is a Board member and immediate past Board Chairman of the Juvenile Diabetes Research Foundation (JDRF) and served as interim Chief Executive Officer of JDRF from July through December 2008. Mr. Mullin's depth and breadth of exposure to complex issues from having served as Chairman and CEO of one of the nation's largest airlines, and his long and distinguished career in the banking industry, make him a skilled advisor who provides critical insight into organizational and operational management, global business and financial matters.

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

Mr. Perez, 63, 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 Trustee for Cornell University and Northwestern Memorial Hospital. He serves on the boards of the Whirlpool Corporation and Campbell Soup Company. With his experience as CEO of several large, consumer-focused companies across a wide variety of industries, Mr. Perez contributes to the Company's Board significant organizational and operational management skills, combined with a wealth of experience in global, consumer-oriented businesses vital to a large public company in the consumer products space.

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

Mr. Prince, 61, was elected to the Board of Directors in 2006 and is the Chairman of the Compensation & Benefits Committee and a member of the Nominating & Corporate Governance Committee. Mr. Prince is currently 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. Having served as Chairman and CEO of the nation's largest and most diversified financial institution, Mr. Prince brings to the Company's Board a strong mix of organizational and operational management skills combined with well-developed legal, global business and financial acumen critical to a large public company.

**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, 70, 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. With his long and decorated career in the field of public health policy, including service as Surgeon General of the United States, as well as his valuable experience in medical academia and patient care, Dr. Satcher provides unparalleled experience and vision for a company in the health care industry

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

Mr. Weldon, 62, 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 the Company's affiliate, Ethicon Endo-Surgery, Inc. 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, the Business Roundtable, the Executive Committee of the Health Leadership 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. Having started his career at the Company in 1971 and been promoted to positions of increasing responsibility across business segments, culminating with his appointment as Chairman/CEO in 2002, Mr. Weldon brings vast knowledge of the Company's business, structure, history and culture to the Board and the Chairman position. Mr. Weldon continues to be one of the longest-tenured and most well-respected CEOs in the healthcare industry.

**RONALD A. WILLIAMS, Former Chairman and Chief Executive Officer, Aetna Inc.**

Mr. Williams joined the Board of Directors in June 2011 and is a member of the Compensation & Benefits Committee and the Public Policy Advisory Committee. Mr. Williams served as Chairman and Chief Executive Officer of Aetna Inc. (managed care and health insurance) from 2006 to 2010, and as Chairman from 2010 until his retirement in April 2011. He currently serves on President Obama's Management Advisory Board, which is helping to bring the best of business practices to the management and operation of federal government. He is also an advisor to the private equity firm, Clayton, Dubilier & Rice, LLC, and serves as Chairman of the board of Emergency Medical Services Corporation, a leading provider of facility-based physician services and medical transportation services in the U.S. In addition, Mr. Williams lends his time and expertise to a number of organizations, such as the International Federation of Health Plans, GE Healthymagination Advisory Committee, and the *Wall Street Journal* CEO Council. He also serves on the boards of the Peterson Institute for International Economics and Save the Children. Previously, he served as chairman of the Council for Affordable Quality Healthcare from 2007-2010 and vice chairman of The Business Council from 2008 to 2010. Mr. Williams serves on the boards of The Boeing Company and American Express Company. With his long and distinguished career in the health care industry – from his experience leading one of *Fortune's* Most Admired health care companies to his career-long role as an advocate for meaningful health care reform—Mr. Williams provides the Company's Board with an exceptional combination of operational management expertise and insight into both public health care policy and the health care industry critical to a large public company in the health care industry.

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. However, Mr. Mullin retired as Chief Executive Officer of Delta Air Lines, Inc. in December 2003 and Chairman in April 2004. In September 2005, Delta Air Lines voluntarily filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The Nominating & Corporate Governance Committee of the Board of Directors does not believe that this proceeding is material to an evaluation of Mr. Mullin's ability to serve as a Director. 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 has determined that the following Directors, comprising all of the Non-Employee Directors, are "independent" under the listing standards of the New York Stock Exchange ("NYSE") and the Company's Standards of Independence: Dr. Coleman, Mr. Cullen, Mr. Davis, Dr. Johns, Dr. Lindquist, Ms. Mulcahy, Mr. Mullin, Mr. Perez, Mr. Prince, Dr. Satcher and Mr. Williams. 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 can be found on the Company's website at [www.investor.jnj.com/governance/policies.cfm](http://www.investor.jnj.com/governance/policies.cfm). These Standards identify, among other things, material business, charitable and other relationships that could interfere with a 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

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

- **Alex Gorsky**  
 Vice Chairman  
 Executive Committee

- **Stephen J. Cosgrove**  
 Corporate Controller  
 Chief Accounting Officer

- **Laverne H. Council**  
 Vice President  
 Chief Information Officer

- **Russell C. Deyo**  
 Vice President  
 General Counsel  
 Executive Committee

- **Peter M. Fasolo**  
 Worldwide Vice President  
 Human Resources  
 Executive Committee

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

- **Sherilyn S. McCoy**  
 Vice Chairman  
 Executive Committee

- **John A. Papa**  
 Treasurer

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

## 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 10 January 2011 for the Company's Chief Executive Officer, Chief

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

Financial Officer and the other three most highly compensated executive officers in 2010 (the "Named Executive Officers").

*Annual Base Salary:*

The Compensation Committee has approved the following base salaries for 2011 for the Named Executive Officers:

William C. Weldon, Chairman/CEO	\$1,915,800
Dominic J. Caruso, Vice President, Finance; CFO	\$ 776,500
Russell C. Deyo, Vice President, General Counsel	\$ 899,300
Colleen A. Goggins, Worldwide Chairman, Consumer Group	\$ 827,200*
Sherilyn S. McCoy, Vice Chairman, Executive Committee	\$ 900,000

\* Will retire in March 2011.

*Annual Performance Bonus:*

The Compensation Committee has approved the following annual bonus performance payments under the Company's Executive Incentive Plan for performance in 2010 (paid in the form of 85% cash and 15% Company Common Stock as determined by the Compensation Committee):

W.C. Weldon	\$1,976,000
D.J. Caruso	\$ 900,000
R.C. Deyo	\$1,080,000
C.A. Goggins	\$ 500,000
S.S. McCoy	\$1,125,000

*Stock Option and Restricted Share Unit Grants:*

The Compensation Committee has approved the following stock option and restricted share unit grants under the Company's 2005 LTIP. The stock options were granted at an exercise price of \$62.20, 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 10 January 2011. The options will become exercisable on 11 January 2014 and expire on 10 January 2021. The RSUs will vest on 10 January 2014, 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. Due to her intention to retire, Ms. Goggins did not receive stock options or RSUs in 2011.

W.C. Weldon	560,691 stock options	46,724 RSUs
D.J. Caruso	145,447 stock options	12,121 RSUs
R.C. Deyo	168,444 stock options	14,037 RSUs
S.S. McCoy	151,621 stock options	12,635 RSUs

*Non-Equity Incentive Plan Awards:*

The Compensation Committee has approved the following non-equity incentive plan awards in recognition of performance during 2010 under the Company's Certificates 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 \$5.03. The CLP unit value will vary over time based on the performance of the Company. Due to her intention to retire, Ms. Goggins did not receive CLPs in 2011.

W.C. Weldon	1,357,855 CLPs
D.J. Caruso	359,840 CLPs
R.C. Deyo	359,840 CLPs
S.S. McCoy	437,375 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 LTIP 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 1,650 shares of restricted Common Stock under the LTIP on 15 February 2011. The restricted shares will become freely transferable on 15 February 2014.

**Directors compensation in 2010**

The following table provides information concerning the compensation of the Company's Non-Employee Directors for 2010. 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 Name	B Fees Earned or Paid in Cash (\$)	C Stock Awards (\$)	D All Other Compensation (\$)	E Total (\$)
M. S. Coleman	\$110,000	\$99,942	\$19,998	\$229,940
J. G. Cullen	130,000	99,942	-	229,942
I. E. L. Davis	55,000 <sup>(1)</sup>	59,580	-	114,580
M. M. E. Johns	112,500	99,942	10,000	222,442
A. G. Langbo	30,000 <sup>(1)</sup>	99,942	12,500	142,442
S. L. Lindquist	110,000	99,942	2,200	212,142
A. M. Mulcahy	112,500	99,942	-	212,442
L. F. Mullin	120,000	99,942	20,000	239,942
W. D. Perez	120,000	99,942	20,000	239,942
C. Prince	125,000	99,942	-	224,942
D. Satcher	120,000	99,942	20,000	239,942

<sup>(1)</sup> Fees pro rated for partial service year. Mr. Davis joined the Board in July 2010. Mr. Langbo retired from the Board in April 2010.

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

In 2010, each Non-Employee Director received an annual fee of \$100,000 (increasing to \$110,000 for 2011) for his or her service as a member of the Company's Board of Directors, except Messrs. Davis and Langbo, who each received a pro rata 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 (increasing to \$25,000 for 2011). 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 (none in 2010). Meeting fees are 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 LTIP 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 1,596 shares of restricted Common Stock under the LTIP in February 2010, except Mr. Davis who joined the Board in July 2010, and 1,650 shares of restricted Common Stock in February 2011, except Mr. Langbo who retired in April 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 Mr. Davis received in July 2010. 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 and Mr. Langbo 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	18,650
A. G. Langbo	18,650
S. L. Lindquist	7,600
L. F. Mullin	18,650
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 certain 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

1 January 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**

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 Board of Directors has a standing Audit Committee, Compensation & Benefits Committee and Nominating & Corporate Governance Committee, each composed entirely of Non-Employee Directors determined to be “independent” under the listing standards of the NYSE and the Company’s Standards of Independence. Under their written charters adopted by the Board, each of these committees is authorized and assured of appropriate funding to retain and consult with external advisors, consultants and counsel. In addition, the Board has a standing Public Policy Advisory Committee, Science & Technology Advisory Committee, and Finance Committee, each composed of independent Directors and members of management.

#### ***The Audit Committee***

The Audit Committee assists the Board by providing oversight of financial management and the independent auditors and ensuring that management is maintaining an adequate system of internal control such that there is reasonable assurance that assets are safeguarded and that financial reports are properly prepared; that there is consistent application of generally accepted accounting

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

principles; and that there is compliance with management's policies and procedures. In addition, the Audit Committee assists the Board in oversight of legal compliance programs. In performing these functions, the Audit Committee meets periodically with the independent auditors, management, and internal auditors (including in private sessions) to review their work and confirm that they are properly discharging their respective responsibilities. In addition, the Audit Committee recommends the independent auditors for appointment by the Board of Directors. A copy of the charter of the Audit Committee is available on the Company's website at [www.investor.jnj.com/governance/materials.cfm](http://www.investor.jnj.com/governance/materials.cfm).

Any employee or other person who wishes to contact the Audit Committee to report fiscal improprieties or complaints about internal accounting control or other accounting or auditing matters can do so by writing to them c/o Johnson & Johnson, One Johnson & Johnson Plaza, Room WH 2136, New Brunswick, NJ 08933 or by using the online submission form at [www.investor.jnj.com/governance/communication.cfm](http://www.investor.jnj.com/governance/communication.cfm). Such reports may be made anonymously.

The Board has designated Mr. Cullen, the Chairman of the Audit Committee and an independent Director, as an "audit committee financial expert" under the rules and regulations of the SEC for purposes of Section 407 of the Sarbanes-Oxley Act of 2002 after determining that he meets the requirements for such designation. This determination was based on Mr. Cullen's experience while President and Chief Executive Officer of Bell Atlantic Enterprises, New Jersey Bell and President and Chief Operating Officer of Bell Atlantic Corporation, where he actively supervised persons performing the functions of principal financial officer, principal accounting officer and controller.

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

The primary function of the Compensation & Benefits Committee is to discharge the Board's duties and responsibilities relating to compensation of the Company's Non-Employee Directors and executive officers and oversee the design and management of the various pension, long-term incentive, savings, health and welfare plans that cover the Company's employees.

The Compensation & Benefits Committee's duties and responsibilities under its charter with respect to the compensation of the Company's Directors and executive officers include:

- recommending to the Board the Chairman/CEO's compensation based on the independent Directors' annual evaluation of his or her performance;
- reviewing and providing oversight of the development of the Company's compensation philosophy and composition of the group of peer companies used for comparison of executive compensation;
- approving the establishment of competitive targets versus the group of peer companies used for comparison of executive compensation and all equity-based plans requiring shareholder approval;
- reviewing the eligibility criteria and award guidelines for the corporate-wide compensation programs in which the executive officers participate;
- reviewing and approving compensation decisions recommended by the Chairman/CEO for the Company's other executive officers, including setting base salaries, annual performance bonuses, long-term incentive awards, severance benefits and perquisites; and
- reviewing and approving compensation for the Non-Employee Directors.

The Compensation & Benefits Committee has retained a compensation consultant from Frederic W. Cook & Co., Inc. for matters related to executive officer and Director compensation. Frederic W.



Cook & Co., Inc. does not provide any other services to the Company. The compensation consultant reports directly to the Committee.

The Compensation & Benefits Committee also reviews the compensation philosophy and policies of the Management Compensation Committee (the “**MCC**”), a non-Board committee composed of Mr. Weldon (Chairman/CEO), Mr. Caruso (Chief Financial Officer) and Mr. Peter M. Fasolo (Worldwide Vice President, Human Resources), which, under delegation from the Compensation & Benefits Committee, determines management compensation and establishes perquisites and other compensation policies for employees (except for executive officers of the Company). The Compensation & Benefits Committee is also responsible for the oversight of the Company’s performance bonus and long-term incentive plans and is the approving authority for management recommendations with respect to performance bonuses and long-term incentive awards under those plans. A copy of the charter of the Compensation & Benefits Committee can be found on the Company’s website at [www.investor.jnj.com/governance/materials.cfm](http://www.investor.jnj.com/governance/materials.cfm).

#### ***The Nominating & Corporate Governance Committee***

The Nominating & Corporate Governance Committee is responsible for overseeing matters of corporate governance, including the evaluation of the performance and practices of the Board of Directors. The Nominating & Corporate Governance Committee also oversees the process for performance evaluations of the committees of the Board. It is also within the charter of the Nominating & Corporate Governance Committee to review the Company’s executive succession plans and executive resources, review and recommend director orientation and continuing orientation programs for Board members and consider questions of possible conflicts of interest, as such questions arise. In addition, the Nominating & Corporate Governance Committee reviews possible candidates for the Board, as discussed above, and recommends the nominees for Directors to the Board for approval. A copy of the charter of the Nominating & Corporate Governance Committee can be found on the Company’s website at [www.investor.jnj.com/governance/materials.cfm](http://www.investor.jnj.com/governance/materials.cfm).

#### ***The Public Policy Advisory Committee***

The Public Policy Advisory Committee consists of independent Directors, one of the Company’s Vice Chairmen, Executive Committee, and the Vice Presidents for Corporate Affairs, Johnson & Johnson Supply Chain, and Government Affairs and 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 Public Policy Advisory Committee also reviews the Company’s governmental affairs and other public policy issues facing the Company. The Public Policy Advisory Committee advises and makes recommendations to the Board on these issues as appropriate.

#### ***The Science & Technology Advisory Committee***

The Science & Technology Advisory Committee is composed of independent Directors and the Company’s Vice President, Science and Technology. It assists the Board in monitoring the overall strategy, direction and effectiveness of the Company’s research and development organization; in monitoring the effectiveness of the scientific aspects of the Company’s product safety processes; in overseeing major business development activities as they relate to the acquisition of new science or technology; and in identifying and comprehending significant emerging science and technology policy issues and trends that may impact the Company’s overall business strategy.

The following table shows the Directors who are currently members or chairmen of each of the standing Board Committees and the number of meetings each committee held in 2010. Committee descriptions and charters are also available on Johnson & Johnson’s website: [www.jnj.com](http://www.jnj.com).

### **The Finance Committee**

The Finance Committee is composed of the Chairman and Presiding Director of the Board. The Committee exercises the authority of the Board during the intervals between Board meetings. The Finance Committee generally does not hold formal meetings and instead acts from time-to-time between Board meetings by unanimous written consent in lieu of a meeting, as needed. Any such action is taken pursuant to specific advance delegation by the Board or is later ratified by the Board.

	<b>Audit</b>	<b>Compensation &amp; Benefits</b>	<b>Finance</b>	<b>Nominating &amp; Corporate Governance</b>	<b>Public Policy Advisory</b>	<b>Science &amp; Technology Advisory</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			
Ronald A. Williams		Member			Member	

### **Corporate Governance**

The Company complies with the U.S. Corporate Governance Standards of the New York Stock Exchange LLC 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>**

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

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

The operating companies of Johnson & Johnson employ approximately 117,000 people worldwide as of 18 October 2011. In 2010, they employed approximately 114,000 and in 2009 115,500 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; the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers 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 7,237,129 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 986,928 shares. In the aggregate, these 8,224,057 shares represent less than 1% of the shares outstanding. All stock ownership is as of 1 March 2011 (except shares held in the Company's Savings Plans, which are included as of 31 January 2011).

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	42,375	9,109	254,706
Mary Sue Coleman	12,809	12,977	7,600
James G. Cullen	6,622	30,710	18,650
Ian E. L. Davis	2,650	-	-
Russell C. Deyo	174,060	-	828,598
Colleen A. Goggins	115,836	17,614	839,791
Michael M.E. Johns	12,387	10,387	-
Susan L. Lindquist	12,606	11,137	7,600
Sherilyn S. McCoy	73,901	-	237,558
Anne M. Mulcahy	4,246	-	-
Leo F. Mullin	20,496	9,894	18,650
William D. Perez	21,579	4,826	-
Charles Prince	19,902	5,181	-
David Satcher	11,987	6,395	13,900
William C. Weldon	448,548	-	3,209,071
All directors and executive officers as a group (17)	986,928	118,230	5,436,124

<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 66,224 of these shares, including 15,550 shares listed as owned by Mr. Deyo, 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 1 March 2011 and options that become exercisable within 60 days thereafter.

As of 9 March 2011, 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	141,306,342 shares <sup>(1)</sup>	5.15% <sup>(1)</sup>
	State Street Corporation State Street Financial Center One Lincoln Street Boston, Massachusetts 02111	138,223,181 shares <sup>(2)</sup>	5.0% <sup>(2)</sup>

- (1) Based solely on an Amendment to Schedule 13G filed with the SEC on 4 February 2011, BlackRock, Inc. (“BlackRock”) reported aggregate beneficial ownership of approximately 5.15%, or 141,306,342 shares, of Johnson & Johnson Common Stock as of 31 December 2010. BlackRock reported that it possessed sole voting and dispositive power of 141,306,342 shares. BlackRock also reported that it did not possess shared voting or dispositive power over any shares beneficially owned.
- (2) Based solely on a Schedule 13G filed with the SEC on 11 February 2011, State Street Corporation, acting in various fiduciary capacities (“State Street”), reported aggregate beneficial ownership of approximately 5.0%, or 138,223,181 shares, of Johnson & Johnson Common Stock as of 31 December 2010. State Street reported that it possessed sole voting power of 0 shares, shared voting power of 138,223,181 shares, and shared dispositive power of 138,223,181 shares. State Street also reported that it did not possess sole dispositive power over any shares beneficially owned.

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

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

At 2 January 2011, the Company had 7 stock-based compensation plans. The shares outstanding are for contracts under the Company’s 2000 Stock Option Plan, the 2005 LTIP, the 1997 Non-Employee Director’s Plan and the ALZA Corporation, Inverness Medical Technology, Inc., and Scios Inc. Stock Option Plans. During 2010, no options or restricted shares were granted under any of these plans except under the 2005 Long-Term Incentive Plan.

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

The compensation cost that has been charged against income for these plans was \$614 million, \$628 million and \$627 million for 2010, 2009 and 2008, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was \$205 million, \$210 million and \$210 million for 2010, 2009 and 2008, respectively. The total unrecognized compensation cost was \$613 million as of 2 January 2011, \$612 million as of 3 January 2010 and \$632 million as of 28 December 2008. The weighted average period for this cost to be recognized was 1.05 years, 1.16 years and 1.06 years for 2010, 2009, and 2008, 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 four 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 LTIP, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 LTIP were 121.3 million at the end of 2010.

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 \$8.03, \$8.35 and \$7.66, in 2010, 2009, and 2008, respectively. The fair value was estimated based on the weighted average assumptions of:

	2010	2009	2008
Risk-free rate	2.78%	2.71%	2.97%
Expected Volatility	17.4%	19.5%	15.0%
Expected life	6.0 yrs	6.0 yrs	6.0 yrs
Dividend yield	3.30%	3.30%	2.90%

A summary of option activity under the LTIP as of 2 January 2011, 3 January 2010 and 28 December 2008 and changes during the years ending on those dates is presented below:

(Shares in Thousands)	Outstanding Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (Dollars in Millions)
Shares at 30 December 2007	228,629	\$56.83	\$2,411
Options granted	22,428	61.80	

Options exercised	(30,033)	50.27	
Options canceled/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
Options granted	13,996	62.62	
Options exercised	(25,020)	51.84	
Options cancelled/forfeited	(8,005)	62.36	
Shares at 2 January 2011	193,690	\$59.68	\$648

The total intrinsic value of options exercised was \$278 million, \$184 million and \$506 million in 2010, 2009 and 2008, respectively.

The following table summarizes stock options outstanding and exercisable at 2 January 2011:

(Shares in Thousands)	Outstanding			Exercisable	
	Options	Average Life <sup>(1)</sup>	Average Exercise Price	Options	Average Exercise Price
\$25.00-\$40.08	50	0.9	\$29.53	50	\$29.53
\$41.26-\$49.86	532	0.5	47.43	532	47.43
\$50.52-\$52.80	20,155	2.1	52.20	20,155	52.20
\$53.00-\$53.93	24,114	3.0	53.93	24,114	53.93
\$54.04-\$57.30	24,332	1.1	57.28	24,332	57.28
\$57.44-\$58.34	39,343	6.5	58.33	20,175	58.33
\$58.42-\$65.10	33,020	7.8	62.11	1,147	61.21
\$65.62-\$68.37	52,144	4.8	65.97	50,810	65.98
	193,690	4.7	\$59.68	141,275	\$59.25

(1) Average contractual life remaining in years

Stock options exercisable at 3 January 2010 and 28 December 2008 were 148,349 at an average price of \$57.26 and an average life of 5.0 years and 144,962 at an average price of \$56.25 and an average life of 5.3 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 LTIP as of 2 January 2011:

<b>(Shares in Thousands)</b>	<b>Outstanding Shares</b>
Shares at 30 December 2007	13,661
Shares granted	10,105
Shares issued	(40)
Shares canceled/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
Shares granted	12,003
Shares issued	(6,297)
Shares canceled/forfeited	(2,296)
Shares at 2 January 2011	29,734

The average fair value of the restricted share units granted was \$56.69, \$52.79 and \$56.70 in 2010, 2009 and 2008, 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 \$375.0 million, \$308.4 million and \$2.5 million in 2010, 2009 and 2008, respectively.

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

17.1 The Company had 175,872 registered shareholders as of 30 September 2011. As of 9 March 2011, the following are the only beneficial owners of five percent or more of any class of the Company's voting securities<sup>38</sup>:

<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	141,306,342 shares	5.15%
	State Street Corporation State Street Financial Center	138,223,181 shares	5.0%

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

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

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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 1 January 2010 and ending 1 March 2011, 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.***

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 (other than solely as a result of being a director or trustee or less than 10% owner of another entity). 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 also has established procedures for monitoring transactions that could be subject to approval or ratification under the Policy on Transactions With Related Persons.

Once a related person transaction has been identified, the Nominating & Corporate Governance 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 pre-approve 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:

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<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.



- 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 non-executive 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 depositary, 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>

#### 19.1.1 Consolidated Balance Sheet of Johnson & Johnson

The information for the fiscal years ended 28 December 2008, 3 January 2010 and 2 January 2011 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 28 December 2008, 3 January 2010 and 2 January 2011 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 U.S.A. (1-732-524-2455).

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

*On 2 January 2011, 3 January 2010 and 28 December 2008 (Dollars in Millions Except Share and Per Share Data)(Note 1 to the Consolidated Financial Statements – see Section 19 of the Registration Document)*

	2010	2009	2008
<b>Assets</b>			

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

<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 2010 and 2009 Annual Reports.

<b>Current assets</b>			
Cash and cash equivalents (Notes 1 and 2)	\$19,355	15,810	10,768
Marketable securities (Notes 1 and 2)	8,303	3,615	2,041
Accounts receivable trade, less allowances for doubtful accounts \$340 (2009, \$333)	9,774	9,646	9,719
Inventories (Notes 1 and 3)	5,378	5,180	5,052
Deferred taxes on income (Note 8)	2,224	2,793	3,430
Prepaid expenses and other receivables	2,273	2,497	3,367
<b>Total current assets</b>	<b>47,307</b>	<b>39,541</b>	<b>34,377</b>

Property, plant and equipment, net (Notes 1 and 4)	14,553	14,759	14,365
Intangible assets, net (Notes 1 and 5)	16,716	16,323	13,976
Goodwill (Notes 1 and 5)	15,294	14,862	13,719
Deferred taxes on income (Note 8)	5,096	5,507	5,841
Other assets	3,942	3,690	2,634
<b>Total assets</b>	<b>\$102,908</b>	<b>94,682</b>	<b>84,912</b>

#### **Liabilities and Shareholders' Equity**

<b>Current liabilities</b>			
Loans and notes payable (Note 7)	\$7,617	6,318	3,732
Accounts payable	5,623	5,541	7,503
Accrued liabilities	4,100	4,625	4,599
Accrued rebates, returns and promotions	2,512	2,028	2,237
Accrued compensation and employee related obligations	2,642	2,777	2,364
Accrued taxes on income	578	442	417
<b>Total current liabilities</b>	<b>23,072</b>	<b>21,731</b>	<b>20,852</b>
Long-term debt (Note 7)	9,156	8,223	8,120
Deferred taxes on income (Note 8)	1,447	1,424	1,432
Employee related obligations (Note 9 and 10)	6,087	6,769	7,791
Other liabilities	6,567	5,947	4,206
<b>Total liabilities</b>	<b>46,329</b>	<b>44,094</b>	<b>42,401</b>

#### **Shareholders' equity**

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)	(3,531)	(3,058)	(4,955)
Retained earnings	77,773	70,306	63,379
	77,362	70,368	61,544
Less: common stock held in treasury, at cost (Note 12) (381,746,000 and 365,522,000 shares)	20,783	19,780	19,033
<b>Total shareholders' equity</b>	<b>56,579</b>	<b>50,588</b>	<b>42,511</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$102,908</b>	<b>94,682</b>	<b>84,912</b>

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

<i>(Dollars in Millions Except Per Share Figures)(Note 1)</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Sales to customers</b>	\$61,587	61,897	63,747
Cost of products sold	18,792	18,447	18,511
Gross profit	42,795	43,450	45,236
Selling, marketing and administrative expenses	19,424	19,801	21,490
Research and development expense	6,844	6,986	7,577
Purchased in-process research and development (Note 20)	-	-	181
Restructuring (Note 22)	-	1,073	-
Interest income	(107)	(90)	(361)
Interest expense, net of portion capitalized (Note 4)	455	451	435
Other (income) expense, net	(768)	(526)	(1,015)
	25,848	27,695	28,307
Earnings before provision for taxes on income	16,947	15,755	16,929
Provision for taxes on income (Note 8)	3,613	3,489	3,980
<b>Net earnings</b>	<b>\$13,334</b>	<b>12,266</b>	<b>12,949</b>
<b>Basic net earnings per share (Notes 1 and 15)</b>	<b>\$4.85</b>	<b>4.45</b>	<b>4.62</b>
<b>Diluted net earnings per share (Notes 1 and 15)</b>	<b>\$4.78</b>	<b>4.40</b>	<b>4.57</b>

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

<i>(Dollars in Millions)(Note 1)</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>			
Net earnings	\$13,334	12,266	12,949
Adjustments to reconcile net earnings to cash flows from operating activities:			
Depreciation and amortization of property and intangibles	2,939	2,774	2,832
Stock based compensation	614	628	627

Purchased in-process research and development	-	-	181
Deferred tax provision	356	(436)	22
Accounts receivable allowances	12	58	86
Changes in assets and liabilities, net of effects from acquisitions:			
(Increase)/decrease in accounts receivable	(207)	453	(736)
(Increase)/decrease in inventories	(196)	95	(101)
Increase/(decrease) in accounts payable and accrued liabilities	20	(507)	(272)
(Increase)/decrease in other current and non-current assets	(574)	1,209	(1,600)
Increase in other current and non-current liabilities	87	31	984
<b>Net cash flows from operating activities</b>	<b>16,385</b>	<b>16,571</b>	<b>14,972</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	(2,384)	(2,365)	(3,066)
Proceeds from the disposal of assets	524	154	785
Acquisitions, net of cash acquired (Note 20)	(1,269)	(2,470)	(1,214)
Purchases of investments	(15,788)	(10,040)	(3,668)
Sales of investments	11,101	7,232	3,059
Other (primary intangibles)	(38)	(109)	(83)
<b>Net cash used by investing activities</b>	<b>(7,854)</b>	<b>(7,598)</b>	<b>(4,187)</b>
<b>Cash flows from financing activities</b>			
Dividends to shareholders	(5,804)	(5,327)	(5,024)
Repurchase of common stock	(2,797)	(2,130)	(6,651)
Proceeds from short-term debt	7,874	9,484	8,430
Retirement of short-term debt	(6,565)	(6,791)	(7,319)
Proceeds from long-term debt	1,118	9	1,638
Retirement of long-term debt	(32)	(219)	(24)
Proceeds from the exercise of stock options/excess tax benefits	1,226	882	1,486
<b>Net cash used by financing activities</b>	<b>(4,980)</b>	<b>(4,092)</b>	<b>(7,464)</b>
Effect of exchange rate changes on cash and cash equivalents	(6)	161	(323)
Increase in cash and cash equivalents	3,545	5,042	2,998
Cash and cash equivalents, beginning of year (Note 1)	15,810	10,768	7,770

<b>Cash and cash equivalents, end of year (Note 1)</b>	\$19,355	\$15,810	\$10,768
<b>Supplemental cash flow data</b>			
Cash paid during the year for:			
Interest	\$491	533	525
Income taxes	2,442	2,363	4,068
<b>Supplemental schedule of noncash investing and financing activities</b>			
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	\$673	541	593
Conversion of debt	1	2	-
<b>Acquisitions</b>			
Fair value of assets acquired	\$1,321	3,345	1,328
Fair value of liabilities assumed and non- controlling interests	(52)	(875)	(114)
Net cash paid for acquisitions	<b>\$1,269</b>	<b>2,470</b>	<b>1,214</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 (the "Company"). Intercompany accounts and transactions are eliminated.

#### Description of the Company and Business Segments

The Company had approximately 114,000 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 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 and wellness and prevention platforms. These products are marketed to the general public and sold both to retail outlets and distributors throughout the world. The Pharmaceutical segment includes products in the following areas: anti-infective, antipsychotic, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management 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 distributed to wholesalers, hospitals and retailers used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Biosense Webster's electrophysiology products; Cordis'

circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care, neurological and sports medicine products; Ethicon's surgical care, aesthetics and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products and advanced sterilization 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 first quarter of 2010 the Company adopted the Financial Accounting Standards Board (FASB) guidance and amendments related to the criteria for separating consideration in multiple-deliverable revenue arrangements. The guidance (a) provides principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated; (b) requires 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) eliminates the use of the residual method and requires an entity to allocate the revenue using the relative selling price method. The adoption did not have a material impact on the Company's results of operations, cash flows or financial position; however it expanded the disclosures for multiple-deliverable revenue arrangements.

During the fiscal first quarter of 2010, the Company adopted the FASB standard related to variable interest entities. The adoption of this standard did not have an impact on the Company's results of operations, cash flows or financial position. During the fiscal first quarter of 2010, the Company adopted the new accounting guidance on fair value measurements and disclosures. This guidance requires the Company to disclose the amount of significant transfers between Level 1 and Level 2 inputs and the reasons for these transfers as well as the reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. 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 2 January 2011**

During the fiscal second quarter of 2010 the FASB issued an accounting standard update related to revenue recognition under the milestone method. The objective of the accounting standard update is to provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. This guidance was effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after 15 June 2010. The adoption of this standard is not expected to 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, coupons, 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 contractual 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 for 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 1.0% and 1.2% of annual sales to customers during the prior three fiscal reporting years 2008–2010.

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 \$945 million, \$964 million and \$1,017 million in 2010, 2009 and 2008, 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 2010 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:

Nature/Type of Collaboration	Statements of Earnings Presentation
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 and development expense
Research and development payments to collaborative partner	Research and development expense
Research and development payments received from collaborative partner	Reduction of Research and development 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 \$2.5 billion, \$2.4 billion and \$2.9 billion in 2010, 2009 and 2008, respectively.

### **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 2 January 2011 and 3 January 2010 the cumulative amount of undistributed international earnings were approximately \$37.0 billion and \$32.2 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.

The Company follows the provisions of U.S. GAAP when recording litigation related contingencies. A liability is recorded when a loss is probable and can be reasonably estimated. The best estimate of a loss within a range is accrued; however, if no estimate in the range is better than any other, the minimum amount is accrued.

#### **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**

At the end of 2010 and 2009, the amortized cost of cash, cash equivalents and current marketable securities were comprised of:

<i>(Dollars in Millions)</i>	<b>Amortized Cost</b>	
	<b>2010</b>	<b>2009</b>
Cash	\$2,293	2,517
Government securities and obligations	22,349	13,370
Corporate debt securities	225	426
Money market funds	2,135	1,890
Time deposits	656	1,222
Total cash, cash equivalents and current marketable securities	<b>\$27,658</b>	<b>19,425</b>

The estimated fair value was the same as the amortized cost as of 2 January 2011. The estimated fair value was \$19,426 million as of 3 January 2010 reflecting a \$1 million unrealized gain in government securities and obligations.

As of 2 January 2011, current marketable securities consisted of \$8,153 million and \$150 million of government securities and obligations and corporate debt securities, respectively.

As of 3 January 2010, current marketable securities consisted of \$3,434 million and \$181 million of government securities and obligations and corporate debt securities, 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 2010 and 2009, inventories were comprised of:

<i>(Dollars in Millions)</i>	<b>2010</b>	<b>2009</b>
Raw materials and supplies	\$1,073	1,144
Goods in process	1,460	1,395
Finished goods	2,845	2,641
Total inventories	<u>\$5,378</u>	<u>5,180</u>

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

At the end of 2010 and 2009, property, plant and equipment at cost and accumulated depreciation were:

<i>(Dollars in Millions)</i>	<b>2010</b>	<b>2009</b>
Land and land improvements	\$738	714
Buildings and building equipment	9,079	8,863
Machinery and equipment	18,032	17,153
Construction in progress	2,577	2,521
Total property, plant and equipment, gross	<u>30,426</u>	<u>29,251</u>
Less accumulated depreciation	15,873	14,492
Total property, plant and equipment, net	<u>\$14,553</u>	<u>14,759</u>

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2010, 2009 and 2008 was \$73 million, \$101 million and \$147 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2010, 2009 and 2008, was \$2.2 billion, \$2.1 billion and \$2.0 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 are recorded in earnings.

**Note 5: Intangible Assets and Goodwill**

At the end of 2010 and 2009, the gross and net amounts of intangible assets were:

<i>(Dollars in Millions)</i>	<b>2010</b>	<b>2009</b>
<b>Intangible assets with definite lives:</b>		
Patents and trademarks – gross	\$6,660	\$5,697
Less accumulated amortization	2,629	2,177
Patents and trademarks – net	<b>\$4,031</b>	<b>3,520</b>
Other intangibles – gross	\$7,674	7,808
Less accumulated amortization	2,880	2,680
Other intangibles – net	<b>\$4,794</b>	<b>5,128</b>
Total intangible assets with definite lives – gross	\$14,334	13,505
Less accumulated amortization	5,509	4,857
Total intangible assets with definite lives – net	<b>\$8,825</b>	<b>8,648</b>
<b>Intangible assets with indefinite lives:</b>		
Trademarks	\$5,954	5,938
Purchased in-process research and development*	1,937	1,737
Total intangible assets with indefinite lives	<b>\$7,891</b>	<b>7,675</b>
Total intangible assets – net	<b>\$16,716</b>	<b>16,323</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 2 January 2011 and 3 January 2010, 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 28 December 2008	\$7,474	963	5,282	13,719
Acquisitions	-	271	401	672
Currency translation/other*	600	10	(139)	471
Goodwill at 3 January 2010	\$8,074	1,244	5,544	14,862
Acquisitions	-	-	397	397
Currency translation/other	70	(19)	(16)	35
Goodwill at 2 January 2011	<b>\$8,144</b>	<b>1,225</b>	<b>5,925</b>	<b>15,294</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 was \$748 million, \$675 million and \$788 million before tax, for the fiscal years ended 2 January 2011, 3 January 2010 and 28 December 2008, respectively. Certain patents and intangible assets were written down to fair value during fiscal years 2010, 2009 and 2008, with the resulting charge included in amortization expense. These write downs did not have a material impact on the Company's results of operations, cash flows or financial position.

The estimated amortization expense for the five succeeding years approximates \$730 million before tax, per year. Substantially all of the amortization expense is included in cost of products sold.

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

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 2 January 2011, the Company had notional amounts outstanding for forward foreign exchange contracts and cross currency interest rate swaps of \$21 billion and \$3 billion, respectively.

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 not material for the fiscal years ended 2 January 2011 and 3 January 2010. Refer to Note 13 for disclosures of movements in Accumulated Other Comprehensive Income.

As of 2 January 2011, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was \$100 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 related to designated derivatives for the fiscal years ended 2 January 2011 and 3 January 2010:

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>	
	2010	2009	2010	2009	2010	2009
Foreign exchange contracts	\$(66)	(63)	(52) <sup>(A)</sup>	(47) <sup>(A)</sup>	(2)	1
Foreign exchange contracts	(296)	(173)	(300) <sup>(B)</sup>	70 <sup>(B)</sup>	(38)	(1)
Foreign exchange contracts	51	5	57 <sup>(C)</sup>	13 <sup>(C)</sup>	5	-
Cross currency interest rate swaps	(40)	241	6 <sup>(D)</sup>	(16) <sup>(D)</sup>	-	-
Foreign exchange contracts	18	28	1 <sup>(E)</sup>	(6) <sup>(E)</sup>	3	(12)
<b>Total</b>	<b>\$(333)</b>	<b>38</b>	<b>(288)</b>	<b>14</b>	<b>(32)</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 and development expense

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

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

For the fiscal year ended 2 January 2011 and 3 January 2010, a loss of \$31 million and a gain of \$21 million, respectively, was recognized in Other (income)/expense, net, relating to foreign exchange contracts not designated as hedging instruments.

Fair value is 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 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 that are classified as Level 1 as they are traded in an active exchange market.

The following three levels of inputs are used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets and liabilities.

Level 2 — Significant other observable inputs.

Level 3 — Significant unobservable inputs.

The Company's significant financial assets and liabilities measured at fair value as of 2 January 2011 and 3 January 2010 were as follows:

*(Dollars in Millions)*

	Level 1	Level 2	Level 3	2010 Total	2009 Total*
<b>Derivatives designated as hedging instruments:</b>					
<b>Assets:</b>					
Foreign exchange contracts	\$ -	321	-	321	436
Cross currency interest rate swaps**	-	17	-	17	126
<b>Total</b>	<b>-</b>	<b>338</b>	<b>-</b>	<b>338</b>	<b>562</b>
<b>Liabilities:</b>					
Foreign exchange contracts	-	586	-	586	608
Cross currency interest rate swaps***	-	502	-	502	571
<b>Total</b>	<b>-</b>	<b>1,088</b>	<b>-</b>	<b>1,088</b>	<b>1,179</b>
<b>Derivatives not designated as hedging instruments:</b>					
<b>Assets:</b>					
Foreign exchange contracts	-	19	-	19	33
<b>Liabilities:</b>					



Foreign exchange contracts	-	39	-	39	40
<b>Other investments</b>	<b>\$1,165</b>	<b>-</b>	<b>-</b>	<b>1,165</b>	<b>1,134</b>

\* 2009 assets and liabilities are all classified as Level 2 with the exception of other investments of \$1,134 million which are classified as Level 1.

\*\* Includes \$14 million and \$119 million of non-current assets for the fiscal years ending 2 January 2011 and 3 January 2010, respectively.

\*\*\* Includes \$502 million and \$517 million of non-current liabilities for the fiscal years ending 2 January 2011 and 3 January 2010, respectively.

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:

(Dollars in Millions)	Effective		Effective		Effective	
	2010	Rate%	2009	Rate%	2008	Rate%
3% Zero Coupon Convertible Subordinated Debentures due 2020	\$194	3.00	188	3.00	183	3.00%
2.95% Debentures due 2020	541	3.15	-	-	-	-
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>	764 <sup>(2)</sup>	5.71	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>	1,319 <sup>(2)</sup>	5.35	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	599	5.18
5.86% Debentures due 2038	700	5.86	700	5.86	700	5.86
4.50% Debentures due 2040	539	4.63	-	-	-	-
5.15% Debentures due 2018	898	5.15	898	5.15	898	5.15
Other (Includes Industrial Revenue Bonds)	76		101		102	-
	9,169 <sup>(4)</sup>	5.25 <sup>(1)</sup>	8,257 <sup>(4)</sup>	5.42 <sup>(1)</sup>	8,341 <sup>(4)</sup>	5.46 <sup>(1)</sup>
Less current portion	34		34		221	
	\$9,156		8,223		8,120	

(1) Weighted average effective rate.

(2) Translation rate at 2 January 2011.

(3) Translation rate at 3 January 2010.

(4) The excess of the fair value over the carrying value of debt was \$1.0 billion in 2010 and \$0.8 billion in 2009.

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 2011, the Company secured a new 364-day Credit Facility. Total credit available to the Company under the facility, which expires 20 September 2012, approximates \$10 billion. Interest charged on borrowings under the credit line agreement 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.

In the fiscal third quarter of 2011, the Company continued to have access to liquidity through the commercial paper market. The Company anticipates that operating cash flows, existing credit facilities and access to the commercial paper markets will continue to provide sufficient resources to fund operating needs. However, the Company monitors the global capital markets on an ongoing basis and from time to time may raise capital when market conditions are favorable.

The Company has a shelf registration with the Securities and Exchange Commission that enables the Company to issue on a timely basis debt securities and warrants to purchase debt securities.

Aggregate maturities of long-term obligations commencing in 2010 are:

<b>(Dollars in Millions)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>After 2015</b>
	\$13	644	509	9	-	7,994

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

The provision for taxes on income consists of:

<i>(Dollars in Millions)</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Currently payable:			
U.S. taxes	\$2,063	2,410	2,334
International taxes	1,194	1,515	1,624
Total currently payable	<u>3,257</u>	<u>3,925</u>	<u>3,958</u>
Deferred:			
U.S. taxes	(4)	187	126
International taxes	360	(623)	(104)
Total deferred	<u>356</u>	<u>(436)</u>	<u>22</u>
Provision for taxes on income	<b>\$3,613</b>	<b>3,489</b>	<b>3,980</b>

A comparison of income tax expense at the U.S. statutory rate of 35% in 2010, 2009 and 2008, to the Company's effective tax rate is as follows:

<i>(Dollars in Millions)</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>
U.S.	\$6,392	7,141	6,579
International	10,555	8,614	10,350
Earnings before taxes on income:	<u>\$16,947</u>	<u>15,755</u>	<u>16,929</u>
Tax rates:			
U.S. statutory rate	35.0%	35.0	35.0
Ireland and Puerto Rico operations	(5.1)	(5.1)	(6.8)

Research and orphan drug tax credits	(0.6)	(0.6)	(0.6)
U.S. state and local	1.0	1.8	1.6
International subsidiaries excluding Ireland	(7.5)	(6.7)	(5.6)
U.S. manufacturing deduction	(0.5)	(0.4)	(0.4)
In process research and development (IPR&D)	-	-	0.4
U.S. Tax international income	(0.6)	(1.6)	(0.5)
All other	(0.4)	(0.3)	0.4
Effective tax rate	21.3%	22.1	23.5

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 2010 tax rate was primarily due to decreases in taxable income in higher tax jurisdictions relative to taxable income in lower tax jurisdictions and certain U.S. tax adjustments. 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.

Temporary differences and carry forwards for 2010 and 2009 are as follows:

<i>(Dollars in Millions)</i>	<b>2010 Deferred Tax</b>		<b>2009 Deferred Tax</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
Employee related obligations	\$2,211		2,153	
Stock based compensation	1,225		1,291	
Depreciation		(769)		(661)
Non-deductible intangibles		(2,725)		(2,377)
International R&D capitalized for tax	1,857		1,989	
Reserves & liabilities	948		1,014	
Income reported for tax purposes	691		648	
Net operating loss carry forward international	738		615	
Miscellaneous international	1,326	(106)	1,474	(110)
Miscellaneous U.S.	470		799	
Total deferred income taxes	<b>\$9,466</b>	<b>(3,600)</b>	<b>9,983</b>	<b>(3,148)</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 deferred tax Miscellaneous U.S. includes current year tax receivables. The Company has a wholly-owned international subsidiary that has cumulative net losses. The Company believes that it is more likely than not that this 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>2010</b>	<b>2009</b>	<b>2008</b>
Beginning of year	\$2,403	1,978	1,653
Increases related to current year tax positions	465	555	545
Increases related to prior period tax positions	68	203	87
Decreases related to prior period tax positions	(431)	(163)	(142)
Settlements	(186)	(87)	(137)
Lapse of statute of limitations	(12)	(83)	(28)
End of year	\$2,307	2,403	1,978

The Company had \$2.3 billion, \$2.4 billion and \$2.0 billion of unrecognized tax benefits as of 2 January 2011, 3 January 2010 and 28 December 2008, respectively. All of the unrecognized tax benefits of \$2.3 billion at 2 January 2011, 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 2005; however, there are a limited number of issues remaining open for prior tax years going back to 1999. In other major jurisdictions where the Company conducts business, the years remain open generally back to the year 2003. The Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next twelve months. 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. The Company recognized after tax interest of \$34 million income, \$36 million expense and \$69 million expense in 2010, 2009 and 2008, respectively. The total amount of accrued interest was \$264 million and \$309 million in 2010 and 2009, respectively.

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

At the end of 2010 and 2009, employee related obligations recorded on the Consolidated Balance Sheet were:

<i>(Dollars in Millions)</i>	<b>2010</b>	<b>2009</b>
Pension benefits	\$2,175	2,792
Postretirement benefits	2,359	2,245
Post-employment benefits	1,379	1,504
Deferred compensation	820	790
Total employee obligations	6,733	7,331
Less current benefits payable	646	562
Employee related obligations	\$6,087	6,769

– non-current

Prepaid employee related obligations of \$615 million and \$266 million for 2010 and 2009, 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 (2 January 2011 and 3 January 2010, 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 2010, 2009 and 2008 include the following components:

<i>(Dollars in Millions)</i>	<b>Retirement Plans</b>			<b>Other Benefit Plans</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Service cost	\$550	511	545	\$134	137	142
Interest cost	791	746	701	202	174	166
Expected return on plan assets	(1,005)	(934)	(876)	(1)	(1)	(2)
Amortization of prior service cost	10	13	10	(4)	(5)	(4)
Amortization of net transition asset	1	1	2	-	-	-
Recognized actuarial losses	236	155	62	48	55	64
Curtailments and settlements	1	(11)	7	-	(1)	-
Net periodic benefit cost	\$584	481	451	\$379	359	366

The net periodic benefit cost attributable to U.S. retirement plans was \$294 million, \$286 million and \$220 million in 2010, 2009 and 2008, 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	402
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		
	2010	2009	2008	2010	2009	2008
<b>US Benefit Plans</b>						
Discount rate	5.98 %	6.50	6.50	5.98 %	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	4.25	4.50	4.50	4.25	4.50	4.50
<b>International Benefit Plans</b>						
Discount rate	5.26 %	5.75	6.00	6.32 %	6.75%	7.25
Expected long-term rate of return on plan assets	8.00	8.00	8.00	-	-	-
Rate of increase in compensation levels	4.00	4.00	4.00	4.75	4.75	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>2010</b>	<b>2009</b>
Health care cost trend rate assumed for next year	7.50%	8.00
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	2018	2017

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	\$36	\$(28)
Postretirement benefit obligation	377	(302)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2010 and 2009 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>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Change in Benefit Obligation</b>				
Projected benefit obligation – beginning of year	\$13,449	11,923	\$3,590	2,765
Service cost	550	511	134	137
Interest cost	791	746	202	174
Plan participant contributions	42	50	-	-
Amendments	-	3	-	-
Actuarial losses	815	412	115	51
Divestitures & acquisitions	-	15	-	13
Curtailments & settlements & restructuring	(10)	(3)	-	748
Benefits paid from plan	(627)	(570)	(476)	(313)
Effect of exchange rates	(17)	362	7	15
Projected benefit obligation – end of year*	<b>\$14,993</b>	<b>13,449</b>	<b>\$3,572</b>	<b>3,590</b>
<b>Change in Plan Assets</b>				



Plan assets at fair value – beginning of year	\$10,923	7,677	\$16	17
Actual return on plan assets	1,466	2,048	2	4
Company contributions	1,611	1,354	472	308
Plan participant contributions	42	50	-	-
Settlements	(7)	-	-	-
Benefits paid from plan assets	(627)	(570)	(476)	(313)
Effect of exchange rates	25	364	-	-
Plan assets at fair value – end of year	<b>\$13,433</b>	<b>10,923</b>	<b>\$14</b>	<b>16</b>
Funded status – end of year*	<b>\$(1,560)</b>	<b>(2,526)</b>	<b>\$(3,558)</b>	<b>(3,574)</b>

**Amounts Recognized in the Company's Balance Sheet consist of the following:**

Non-current assets	\$615	266	\$-	-
Current liabilities	(54)	(53)	(576)	(484)
Non-current liabilities	(2,121)	(2,739)	(2,982)	(3,090)
Total recognized in the consolidated balance sheet – end of year	<b>\$(1,560)</b>	<b>(2,526)</b>	<b>\$(3,558)</b>	<b>(3,574)</b>

**Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:**

Net actuarial loss	\$3,539	3,415	\$1,017	924
Prior service cost (credit)	39	47	(21)	(23)
Unrecognized net transition obligation	4	5	-	-
Total before tax effects	<b>\$3,582</b>	<b>3,467</b>	<b>\$996</b>	<b>901</b>

**Accumulated Benefit Obligations – end of year\***

**\$13,134 11,687**

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

Net periodic benefit cost	<b>\$584</b>	<b>481</b>	<b>\$379</b>	<b>359</b>
Net actuarial loss (gain)	354	(704)	134	48
Amortization of net actuarial loss	(242)	(134)	(46)	(131)
Prior service cost	-	3	-	-
Amortization of prior service (cost) credit	(10)	(13)	4	5
Effect of exchange rates	13	57	3	2
Total recognized in other comprehensive income, before tax	<b>\$115</b>	<b>(791)</b>	<b>\$95</b>	<b>(76)</b>
Total recognized in net periodic benefit cost and other comprehensive income	<b>\$699</b>	<b>(310)</b>	<b>\$474</b>	<b>283</b>

\*The Company does not fund certain plans, as funding is not required. \$1.3 billion and \$1.2 billion of the 2010 and 2009 projected benefit obligation and \$1.3 billion and \$1.2 billion of the underfunded status for each of the fiscal years 2010 and 2009, respectively, relates to the unfunded pension plans. \$1.1 billion and \$1.0 billion of the accumulated benefit obligation for the fiscal years 2010 and 2009, respectively, relate to these unfunded pension plans.

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

<i>(Dollars in Millions)</i>	<b>Retirement Plans</b>	
	<b>2010</b>	<b>2009</b>
Accumulated benefit obligation	\$(2,361)	(4,065)
Projected benefit obligation	(2,771)	(4,663)
Plan assets at fair value	817	2,564

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

<i>(Dollars in Millions)</i>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016-2020</b>
<b>Projected future benefit payments</b>						
Retirement plans	\$596	598	614	642	682	4,153
Other benefit plans – gross	\$263	212	200	202	203	1,075
Medicare rebates	(10)	(12)	-	-	-	-
Other benefit plans – net	\$253	200	200	202	203	1,075

The 2011 other benefit plan projected future benefit payments exclude \$345 million of severance payments associated with the 2009 worldwide restructuring program.

In 2010, the Company contributed \$1,236 million and \$375 million to its U.S. and international pension plans, respectively.

The Company plans to continue to fund its U.S. defined benefit plans to comply with the Pension Protection Act of 2006.

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 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 U.S. 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>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016-2020</b>
<b>Projected future contributions</b>						
Unfunded U.S. retirement plans	\$36	38	40	43	46	300
Unfunded International retirement plans	\$18	17	19	19	23	128

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 2010 and 2009 and target allocations for 2011 are as follows:

	Percent of Plan Assets		Target Allocation
	2010	2009	2011
<b>US Retirement Plans</b>			
Equity securities	79%	76%	75%
Debt securities	21	24	25
Total plan assets	100%	100%	100%
<b>International Retirement Plans</b>			
Equity securities	65%	65%	65%
Debt securities	35	34	35
Real estate and other	-	1	-
Total plan assets	100%	100%	100%

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of \$14 million and \$16 million at 2 January 2011 and 3 January 2010, respectively.

The fair value of Johnson & Johnson Common Stock directly held in plan assets was \$453 million (3.4% of total plan assets) at 2 January 2011 and \$469 million (4.3% of total plan assets) at 3 January 2010.

#### **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 2 January 2011 and 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>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Short-term investment funds	\$80	91	371	358	-	-	451	449
Government and agency securities	69	-	1,484	1,165	-	-	1,553	1,165
Debt instruments	5	3	1,149	1,145	13	5	1,167	1,153
Equity securities	6,744	5,068	14	58	24	15	6,782	5,141
Commingled funds	1	-	3,173	2,673	35	26	3,209	2,699
Insurance contracts	-	-	-	-	29	32	29	32
Other assets	10	31	150	171	82	82	242	284
<b>Trust investments at fair value</b>	<b>\$6,909</b>	<b>5,193</b>	<b>6,341</b>	<b>5,570</b>	<b>183</b>	<b>160</b>	<b>13,433</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 years ended 2 January 2011 and 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>	<b>\$7</b>	<b>15</b>	<b>15</b>	<b>29</b>	<b>85</b>	<b>151</b>
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>
Realized gains (losses)	(1)	-	-	(3)	1	(3)
Unrealized gains (losses)	1	4	4	-	(3)	6
Purchases, sales, issuances and settlements, net	8	5	5	-	2	20
<b>Balance 3 January 2010</b>	<b>\$13</b>	<b>24</b>	<b>35</b>	<b>29</b>	<b>82</b>	<b>183</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 \$157 million, \$163 million and \$166 million in 2010, 2009 and 2008, 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>	<b>Treasury Stock</b>	
	<b>Shares</b>	<b>Amount</b>
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
Employee compensation and stock option plans	(28,827)	(1,792)
Conversion of subordinated debentures	(39)	(2)
Repurchase of common stock	45,090	2,797
Balance at 2 January 2011	381,746	\$20,783

Aggregate shares of Common Stock issued were approximately 3,119,843,000 shares at the end of 2010, 2009 and 2008.

Cash dividends paid were \$2.110 per share in 2010, compared with dividends of \$1.930 per share in 2009, and \$1.795 per share in 2008.

**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>
30 December 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 December 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 changes	1,363	(55)	565	24	1,897
3 January 2010	\$(508)	(30)	(2,665)	145	3,058

2010 changes					
Unrealized gain(loss)	-	99	-	(333)	
Net amount reclassified to net earnings	-	(45)	-	288	
Net 2010 changes	(461)	54	(21)	(45)	(473)
January 2, 2011	\$(969)	24	(2,686)	100	(3,531)

The tax effect on the unrealized gains/(losses) on the equity securities was expense of \$13 million in 2010, income of \$14 million in 2009 and expense of \$14 million in 2008. The tax effect related to employee benefit plans was \$11 million, \$302 million and \$1,090 million in 2010, 2009 and 2008, respectively. The tax effect on the gains/(losses) on derivatives and hedges was expense of \$54 million, \$78 million and \$70 million in 2010, 2009 and 2008, respectively. 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 2010, 2009 and 2008 for foreign currency translation adjustments is included in Note 13.

Net currency transaction gains and losses included in other (income) expense were losses of \$130 million, \$210 million and \$31 million in 2010, 2009 and 2008, 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 2 January 2011, 3 January 2010 and 28 December 2008:

<i>(Shares in Millions Except Per Share Data)</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Basic net earnings per share	\$4.85	4.45	4.62



Average shares outstanding – basic	2,751.4	2,759.5	2,802.5
Potential shares exercisable under stock option plans	156.1	118.0	179.0
Less: shares repurchased under treasury stock method	(122.3)	(92.0)	(149.6)
Convertible debt shares	3.6	3.6	3.7
Adjusted average shares outstanding – diluted	2,788.8	2,789.1	2,835.6
Diluted net earnings per share	\$4.78	\$4.40	4.57

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 2010, 2009 and 2008.

Diluted net earnings per share excludes 66 million, 121 million and 59 million shares underlying stock options for 2010, 2009 and 2008, 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 \$299 million, \$322 million and \$309 million in 2010, 2009 and 2008, respectively.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at 2 January 2011 are::

<i>(Dollars in Millions)</i>						
<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>After 2015</b>	<b>Total</b>
\$182	159	130	106	89	74	740

Commitments under capital leases are not significant.

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

At 2 January 2011, the Company had 7 stock-based compensation plans. The shares outstanding are for contracts under the Company's 2000 Stock Option Plan, the 2005 LTIP, the 1997 Non-Employee Director's Plan and the ALZA Corporation, Inverness Medical Technology, Inc., and Scios Inc. Stock Option Plans. During 2010, 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 \$614 million, \$628 million and \$627 million for 2010, 2009 and 2008, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was \$205 million, \$210 million and \$210 million for 2010, 2009 and 2008, respectively. The total unrecognized compensation cost was \$613 million as of 2 January 2011, \$612 million as of 3 January 2010 and \$632 million as of 28 December 2008. The weighted average period for this cost to be recognized was 1.05

years, 1.16 years and 1.06 years for 2010, 2009, and 2008, respectively. Share-based compensation costs capitalized as part of inventory were insignificant in all periods.

## STOCK OPTIONS

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 LTIP, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 LTIP were 121.3 million at the end of 2010.

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 \$8.03, \$8.35 and \$7.66, in 2010, 2009, and 2008, respectively. The fair value was estimated based on the weighted average assumptions of:

	2010	2009	2008
Risk-free rate	2.78%	2.71%	2.97%
Expected Volatility	17.4%	19.5%	15.0%
Expected life	6.0 yrs	6.0 yrs	6.0 yrs
Dividend yield	3.30%	3.30%	2.90%

A summary of option activity under the LTIP as of 2 January 2011, 3 January 2010 and 28 December 2008 and changes during the years ending on those dates is presented below:

(Shares in Thousands)	Outstanding Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (Dollars in Millions)
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
Options granted	13,996	62.62	
Options exercised	(25,020)	51.84	
Options cancelled/forfeited	(8,005)	62.36	
Shares at 2 January 2011	193,690	\$59.68	\$648

The total intrinsic value of options exercised was \$278 million, \$184 million and \$506 million in 2010, 2009 and 2008, respectively.

The following table summarizes stock options outstanding and exercisable at 2 January 2011:

Exercise Price Range	Outstanding			Exercisable		
	(Shares in Thousands)	Options	Average Life <sup>(1)</sup>	Average Exercise Price	Options	Average Exercise Price
\$25.00-\$40.08		50	0.9	\$29.53	50	\$29.53
\$41.26-\$49.86		532	0.5	47.43	532	47.43
\$50.52-\$52.80		20,155	2.1	52.20	20,155	52.20
\$53.00-\$53.93		24,114	3.0	53.93	24,114	53.93
\$54.04-\$57.30		24,332	1.1	57.28	24,332	57.28
\$57.44-\$58.34		39,343	6.5	58.33	20,175	58.33
\$58.42-\$65.10		33,020	7.8	62.11	1,147	61.21
\$65.62-\$68.37		52,144	4.8	65.97	50,810	65.98
		193,690	4.7	\$59.68	141,275	\$59.25

(1) Average contractual life remaining in years

Stock options exercisable at 3 January 2010 and 28 December 2008 were 148,349 at an average price of \$57.26 and an average life of 5.0 years and 144,962 at an average price of \$56.25 and an average life of 5.3 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 LTIP as of 2 January 2011:

<b>(Shares in Thousands)</b>	<b>Outstanding Shares</b>
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
Shares granted	12,003
Shares issued	(6,297)
Shares cancelled/forfeited	(2,296)
Shares at 2 January 2011	29,734

The average fair value of the restricted share units granted was \$56.69, \$52.79 and \$56.70 in 2010, 2009 and 2008, 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 \$375.0 million, \$308.4 million and \$2.5 million in 2010, 2009 and 2008, respectively.

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

*(Dollars in Millions)*

	<b>Sales to customers<sup>(2)</sup></b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Consumer</b>			
United States	\$5,519	6,837	6,937
International	9,071	8,966	9,117
Total	<b>14,590</b>	<b>15,803</b>	<b>16,054</b>
<b>Pharmaceutical</b>			
United States	12,519	13,041	14,831
International	9,877	9,479	9,736
Total	<b>22,396</b>	<b>22,520</b>	<b>24,567</b>
<b>Medical Devices and Diagnostics</b>			
United States	11,412	11,011	10,541
International	13,189	12,563	12,585

Total	<b>24,601</b>	<b>23,574</b>	<b>23,126</b>
<b>Worldwide Total</b>	<b>\$61,587</b>	<b>61,897</b>	<b>63,747</b>

<i>(Dollars in Millions)</i>	Operating Profit			Identifiable Assets		
	2010 <sup>(5)</sup>	2009 <sup>(6)</sup>	2008 <sup>(7)</sup>	2010	2009	2008
Consumer	\$2,342	2,475	2,674	\$23,753	24,671	23,765
Pharmaceutical	7,086	6,413	7,605	19,961	21,460	19,544
Medical Devices and Diagnostics	8,272	7,694	7,223	23,277	22,853	20,779
Total	17,700	16,582	17,502	66,991	68,984	64,088
Less: Expense not allocated to segments <sup>(3)</sup>	753	827	573			
General corporate <sup>(4)</sup>				35,917	25,698	20,824
Worldwide total	<b>\$16,947</b>	<b>15,755</b>	<b>16,929</b>	<b>\$102,908</b>	<b>94,682</b>	<b>84,912</b>

<i>(Dollars in Millions)</i>	Additions to Property, Plant and Equipment			Depreciation and Amortization		
	2010	2009	2008	2010	2009	2008
Consumer	\$526	439	499	\$532	513	489
Pharmaceutical	508	535	920	912	922	986
Medical Devices and Diagnostics	1,113	1,114	1,251	1,270	1,124	1,146
Segments total	2,147	2,088	2,670	2,714	2,559	2,621
General corporate	237	277	396	225	215	211
Worldwide total	<b>\$2,384</b>	<b>2,365</b>	<b>3,066</b>	<b>\$2,939</b>	<b>2,774</b>	<b>2,832</b>

<i>(Dollars in Millions)</i>	Sales to Customers <sup>(2)</sup>			Long-lived Assets <sup>(8)</sup>		
	2010	2009	2008	2010	2009	2008
United States	\$29,450	30,889	32,309	\$23,315	22,399	21,674
Europe	15,510	15,934	16,782	16,791	17,347	14,375
Western Hemisphere excluding U.S.	5,550	5,156	5,173	3,653	3,540	3,328
Asia-Pacific,	11,077	9,918	9,483	2,089	1,868	1,898

Africa							
Segments total	61,587	61,897	63,747	45,848	45,154	41,275	
General corporate				715	790	785	
Other non long-lived assets				56,345	48,738	42,852	
Worldwide total	<b>\$61,587</b>	<b>61,897</b>	<b>63,747</b>	<b>\$102,908</b>	<b>94,682</b>	<b>84,912</b>	

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

(2) Export sales are not significant. In 2010, 2009 and 2008, 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 \$966 million of net litigation gain, comprised of a \$333 million expense in the Pharmaceutical segment and a gain of \$1,299 million in the Medical Devices and Diagnostics segment. Includes \$569 million of product liability expense, comprised of \$114 million in the Pharmaceutical segment and \$455 million in the Medical Devices and Diagnostics segment. The Medical Devices and Diagnostics segment also includes \$280 million expense for the cost associated with the DePuy ASR™ Hip recall program.

(6) 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.

(7) 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 a \$536 million gain on the divestiture of the Professional Wound Care business of Ethicon, Inc.

(8) Long-lived assets include property, plant and equipment, net for 2010, 2009 and 2008 of \$14,553, \$14,759 and \$14,365, respectively, and intangible assets and goodwill, net for 2010, 2009 and 2008 of \$32,010, \$31,185 and \$27,695, respectively.

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

Selected unaudited quarterly financial data for the years 2010 and 2009 are summarized below:

(Dollars in Millions)

Except Per Share Data)	2010				2009			
	First Quarter <sup>(1)</sup>	Second Quarter <sup>(2)</sup>	Third Quarter	Fourth Quarter <sup>(3)</sup>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter <sup>(4)</sup>
Segment sales to customers								
Consumer	\$3,766	3,647	3,567	3,610	\$3,711	3,854	3,989	4,249

Pharmaceutical	5,638	5,553	5,495	5,710	5,780	5,498	5,249	5,993
Med Devices & Diagnostics	6,227	6,130	5,920	6,324	5,535	5,887	5,843	6,309
Total sales	\$15,631	15,330	14,982	15,644	\$15,026	15,239	15,081	16,551
Gross profit	11,103	10,700	10,388	10,604	10,775	10,789	10,647	11,239
Earnings before provision for taxes on income	6,280	4,220	4,219	2,228	4,643	4,263	4,245	2,604
Net earnings	4,526	3,449	3,417	1,942	3,507	3,208	3,345	2,206
Basic net earnings per share	\$1.64	1.25	1.24	0.71	\$1.27	1.16	1.21	0.80
Diluted net earnings per share	\$1.62	1.23	1.23	0.70	\$1.26	1.15	1.20	0.79

(1) The first quarter of 2010 includes \$910 million after-tax of income from net litigation.

(2) The second quarter of 2010 includes \$67 million after-tax of income from net litigation.

(3) The fourth quarter of 2010 includes an after-tax charge of \$279 million from net litigation settlements, an after-tax charge of \$404 million for product liability expense and an after-tax charge of \$239 million for the cost associated with the DePuy ASR™ Hip recall program.

(4) 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.

#### **Note 20: Business Combinations and Divestures**

Certain businesses were acquired for \$1,269 million in cash and \$52 million of liabilities assumed during 2010. 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 2010 acquisitions included: Acclarent, Inc., a privately held medical technology company dedicated to designing, developing and commercializing devices that address conditions affecting the ear, nose and throat (ENT); 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.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$1,185 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately \$213 million has been identified as the value of IPR&D primarily associated with the acquisitions of Acclarent, Inc., RespiVert Ltd. and Micrus Endovascular Corporation.

The IPR&D related to the acquisition of Acclarent, Inc. was \$75 million and is associated with novel, endoscopic, catheterbased devices to meet the needs of ENT patients. 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 50–53% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 16%.

The IPR&D related to the acquisition of RespiVert Ltd., was \$100 million and is associated with narrow spectrum kinase inhibitors with a unique profile of anti-inflammatory activities as treatments for moderate to severe asthma, Chronic Obstructive Pulmonary Disease (COPD) and Cystic Fibrosis (CF). 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 10–12% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 17%.

The IPR&D related to the acquisition of Micrus Endovascular Corporation was \$38 million and is associated with ischemic and flow diverter technologies. 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 50–75% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 14%.

During 2010, the Company announced an agreement to acquire all outstanding equity of Crucell N.V. that it does not already own for approximately \$2.3 billion in a cash tender offer. As of 2 January 2011 the Company held approximately 18% of Crucell's outstanding ordinary shares. Crucell is a global biopharmaceutical company focused on the research & development, production and marketing of vaccines and antibodies against infectious disease worldwide. On 22 February 2011, the Company announced that the tender offer for Crucell has been completed and has declared the offer unconditional.

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%.

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.

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<sup>®</sup> family of devices; HealthMedia, Inc., a privately held company that creates web-based behavior change interventions; LGE Performance Systems, Inc., a privately held company known as Human Performance Institute<sup>™</sup>, 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%.

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%.

Supplemental pro forma information for 2010, 2009 and 2008 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 Breast Care Business of Ethicon Endo-Surgery Inc., for which the gain is recorded in other (income) expense in 2010, and 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 2010, 2009 and 2008 did not have a material effect on the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2011, the Company acquired substantially all of the outstanding equity of Crucell N.V. that it did not already own. Crucell is a global biopharmaceutical company focused on the research and development, production and marketing of vaccines and antibodies against infectious disease worldwide. During the fiscal third quarter of 2011, the Company completed the acquisition of several over-the-counter cough and cold brands in Russia from J.B. Chemicals and Pharmaceuticals Ltd. The Company also acquired full ownership of the Johnson & Johnson - Merck Consumer Pharmaceuticals Co. joint venture in the United States. The joint venture has been renamed McNeil Consumer Pharmaceuticals Co. In addition, the Company acquired from Merck Canada Inc. its partnership interest in the Canadian joint venture. On 4 November 2011, the Company acquired SterilMed, Inc., a leader in the reprocessing and remanufacturing of medical devices in the U.S.

During the fiscal third quarter of 2011, the Company completed the divestiture of the Animal Health business to Elanco, a Division of Eli Lilly. During the fiscal third quarter of 2011, the Company completed the divestiture of MONISTAT® in Canada, the U.S. and its territories (including Puerto Rico).

#### **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 5,000 have been eliminated since the restructuring was announced.

The following table summarizes the severance charges and the associated spending for the fiscal year ended 2010<sup>45</sup>:

<i>(Dollars in Millions)</i>	Severance
2009 restructuring charge	\$748
Cash outlays	(62)
Reserve balance, January 2010	686
Cash outlays	(341)
Reserve balance, January 2, 2011*	\$345

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

## 19.2 Financial statements<sup>46</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>47</sup>

The historical financial information for the fiscal years ended 28 December 2008, 3 January 2010 and 2 January 2011 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 28 December 2008, 3 January 2010 and 2 January 2011 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

<sup>45</sup> For additional information on the restructuring as it relates to the segments, see Note 18.

<sup>46</sup> Item 20.3 of Annex I of the Regulation.

<sup>47</sup> Item 20.4 of Annex I of the Regulation.

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 U.S.A. (1-732-524-2455).

#### 19.4 Age of latest financial information<sup>48</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 2 January 2011.

#### 19.5 Interim and other financial information<sup>49</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 2 October 2011) of the Company, which is available on the website of the Company (www.jnj.com).

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

<b>Assets</b>	2 October 2011	2 January 2011
<b>Current assets:</b>		
Cash & cash equivalents	\$ 15,617	\$ 19,355
Marketable securities	15,310	8,303
Accounts receivable, trade, less allowances for doubtful accounts \$339 (2010, \$340)	10,552	9,774
Inventories (Note 2)	6,428	5,378
Deferred taxes on income	2,480	2,224
Prepaid expenses and other receivables	3,056	2,273
<b>Total current assets</b>	<b>53,443</b>	<b>47,307</b>
Property, plant and equipment at cost	31,736	30,426
Less: accumulated depreciation	(17,101)	(15,873)
Property, plant and equipment, net	14,635	14,553
Intangible assets, net (Note 3)	18,225	16,716
Goodwill, net (Note 3)	16,049	15,294
Deferred taxes on income	5,564	5,096
Other assets	3,905	3,942

<sup>48</sup> Item 20.5 of Annex I of the Regulation.

<sup>49</sup> Item 20.6 of Annex I of the Regulation.

<b>Total assets</b>	<b>\$ 111,821</b>	<b>\$ 102,908</b>
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**Liabilities and shareholders' equity**

	2 October 2011	2 January 2011
<b>Current liabilities:</b>		
Loans and notes payable	\$ 5,326	\$ 7,617
Accounts payable	5,730	5,623
Accrued liabilities	4,136	4,100
Accrued rebates, returns and promotions	2,895	2,512
Accrued compensation and employee related obligations	2,263	2,642
Accrued taxes on income	1,336	578
<b>Total current liabilities</b>	<b>21,686</b>	<b>23,072</b>
Long-term debt	13,031	9,156
Deferred taxes on income	1,889	1,447
Employee related obligations	6,215	6,087
Other liabilities	7,473	6,567
<b>Total liabilities</b>	<b>50,294</b>	<b>46,329</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)	(3,068)	(3,531)
Retained earnings	82,634	77,773
Less: common stock held in treasury, at cost (381,389,000 and 381,746,000 shares)	21,159	20,783
<b>Total shareholders' equity</b>	<b>61,527</b>	<b>56,579</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 111,821</b>	<b>\$ 102,908</b>

The following financial assets and liabilities are held at carrying amount on the consolidated balance sheets as of October 2, 2011:

(Dollars in Millions)	Carrying Amount	Estimated Fair Value
<b>Financial Assets</b>		
<b>Current Investments</b>		
Cash	\$ 2,314	2,314
Government securities and obligations	25,380	25,381

Corporate debt securities	612	612
Money market funds	1,550	1,550
Time deposits	1,071	1,071
Total cash, cash equivalents and current marketable securities	\$ 30,927	30,928
Fair value of government securities and obligations and corporate debt securities was estimated using quoted broker prices in active markets.		
<b>Finance Liabilities</b>		
<b>Current Debt</b>	\$ 5,326	5,326
<b>Non-Current Debt</b>		
0.70% Notes due 2013	500	502
3.80% Debentures due 2013	500	526
3 month LIBOR+0% FRN due 2013	500	500
3 month LIBOR+0.09% FRN due 2014	750	750
1.20% Notes due 2014	999	1,015
2.15% Notes due 2016	898	933
5.55% Debentures due 2017	1,000	1,214
5.15% Debentures due 2018	898	1,081
4.75% Notes due 2019 (1B Euro 1.3634)	1,356	1,560
3% Zero Coupon Convertible Subordinated Debentures due in 2020	199	232
2.95% Debentures due 2020	541	567
3.55% Notes due 2021	446	496
6.73% Debentures due 2023	250	358
5.50% Notes due 2024 (500 GBP1.5672)	778	927
6.95% Notes due 2029	294	426
4.95% Debentures due 2033	500	582
5.95% Notes due 2037	995	1,318
5.86% Debentures due 2038	700	925
4.50% Debentures due 2040	539	601
4.85% Notes due 2041	298	351
Other	90	90
Total Non-current Debt	\$ 13,031	14,954

The weighted average effective rate on non-current debt is 4.02%.

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

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

	2 October 2011	Fiscal Third Quarters Ended Percent to Sales	3 October 2010	Percent to Sales
Sales to customers (Note 9)	16,005	100.0%	14,982	100.0%
Cost of products sold	5,072	31.7	4,594	30.7
Gross profit	10,933	68.3	10,388	69.3
Selling, marketing and administrative expenses	5,240	32.7	4,709	31.4
Research and development expense	1,773	11.1	1,657	11.1
Interest income	(17)	(0.1)	(13)	(0.1)
Interest expense, net of portion capitalized	134	0.8	108	0.7
Other (income)expense, net	(308)	(1.9)	(292)	(2.0)
Earnings before provision for taxes on income	4,111	25.7	4,219	28.2
Provision for taxes on income (Note 5)	909	5.7	802	5.4
<b>NET EARNINGS</b>	<b>3,202</b>	<b>20.0%</b>	<b>3,417</b>	<b>22.8%</b>
<b>NET EARNINGS PER SHARE</b> (Note 8)				
Basic	1.17		1.24	
Diluted	1.15		1.23	
<b>CASH DIVIDENDS PER SHARE</b>	<b>0.57</b>		<b>0.54</b>	
<b>AVG. SHARES OUTSTANDING</b>				
Basic	2,737.0		2,751.6	
Diluted	2,778.2		2,786.4	

## 19.6 Dividend policy<sup>50</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. As of 2 January 2011, the current stock repurchase program has been completed. The Company repurchased an aggregate of 158.3 million shares of Johnson & Johnson Common Stock at a cost of \$10.0 billion. The Company funded the share repurchase program through a combination of available cash and debt. 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 2010 for the 48th consecutive year. Cash dividends paid were \$2.110 per share in 2010, compared with dividends of \$1.930 per share in 2009 and \$1.795 per share in 2008. The dividends were distributed as follows:

	2010	2009	2008
First quarter	\$0.490	0.460	0.415
Second quarter	0.540	0.490	0.460
Third quarter	0.540	0.490	0.460
Fourth quarter	0.540	0.490	0.460
Total	\$2.110	1.930	1.795

On 3 January 2011, the Board of Directors declared a regular cash dividend of \$0.540 per share, payable on 15 March 2011, to shareholders of record as of 1 March 2011.

On 28 April 2011, the Board of Directors declared a regular cash dividend of \$0.570 per share, payable on 14 June 2011 to shareholders of record as of 31 May 2011. This represented an increase of 5.6% in the quarterly dividend rate and was the 49th consecutive year of cash dividend increases.

On 18 July 2011, the Board of Directors declared a regular cash dividend of \$0.570 per share, payable on 13 September 2011 to shareholders of record as of 30 August 2011.

On 21 October 2011, the Board of Directors declared a regular cash dividend of \$0.570 per share, payable on 13 December 2011 to shareholders of record as of 29 November 2011.

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

## 19.7 Legal proceedings<sup>51</sup>

### Product Liability

The Company's subsidiaries are involved in numerous product liability cases. The damages claimed are substantial, and while the Company's subsidiaries are confident of the adequacy of the warnings and instructions for use that accompany the products at issue, it is not feasible to predict the ultimate outcome of litigation. The Company has established product liability accruals in compliance with ASC 450-20 based on currently available information,

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<sup>50</sup> Item 20.7 of Annex I of the Regulation.

<sup>51</sup> Item 20.8 of Annex I of the Regulation.



which in some cases may be limited. Changes to the accruals may be required in the future as additional information becomes available.

Multiple products of the Company's subsidiaries are subject to product liability claims and lawsuits in which claimants seek substantial compensatory and, where available, punitive damages, including LEVAQUIN<sup>®</sup>, the ASR<sup>™</sup> XL Acetabular System and DePuy ASR<sup>™</sup> Hip Resurfacing System, the PINNACLE<sup>®</sup> Acetabular Cup System, RISPERDAL<sup>®</sup>, pelvic meshes, the CYPHER<sup>®</sup> Stent and DURAGESIC<sup>®</sup> /fentanyl patches. As of October 2, 2011, there were approximately 3,500 claimants who have pending lawsuits regarding injuries allegedly due to LEVAQUIN<sup>®</sup>, 3,500 with respect to the ASR<sup>™</sup> XL Acetabular System and DePuy ASR<sup>™</sup> Hip Resurfacing System, 560 with respect to the PINNACLE<sup>®</sup> Acetabular Cup System, 500 with respect to RISPERDAL<sup>®</sup>, 350 with respect to pelvic meshes, 90 with respect to the CYPHER<sup>®</sup> Stent, and 80 with respect to DURAGESIC<sup>®</sup> /fentanyl patches.

In August 2010, DePuy Orthopaedics, Inc. (DePuy) announced a worldwide voluntary recall of its ASR<sup>™</sup> XL Acetabular System and DePuy ASR<sup>™</sup> Hip Resurfacing System used in hip replacement surgery. Claims for personal injury have been made against DePuy and the Company, and the number of pending lawsuits continues to increase. The Company continues to receive information with respect to potential costs associated with this recall. The Company has established a product liability accrual in anticipation of product liability litigation settlements and costs associated with the DePuy ASR<sup>™</sup> Hip recall program. Changes to the accrual may be required in the future as additional information becomes available.

The Company believes that the ultimate resolution of these matters based on historical and reasonably likely future trends is not expected to have a material adverse effect on the Company's financial position, annual results of operations and cash flows. The resolution in any interim reporting period could have a material impact on the Company's results of operations and cash flows for that period.

### **Intellectual Property**

Certain of the Company's subsidiaries are subject, from time to time, to legal proceedings and claims related to patent, trademark and other intellectual property matters arising out of their business. The most significant of these matters are described below.

#### PATENT INFRINGEMENT

Certain of the Company's subsidiaries are involved in lawsuits challenging the coverage and/or validity of the patents on their products. Although the Company's subsidiaries believe that they have substantial defenses to these challenges with respect to all material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could potentially adversely affect the ability of the Company's subsidiaries to sell their products, or require the payment of past damages and future royalties.

#### Medical Devices & Diagnostics

In October 2004, Tyco Healthcare Group, LP, (Tyco) and U.S. Surgical Corporation filed a lawsuit against Ethicon Endo-Surgery, Inc. (EES) in the United States District Court for the District of Connecticut alleging that several features of EES's HARMONIC<sup>®</sup> scalpel infringed four Tyco patents. In October 2007, on motions for summary judgment prior to the initial trial, a number of claims were found invalid and a number were found infringed. However, no claim was found both 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 United States District Court for the District of Connecticut asserting infringement of three of the four patents from the previous lawsuit and adding new products. Tyco is seeking monetary damages and injunctive relief. This case is scheduled to be tried in November 2011.

Starting in March 2006, Cordis Corporation (Cordis) filed patent infringement lawsuits in the United States District Courts for the Districts of New Jersey and Delaware, against Guidant Corporation (Guidant), Abbott Laboratories, Inc. (Abbott), Boston Scientific Corporation (Boston Scientific) and Medtronic Ave, Inc. (Medtronic) alleging that the Xience V™ (Abbott), Promus™ (Boston Scientific) and Endeavor® (Medtronic) drug eluting stents infringe several of Cordis's Wright/Falotico patents. Cordis is seeking monetary relief. In January 2010, in one of the cases against Boston Scientific, the United States District Court for the District of Delaware found the Wright/Falotico patents invalid for lack of written description and/or lack of enablement. In June 2011, the Court of Appeals for the Federal Circuit affirmed the ruling, and in September 2011, it denied Cordis's motion for a re-hearing.

In October 2007, Bruce Saffran (Saffran) filed a patent infringement lawsuit against the Company and Cordis in the United States District Court for the Eastern District of Texas alleging infringement on U.S. Patent No. 5,653,760. In January 2011, a jury returned a verdict finding that Cordis's sales of its CYPHER® stent willfully infringed a patent issued to Saffran. The jury awarded Saffran \$482 million. In March 2011, the Court entered judgment against Cordis in the amount of \$593 million, representing the jury verdict, plus \$111 million in pre-judgment interest. The District Court has denied Cordis's motion to overturn the jury verdict and to vacate the judgment. Cordis will appeal the judgment. Because the Company believes that the potential for an unfavorable outcome is not probable, it has not established a reserve with respect to the case.

In November 2007, Roche Diagnostics Operations, Inc., et al. (Roche) filed a patent infringement lawsuit against LifeScan, Inc. (LifeScan) in the United States District Court for the District of Delaware, accusing LifeScan's entire OneTouch® line of blood glucose monitoring systems of infringement of two patents related to the use of microelectrode sensors. In September 2009, LifeScan obtained a favorable ruling on claim construction that precluded a finding of infringement. The Court entered judgment against Roche in July 2010 and Roche appealed. Briefing on appeal issues has been completed. Oral argument will be held in November 2011. Roche is seeking monetary damages and injunctive relief.

Starting in February 2008, Cordis filed patent infringement lawsuits in the United States District Court for the District of New Jersey against Guidant, Abbott, Boston Scientific and Medtronic alleging that the Xience V™ (Abbott), Promus™ (Boston Scientific) and Endeavor® (Medtronic) drug eluting stents infringe several of Wyeth's (now Pfizer Inc.) Morris patents, which have been licensed to Cordis. Cordis is seeking monetary relief. In September 2011, the Court ruled that it would grant defendants' motion to invalidate the Morris patents for lack of enablement and failure to adequately describe the full scope of the invention.

In June 2009, Rembrandt Vision Technologies, L.P. (Rembrandt) filed a patent infringement lawsuit against Johnson & Johnson Vision Care, Inc. (JJVC) in the United States District Court for the Eastern District of Texas alleging that JJVC's manufacture and sale of its ACUVUE ADVANCE® and ACUVUE® OASYS™ HYDROGEL contact lenses infringe their U.S. Patent No. 5,712,327 (the Chang patent). Rembrandt is seeking monetary relief. The case is scheduled for trial in April 2012.

Pharmaceutical

In April 2007, Centocor, Inc. (Centocor) (now Janssen Biotech, Inc. (JBI)) filed a patent infringement lawsuit against Abbott Laboratories, Inc. (Abbott) in the United States District Court for the Eastern District of Texas alleging that Abbott's HUMIRA ® anti-TNF alpha product infringes Centocor's U.S. Patent 7,070,775. In June 2009, a jury returned a verdict finding the patent valid and infringed, and awarded JBI damages of approximately \$1.7 billion. In February 2011, the Court of Appeals reversed the June 2009 decision and the judgment of the District Court. JBI will file a petition for review of the decision in the United States Supreme Court.

In May 2009, Abbott Biotechnology Ltd. (Abbott) filed a patent infringement lawsuit against Centocor (now JBI) in the United States District Court for the District of Massachusetts alleging that SIMPONI ® infringes Abbott's U.S. Patent Nos. 7,223,394 and 7,451,031 (the Salfeld patents). Abbott is seeking monetary damages and injunctive relief. No trial date has been set.

In August 2009, Abbott GmbH & Co. (Abbott GmbH) and Abbott Bioresearch Center filed a patent infringement lawsuit against Centocor (now JBI) in the United States District Court for the District of Massachusetts alleging that STELARA ® infringes two United States patents assigned to Abbott GmbH. JBI filed a complaint in the United States District Court for the District of Columbia for a declaratory judgment of non-infringement and invalidity of the Abbott GmbH patents, as well as a Complaint for Review of a Patent Interference Decision that granted priority of invention on one of the two asserted patents to Abbott GmbH. The cases have been transferred from the District of Columbia to the District of Massachusetts. No trial date has been set. Also in August 2009, Abbott GmbH and Abbott Laboratories Limited brought a patent infringement lawsuit in The Federal Court of Canada alleging that STELARA ® infringes Abbott GmbH's Canadian patent. The Canadian case is scheduled to be tried in October 2012. In each of these cases, Abbott is seeking monetary damages and injunctive relief.

In August 2009, Bayer HealthCare LLC (Bayer) filed a patent infringement lawsuit against Centocor Ortho Biotech Inc. (now JBI) in United States District Court for the District of Massachusetts alleging that the manufacture and sale by JBI of SIMPONI ® infringes a Bayer patent relating to human anti-TNF antibodies. In January 2011, the court issued judgment dismissing Bayer's infringement claims. Bayer appealed this ruling. In addition, in November 2009, Bayer filed a lawsuit under its European counterpart to these patents in Germany and the Netherlands. The court in the Netherlands held the Dutch patent invalid and entered judgment in favor of JBI's European affiliate, Janssen Biologics B.V. Bayer appealed that judgment in the Netherlands. In addition, in March 2010, Janssen-Cilag NV filed a revocation action in the High Court in London seeking to invalidate Bayer's UK patent relating to human anti-TNF antibodies. In May 2011, JBI settled all of these cases and received a paid-up, royalty-free license to the family of patents in suit.

#### LITIGATION AGAINST FILERS OF ABBREVIATED NEW DRUG APPLICATIONS (ANDAs)

The following summarizes lawsuits pending against generic companies 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 Company's subsidiaries are not successful in these actions, or the statutory 30-month stays expire before the United States District Court rulings are obtained, the third-party companies involved will have the ability, upon approval of the United States Food and Drug Administration (FDA), to introduce generic

versions of the products at issue resulting in very substantial market share and revenue losses for those products.

#### CONCERTA ®

In January 2010, ALZA Corporation (ALZA) and Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) (now Janssen Pharmaceuticals, Inc. (JPI)) filed a patent infringement lawsuit in the United States District Court for the District of Delaware against Kremers-Urban, LLC and KUDCO Ireland, Ltd. (collectively, KUDCO) in response to KUDCO's ANDA seeking approval to market a generic version of CONCERTA ® before the expiration of two of ALZA and JPI's patents relating to CONCERTA ® . KUDCO filed counterclaims alleging non-infringement and invalidity. ALZA and JPI subsequently removed one of the patents from the lawsuit. In September 2011, the parties entered into a settlement agreement pursuant to which KUDCO was granted a license to market its generic version of CONCERTA ® starting on July 1, 2012, assuming KUDCO obtains FDA approval.

In November 2010, ALZA and OMJPI (now JPI) filed a patent infringement lawsuit in the United States District Court for the District of Delaware against Impax Laboratories, Inc. (Impax), Teva Pharmaceuticals USA, Inc., and Teva Pharmaceutical Industries Ltd. (collectively, Teva) in response to Impax and Teva's filing of a major amendment to its ANDA seeking approval to market a generic version of CONCERTA ® before the expiration of ALZA and JPI's patent relating to CONCERTA ® . Impax and Teva filed counterclaims alleging non-infringement and invalidity. In May 2011, ALZA and JPI filed a second lawsuit against Teva in response to Teva's filing of a second major amendment to its ANDA seeking approval to market additional dosage strengths of its generic CONCERTA ® product before the expiration of ALZA and JPI's patent relating to CONCERTA ® . In each of the above cases, ALZA and JPI are seeking an Order enjoining the defendants from marketing its generic version of CONCERTA ® prior to the expiration of ALZA and JPI's CONCERTA ® patent.

#### ORTHO TRI-CYLEN ® LO

In October 2008, OMJPI (now JPI) and Johnson & Johnson Pharmaceutical Research & Development, L.L.C. (JJPRD) filed a patent infringement lawsuit against Watson Laboratories, Inc. and Watson Pharmaceuticals, Inc. (collectively, Watson) in the United States District Court for the District of New Jersey in response to Watson's ANDA seeking approval to market a generic version of JPI's product prior to the expiration of JPI's patent relating to ORTHO TRI-CYCLEN ® LO (the OTCLO patent). Watson filed a counterclaim alleging invalidity of the patent. In addition, in January 2010, JPI filed a patent infringement lawsuit against Lupin Ltd. and Lupin Pharmaceuticals, Inc. (collectively, Lupin) in the United States District Court for the District of New Jersey in response to Lupin's ANDA seeking approval to market a generic version of ORTHO TRI-CYCLEN ® LO prior to the expiration of the OTCLO patent. Lupin filed a counterclaim alleging invalidity of the patent. The Lupin and Watson cases have been consolidated.

In November 2010, OMJPI (now JPI) filed a patent infringement lawsuit against Mylan Inc. and Mylan Pharmaceuticals, Inc. (collectively, Mylan), and Famy Care, Ltd. (Famy Care) in the United States District Court for the District of New Jersey in response to Famy Care's ANDA seeking approval to market a generic version of ORTHO TRI-CYCLEN ® LO prior to the expiration of the OTCLO patent. Mylan and Famy Care filed counterclaims alleging invalidity of the patent.

In October 2011, JPI filed a patent infringement lawsuit against Sun Pharma Global FZE and Sun Pharmaceutical Industries (collectively, Sun) in the United States District Court for the

District of New Jersey in response to Sun's ANDA seeking approval to market a generic version of ORTHO TRI-CYCLEN ® LO prior to the expiration of the OTCLO patent.

In each of the above cases, JJPRD and/or JPI are seeking an Order enjoining the defendants from marketing their generic versions of ORTHO TRI-CYLCEN ® LO before the expiration of the OTCLO patent.

#### PREZISTA ®

In November 2010, Tibotec, Inc. and Tibotec Pharmaceuticals, Inc. (collectively, Tibotec) filed a patent infringement lawsuit against Lupin, Ltd., Lupin Pharmaceuticals, Inc. (collectively, Lupin), Mylan, Inc. and Mylan Pharmaceuticals, Inc. (collectively, Mylan) in the United States District Court for the District of New Jersey in response to Lupin's and Mylan's respective ANDAs seeking approval to market generic versions of Tibotec's PREZISTA ® product before the expiration of Tibotec's patent relating to PREZISTA ® . Lupin and Mylan each filed counterclaims alleging non-infringement and invalidity. In July 2011, Tibotec filed another patent infringement lawsuit against Lupin in the United States District Court for the District of New Jersey in response to Lupin's supplement to its ANDA to add new dosage strengths for its proposed product. In August 2011, Tibotec and G.D. Searle & Company (G.D. Searle) filed a patent infringement lawsuit against Lupin and Mylan in response to their notice letters advising that their ANDAs are seeking approval to market generic versions of Tibotec's PREZISTA ® product before the expiration of two patents relating to PREZISTA ® that Tibotec exclusively licenses from G.D. Searle.

In March 2011, Tibotec and G.D. Searle filed a patent infringement lawsuit against Teva Pharmaceuticals USA, Inc. and Teva Pharmaceuticals, Ltd. (collectively, Teva) in the United States District Court for the District of New Jersey in response to Teva's ANDA seeking approval to market a generic version of PREZISTA ® before the expiration of certain patents relating to PREZISTA ® that Tibotec either owns or exclusively licenses from G.D. Searle.

In March 2011, Tibotec filed a patent infringement lawsuit against Hetero Drugs, Ltd. Unit III and Hetero USA Inc. (collectively, Hetero) in the United States District Court for the District of New Jersey in response to Hetero's ANDA seeking approval to market a generic version of PREZISTA ® before the expiration of certain patents relating to PREZISTA ® that Tibotec exclusively licenses from G.D. Searle. In July 2011, upon agreement by the parties, the Court entered a stay of the lawsuit pending a final decision in the lawsuit against Teva with respect to the validity and/or enforceability of the patents that Tibotec licenses from G.D. Searle, with Hetero agreeing to be bound by such final decision.

In September 2011, the Court consolidated the above lawsuits, as well as lawsuits brought by the United States Government against each of the defendants for infringement of a United States Government-owned patent relating to PREZISTA ® , for purposes of pre-trial discovery and trial, with the proviso that after discovery is completed, any party can move to have the cases de-consolidated for trial.

In each of the above lawsuits, Tibotec is seeking an Order enjoining the defendants from marketing their generic versions of PREZISTA ® before the expiration of the relevant patents.

#### OTHER INTELLECTUAL PROPERTY MATTERS

In September 2009, Centocor Ortho Biotech Products, L.P. (now Janssen Products, LP (JPLP)) intervened in an inventorship lawsuit filed by the University of Kansas Center for Research, Inc. (KUCR) against the United States of America (USA) in the United States District Court for the District of Kansas. KUCR alleges that two KUCR scientists should be

added as inventors on two USA-owned patents relating to VELCADE ® . The USA licensed the patents (and their foreign counterparts) to Millennium Pharmaceuticals, Inc. (MPI), who in turn sublicensed the patents (and their foreign counterparts) to JPLP for commercial marketing outside the United States. In July 2010, the parties reached a settlement agreement to resolve the disputes in this case and will submit the inventorship issue to arbitration. The case has been stayed pending the arbitration. As a result of the settlement agreement, the outcome of the arbitration regarding inventorship will determine whether pre-specified payments will be made to KUCR, but will not affect JPLP's right to market VELCADE ® . The arbitration is scheduled to begin in November 2011.

In December 2009, the State of Israel filed a lawsuit in the District Court in Tel Aviv Jaffa against various affiliates of Omrix Biopharmaceuticals, Inc. (Omrix). 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 the employee 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 royalties on QUIXIL™ and EVICEL™ or, alternatively, transfer of the patents to the State.

In January 2011, Genentech, Inc. (Genentech) initiated an arbitration against UCB Celltech (Celltech) seeking damages for allegedly cooperating with Centocor (now JBI) to improperly terminate a prior agreement in which JBI was sublicensed under Genentech's Cabilly patents. JBI has an indemnity agreement with Celltech, and Celltech has asserted that JBI is liable for any damages Celltech may be required to pay Genentech in that arbitration. Trial is scheduled for June 2012.

### **Government Proceedings**

Like other companies in the pharmaceutical and medical devices and diagnostics industries, the Company and certain of its subsidiaries are subject to extensive regulation by national, state and local government agencies in the United States and other countries in which they operate. As a result, interaction with government agencies is ongoing. The most significant litigation brought by, and investigations conducted by, government agencies are listed below. It is possible that criminal charges and substantial fines and/or civil penalties or damages could result from government investigations or litigation.

#### AVERAGE WHOLESAL PRICE (AWP) LITIGATION

The Company and several of its pharmaceutical subsidiaries (the J&J AWP defendants), 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. Payors alleged that they used those AWP's in calculating provider reimbursement levels. Many of these cases, both federal actions and state actions removed to federal court, were consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in the United States District Court for the District of Massachusetts.

The plaintiffs in these cases included three 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. In June 2007, after a trial on the merits, the MDL Court dismissed the claims of two of the plaintiff classes against the J&J AWP defendants. In March 2011, the Court dismissed the claims of the third class against the J&J AWP defendants without prejudice.

AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. Several state cases against certain of the Company's subsidiaries have been settled and two are set for trial: Kentucky in January 2012 and Kansas in March 2013. Other state cases are likely to be set for trial. In addition, an AWP case against the J&J AWP defendants brought by the Commonwealth of Pennsylvania was tried in Commonwealth Court in October and November 2010. The Court found in the Commonwealth's favor with regard to certain of its claims under the Pennsylvania Unfair Trade Practices and Consumer Protection Law ("UTPL"), entered an injunction, and awarded \$45 million in restitution and \$6.5 million in civil penalties. The Court found in the J&J AWP defendants' favor on the Commonwealth's claims of unjust enrichment, misrepresentation/fraud, civil conspiracy, and on certain of the Commonwealth's claims under the UTPL. The J&J AWP defendants have appealed the Commonwealth Court's UTPL ruling to the Pennsylvania Supreme Court. The Company believes that it has strong arguments supporting its appeal. Because the Company believes that the potential for an unfavorable outcome is not probable, it has not established a reserve with respect to the verdict.

#### RISPERDAL®

In January 2004, Janssen Pharmaceutica Inc. (Janssen) (now Janssen Pharmaceuticals, Inc. (JPI)) received a subpoena from the Office of the Inspector General of the United States 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® from 1997 to 2002. Documents subsequent to 2002 have also been requested by the Department of Justice. An additional subpoena seeking information about marketing of, and adverse reactions to, RISPERDAL® was received from the United States Attorney's Office for the Eastern District of Pennsylvania in November 2005. Numerous subpoenas seeking testimony from various witnesses before a grand jury were also received. JPI cooperated in responding to these requests for documents and witnesses. The United States Department of Justice and the United States Attorney's Office for the Eastern District of Pennsylvania (the Government) are continuing to actively pursue both criminal and civil actions. 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®. The focus of these matters is the alleged promotion of RISPERDAL® and INVEGA® for off-label uses. The Government has notified JPI that there are also pending qui tam actions alleging off-label promotion of RISPERDAL®. The Government informed JPI that it will intervene in these qui tam actions and file a superseding complaint.

Discussions have been ongoing in an effort to resolve criminal penalties under the Food Drug and Cosmetic Act related to the promotion of RISPERDAL®. An agreement in principal on key issues relevant to a disposition of criminal charges pursuant to a single misdemeanor violation of the Food Drug and Cosmetic Act has been reached, but certain issues remain open before a settlement can be finalized. The Company adjusted the accrued amount in the second quarter of 2011 to cover the financial component of the proposed criminal settlement.

In addition, discussions with state and federal government representatives to resolve the separate civil claims related to the marketing of RISPERDAL® and INVEGA®, including those under the False Claims Act (the qui tam actions), have been ongoing. The Company believes there are meritorious defenses to these claims, and it remains unclear whether a settlement can be reached as discovery is not complete, there are significant facts in dispute, the damages sought in the claims are unsubstantiated and indeterminate, there are numerous parties involved, and possible outcomes are uncertain. For these reasons, the

Company is unable to estimate a range of loss. However, future negotiations may lead to a narrowing of the areas of disagreement and the liability may then become reasonably estimable in accordance with applicable accounting principles. If a negotiated resolution cannot be reached, civil litigation relating to the allegations of off-label promotion of RISPERDAL ® and/or INVEGA ® is likely. In the Company's opinion, the ultimate resolution of the above criminal and these civil matters is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period could have a material impact on the Company's results of operations and cash flows for that period.

The Attorneys General of multiple states, including Alaska, Arkansas, Louisiana, Massachusetts, Mississippi, Montana, New Mexico, Pennsylvania, South Carolina, Texas and Utah, have pending actions against Janssen (now JPI) seeking one or more of the following remedies: 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, violations of state consumer fraud statutes, punitive damages, or other relief relating to alleged unfair business practices. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL ®. In the Texas matter, the Attorney General of Texas has joined a qui tam action in that state seeking similar relief, and the trial is scheduled to commence in late November 2011.

The Attorney General of West Virginia commenced suit in 2004 against Janssen (now JPI) based on claims of alleged consumer fraud as to DURAGESIC ®, as well as RISPERDAL ®. JPI was found liable and damages were assessed at \$4.5 million. JPI filed an appeal, and in November 2010, the West Virginia Supreme Court reversed the trial court's decision. In December 2010, the Attorney General of West Virginia dismissed the case as it related to RISPERDAL ® without any payment. Thereafter, JPI settled the case insofar as it related to DURAGESIC ®.

In 2004, the Attorney General of Louisiana filed a multi-count Complaint against Janssen (now JPI). The Company was later added as a defendant. The case was tried in October 2010. The issue tried to the jury was whether the Company or JPI had violated the State's Medicaid Fraud Act (the Act) through misrepresentations allegedly made in the mailing of a November 2003 Dear Health Care Provider letter. The jury returned a verdict that JPI and the Company had violated the Act and awarded \$257.7 million in damages. The trial judge subsequently awarded the Attorney General counsel fees and expenses in the amount of \$73 million. The Company's and JPI's motion for a new trial was denied. The Company and JPI have filed an appeal and believe that they have strong arguments supporting the appeal. The Company believes that the potential for an unfavorable outcome is not probable, and therefore, the Company has not established a reserve with respect to the verdict.

In 2007, the Office of General Counsel of the Commonwealth of Pennsylvania filed a lawsuit against Janssen (now JPI) on a multi-Count Complaint related to Janssen's sale of RISPERDAL ® to the Commonwealth's Medicaid program. The trial occurred in June 2010. The trial judge dismissed the case after the close of the plaintiff's evidence. The Commonwealth's post-trial motions were denied. The Commonwealth filed an appeal in April 2011.

In 2007, the Attorney General of South Carolina filed a lawsuit against the Company and Janssen (now JPI) on several counts. In March 2011, the matter was tried on liability only, at which time the lawsuit was limited to claims of violation of the South Carolina Unfair Trade Practice Act, including, among others, questions of whether the Company or JPI engaged in



unfair or deceptive acts or practices in the conduct of any trade or commerce by distributing the November 2003 Dear Health Care Provider letter or in their use of the FDA-approved label. The jury found in favor of the Company and against JPI. In June 2011, the Court awarded civil penalties of approximately \$327.1 million. JPI intends to appeal this judgment. The Company and JPI believe that JPI has strong arguments supporting an appeal and that the potential for an unfavorable outcome is not probable. Therefore, the Company has not established a reserve with respect to the verdict.

The Attorneys General of approximately 40 other states have indicated a potential interest in pursuing similar litigation against JPI, and have obtained a tolling agreement staying the running of the statute of limitations while they pursue a coordinated civil investigation of JPI regarding potential consumer fraud actions in connection with the marketing of RISPERSDAL<sup>®</sup>.

#### MCNEIL CONSUMER HEALTHCARE

Starting in June 2010, McNeil Consumer Healthcare Division of McNEIL-PPC, Inc. (McNeil Consumer Healthcare), and certain affiliates, including the Company (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, as well as certain documents relating to recent recalls of a small number of products of other Company subsidiaries. In addition, in February 2011, the government served McNEIL-PPC, Inc. (McNEIL-PPC) with a Civil Investigative Demand seeking records relevant to its investigation to determine if there was a violation of the Federal False Claims Act. The Companies are cooperating with the United States Attorney's Office in responding to these subpoenas.

The Companies have also received Civil Investigative Demands from multiple State Attorneys General Offices broadly relating to the McNeil recall issues. The Companies continue to cooperate with these inquiries. In January 2011, the Oregon Attorney General filed a civil complaint against the Company, McNEIL-PPC and McNeil Healthcare LLC in state court alleging civil violations of the Oregon unlawful trade practices act relating to an earlier recall of a McNeil OTC product. The Companies removed this case to federal court and sought transfer of the case to the United States District Court for the Eastern District of Pennsylvania. The Judicial Panel on Multidistrict Litigation denied the transfer request. Currently, the case is before the United States District Court for the District of Oregon pending its decision on a motion for remand filed by the Oregon Attorney General.

In March 2011, the United States filed a complaint for injunctive relief in the United States District Court for the Eastern District of Pennsylvania against McNEIL-PPC and two of its employees, alleging that McNEIL-PPC is in violation of FDA regulations regarding the manufacture of drugs at the facilities it operates in Lancaster, Pennsylvania, Fort Washington, Pennsylvania, and Las Piedras, Puerto Rico. On the same day, the parties filed a consent decree of permanent injunction resolving the claims set forth in the complaint. The Court approved and entered the consent decree on March 16, 2011.

The consent decree, which is subject to ongoing enforcement by the court, requires McNEIL-PPC to take enhanced measures to remediate the three facilities. The Fort Washington facility, which the company voluntarily shut down in April 2010, will remain shut down until a third-party consultant certifies that its operations will be in compliance with applicable law, and the FDA concurs with the third-party certification. The Lancaster and Las Piedras facilities may continue to manufacture and distribute drugs, provided that a third party

reviews manufacturing records for selected batches of drugs released from the facilities, and certifies that any deviations reviewed do not adversely affect the quality of the selected batches. McNEIL-PPC has submitted a workplan to the FDA for remediation of the Lancaster and Las Piedras facilities; that plan is subject to FDA approval. Third-party batch record review may cease if the FDA has stated that the facilities appear to be in compliance with applicable law. Each facility is subject to a five-year audit period by a third party after the facility has been deemed by the FDA to be in apparent compliance with applicable law.

#### OMNICARE

In September 2005, the Company received a subpoena from the United States Attorney's Office, District of Massachusetts, seeking documents related to the sales and marketing of eight drugs to Omnicare, Inc. (Omnicare), a manager of pharmaceutical benefits for long-term care facilities. In April 2009, the Company and certain of its pharmaceutical subsidiaries were served in two civil qui tam cases asserting claims under the Federal False Claims Act and related state law claims alleging that the defendants provided Omnicare with rebates and other alleged kickbacks, causing Omnicare to file false claims with Medicaid and other government programs. In January 2010, the government intervened in both of these cases, naming the Company, Ortho-McNeil-Janssen Pharmaceuticals, Inc. (now Janssen Pharmaceuticals, Inc. (JPI)), and Johnson & Johnson Health Care Systems Inc. as defendants. Subsequently, the Commonwealth of Massachusetts, Virginia, and Kentucky, and the States of California and Indiana intervened in the action. The defendants moved to dismiss the complaints, and in February 2011, the United States District Court for the District of Massachusetts dismissed one qui tam case entirely and dismissed the other case in part, rejecting allegations that the defendants had violated their obligation to report its "best price" to health care program officials. The defendants subsequently moved the Court to reconsider its decision not to dismiss the second case in its entirety, which the Court denied in May 2011. The claims of the United States and individual states remain pending.

In November 2005, a lawsuit was filed under seal by Scott Bartz, a former employee, in the United States District Court for the Eastern District of Pennsylvania against the Company and certain of its pharmaceutical subsidiaries (the J&J Defendants), along with co-defendants McKesson Corporation and Omnicare, Inc. The Bartz complaint raises many issues in common with the Omnicare-related litigation discussed above already pending before the United States District Court for the District of Massachusetts, such as best price and a number of kickback allegations. After investigation, the United States declined to intervene. The case was subsequently unsealed in January 2011. In February 2011, the plaintiff filed an amended complaint, which was placed under seal. Thereafter, on the J&J Defendants' motion, the case was transferred to the United States District Court for the District of Massachusetts, where it is currently pending. In April 2011, the amended complaint was ordered unsealed and alleges a variety of causes of action under the Federal False Claims Act and corresponding state and local statutes, including that the J&J Defendants engaged in various improper transactions that were allegedly designed to report false prescription drug prices to the federal government in order to reduce the J&J Defendants' Medicaid rebate obligations. The complaint further alleges that the J&J Defendants improperly retaliated against the plaintiff for having raised these allegations internally. Bartz seeks multiple forms of relief, including damages and reinstatement to a position with the same seniority status.

The J&J Defendants subsequently moved to dismiss the complaint in May 2011, and oral argument was held in August 2011. In June 2011, Bartz filed a notice of intent to voluntarily

dismiss McKesson and Omnicare from the case and added McKesson Specialty Pharmaceuticals, LLC, as a co-defendant.

#### OTHER

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

In July 2005, Scios Inc. (Scios) received a subpoena from the United States Attorney's Office for the District of Massachusetts, seeking documents related to the sales and marketing of NATRECOR®. In August 2005, Scios was advised that the investigation would be handled by the United States Attorney's Office for the Northern District of California in San Francisco. In February 2009, two qui tam complaints were unsealed in the United States District Court for the Northern District of California, alleging, among other things, improper activities in the promotion of NATRECOR®. In June 2009, the United States government intervened in one of the qui tam actions, and filed a complaint against Scios and the Company seeking relief under the Federal False Claims Act and asserting a claim of unjust enrichment. The civil case is proceeding and discovery is ongoing. In October 2011, the Court approved a settlement of the criminal case in which Scios pled guilty to a single misdemeanor violation of the Food, Drug & Cosmetic Act and paid a fine of \$85 million.

In February 2007, the Company voluntarily disclosed to the United States Department of Justice (DOJ) and the United States Securities & Exchange Commission (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 were brought to the attention of the agencies by the Company. In addition, in February 2006, the Company received a subpoena from the SEC requesting documents relating to the participation by several Company subsidiaries in the United Nations Iraq Oil for Food Program. In April 2011, the Company resolved the FCPA and Oil for Food matters through settlements with the DOJ, SEC and United Kingdom Serious Fraud Office. These settlements required payments of approximately \$78 million in financial penalties. As part of the settlement with the DOJ, the Company entered into a Deferred Prosecution Agreement that requires the Company to complete a three-year term of enhanced compliance practices.

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 May 2007, the New York State Attorney General issued a subpoena to the Company seeking information relating to the marketing, sale, reimbursement and safety of PROCRIT®. The Company has responded to the subpoena.

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 Cordis Corporation

(Cordis). Cordis is currently cooperating in responding to the subpoena. In addition, in January 2010, a complaint was unsealed in the United States District Court for the Northern District of Texas seeking damages against Cordis for alleged violations of the Federal False Claims Act and several similar state laws in connection with the marketing of biliary stents. The United States Department of Justice and several states have declined to intervene at this time. In April 2011, the United States District Court for the Northern District of Texas dismissed the complaint without prejudice.

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, Inc. has responded to these requests.

In October 2011, the European Commission announced that it opened an investigation concerning an agreement between Janssen-Cilag B.V. and Sandoz B.V. relating to the supply of fentanyl patches in The Netherlands. The investigation seeks to determine whether the agreement infringes European competition law.

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.

### **General Litigation**

In September 2004, Plaintiffs in an employment discrimination litigation initiated against the Company in 2001 in the United States District Court for the District of New Jersey moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the United States, who were employed at any time from November 1997 to the present. Plaintiffs sought 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 denied Plaintiffs' motion in July 2010, and the Court of Appeals denied Plaintiffs' request for leave to appeal the denial of certification of the modified class. In May 2011, the case was dismissed with prejudice.

Starting in July 2006, five lawsuits were filed in United States District Court for the District of New Jersey by various employers and employee benefit plans and funds seeking to recover amounts they paid for RISPERDAL ® for plan participants. In general, Plaintiffs allege that the Company and certain of its pharmaceutical subsidiaries engaged in off-label marketing of RISPERDAL ® in violation of the federal and New Jersey RICO statutes. In addition, Plaintiffs asserted various state law claims. All of the cases were consolidated into one case seeking class action status, but shortly thereafter, one action was voluntarily dismissed. In December 2008, the Court dismissed the actions of the four remaining plaintiffs. In April 2010, those plaintiffs filed a new consolidated class action against the Company and Janssen, L.P. (now Janssen Pharmaceuticals, Inc. (JPI)); and in March 2011, that action was dismissed. In April 2011, one of those plaintiffs filed a notice of appeal with the United States Court of Appeals for the Third Circuit.

In April 2009, Ortho-Clinical Diagnostics, Inc. (OCD) received a grand jury subpoena from the United States 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. OCD complied with the subpoena. In February 2011, OCD received a letter from the Antitrust Division indicating that it had closed its investigation in November 2010. In June 2009, following the public announcement that OCD had received a grand jury subpoena, multiple class action complaints seeking damages for alleged price fixing were filed against OCD. The various cases were consolidated for pre-trial purposes in the United States District Court for the Eastern District of Pennsylvania. Discovery is ongoing.

In May 2009, Centocor Ortho Biotech Inc. (now Janssen Biotech, Inc. (JBI)) commenced an arbitration proceeding before the American Arbitration Association against Schering-Plough Corporation and its subsidiary Schering-Plough (Ireland) Company (collectively, Schering-Plough). JBI and Schering-Plough are parties to a series of agreements (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). JBI distributes REMICADE ® and SIMPONI ®, the next generation treatment, within the United States. In the arbitration, JBI sought a declaration that the agreement and merger between Merck & Co., Inc. (Merck) and Schering-Plough constituted a change of control under the terms of the Distribution Agreements that permitted JBI to terminate the Agreements. In April 2011, the Company, JBI and Merck announced an agreement to amend the Distribution Agreements. This agreement concluded the arbitration proceeding.

Pursuant to the terms of the amended Distribution Agreements, on July 1, 2011, Merck's subsidiary, Schering-Plough (Ireland) relinquished exclusive marketing rights for REMICADE ® and SIMPONI ® to the Company's Janssen pharmaceutical companies in territories including Canada, Central and South America, the Middle East, Africa and Asia Pacific (relinquished territories). Merck retained exclusive marketing rights throughout Europe, Russia and Turkey (retained territories). The retained territories represent approximately 70 percent of Merck's 2010 revenue of approximately \$2.8 billion from REMICADE ® and SIMPONI ®, while the relinquished territories represent approximately 30 percent. In addition, as of July 1, 2011, all profit derived from Merck's exclusive distribution of the two products in the retained territories is being equally divided between Merck and JBI. Under the prior terms of the Distribution Agreements, the contribution income (profit) split, which was at 58 percent to Merck and 42 percent to JBI, would have declined for Merck and increased for JBI each year until 2014, when it would have been equally divided. JBI also received a one-time payment of \$500 million in April 2011, which is being amortized over the period of the agreement.

In April 2010, a putative class action lawsuit was filed in the United States District Court for the Northern District of California by representatives of nursing home residents or their estates against the Company, Omnicare, Inc. (Omnicare), and other unidentified companies or individuals. In February 2011, plaintiffs filed a second amended complaint asserting that certain rebate agreements between the Company and Omnicare increased the amount of money spent on pharmaceuticals by the nursing home residents and violated the Sherman Act and the California Business & Professions Code. The second amended complaint also asserts a claim of unjust enrichment. Plaintiffs seek multiple forms of monetary and injunctive relief. The Company moved to dismiss the second amended complaint in March 2011. The Court granted the motion in its entirety in August 2011, dismissing all claims asserted by Plaintiffs.

Starting in April 2010, a number of shareholder derivative lawsuits were filed in the United States District Court for the District of New Jersey against certain current and former directors and officers of the Company. The Company is named as a nominal defendant. These actions were consolidated in August 2010 into one lawsuit: *In re Johnson & Johnson Derivative Litigation*. An amended consolidated complaint was filed in December 2010. Additionally, in September 2010, another shareholder derivative lawsuit was filed in New Jersey Superior Court against certain current and former directors and officers of the Company. The Company is named as a nominal defendant in this action as well. The parties to this action have stipulated that it shall be stayed until the *In re Johnson & Johnson Derivative Litigation* is completely resolved.

These shareholder derivative actions are similar in their 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. The Company moved to dismiss these actions on the grounds, *inter alia*, that the plaintiffs failed to make a demand upon the Board of Directors. In September 2011, *In re Johnson & Johnson Derivative Litigation* was dismissed without prejudice and with leave to file an amended complaint.

The Company filed a report in the *In re Johnson & Johnson Derivative Litigation* matter in July 2011, prepared by a Special Committee of the Board of Directors, which investigated the allegations contained in the derivative actions and in a number of shareholder demand letters that the Board received in 2010 raising similar issues. The Special Committee was assisted in its investigation by independent counsel. The Special Committee's report recommended: i) that the Company reject the shareholder demands and take whatever steps are necessary or appropriate to secure dismissal of the derivative litigation and ii) that the Board of Directors create a new Regulatory and Compliance Committee charged with responsibility for monitoring and oversight of the Company's Health Care Compliance and Quality & Compliance systems and issues. The Company's Board of Directors unanimously adopted the Special Committee's recommendations. In August 2011, two shareholders who had submitted shareholder demand letters in 2010 filed shareholder derivative lawsuits in the United States District Court for the District of New Jersey naming various current and former officers and directors as defendants and challenging the Board's rejection of their demands. The Company intends to move to terminate these lawsuits on the basis of the Board's decision to adopt the Special Committee's recommendations.

Two additional shareholder derivative lawsuits were filed in May 2011 in the United States District Court for the District of New Jersey, and two other shareholder derivative lawsuits were filed in New Jersey Superior Court in May 2011 and August 2011, all naming the Company's current directors as defendants and the Company as the nominal defendant. The complaints allege breaches of fiduciary duties related to the Company's compliance with the Foreign Corrupt Practices Act and participation in the United Nations Iraq Oil For Food Program, that the Company has suffered damages as a result of those alleged breaches, and that the defendants failed to disclose the alleged misconduct in the Company's filings under the Securities Exchange Act of 1934. Plaintiffs seek monetary damages, and one plaintiff also seeks corporate governance reforms. The federal lawsuits were consolidated in July 2011, and an amended consolidated complaint was filed in August 2011. The Company

intends to move to dismiss the consolidated federal lawsuit on the grounds, inter alia , that the plaintiffs failed to make a demand upon the Board of Directors. The Company intends to move to dismiss or stay the state lawsuits pending resolution of the federal lawsuit.

In September 2011, two additional shareholder derivative lawsuits were filed in the United States District Court for the District of New Jersey naming the Company's current directors and one former director as defendants and the Company as the nominal defendant. These lawsuits allege that the defendants breached their fiduciary duties in their decisions with respect to the compensation of the Chief Executive Officer during the period from 2008 through the present, and that the defendants made misleading statements in the Company's annual proxy statements. One of these suits has been voluntarily dismissed. An amended complaint has been filed in the other. The Company intends to move to dismiss the remaining suit on the grounds, inter alia , that the plaintiff failed to make a demand upon the Board of Directors.

Starting in May 2010, multiple complaints seeking class action certification related to the McNeil recalls have been filed against McNeil Consumer Healthcare and certain affiliates, including the Company, in the United States District Court for the Eastern District of Pennsylvania, the Northern District of Illinois, the Central District of California, the Southern District of Ohio and the Eastern District of Missouri. These consumer complaints allege generally that purchasers of various McNeil medicines are owed monetary damages and penalties because they paid premium prices for defective medications rather than less expensive alternative medications. All but one complaint seeks certification of a nation-wide class of purchasers of these medicines, whereas one complaint, the Harvey case, seeks certification of a class of Motrin ® IB purchasers in Missouri. In October 2010, the Judicial Panel on Multidistrict Litigation (JPML) consolidated all of the consumer complaints, except for the Harvey case, which was consolidated in March 2011, for pretrial proceedings in the United States District Court for the Eastern District of Pennsylvania. In January 2011, the plaintiffs in all of the cases except the Harvey case filed a "Consolidated Amended Civil Consumer Class Action Complaint" (CAC) naming additional parties and claims. In July 2011, the Court granted the Company's motion to dismiss the CAC without prejudice, but permitted the plaintiffs to file an amended complaint within thirty days of the dismissal order. In August 2011, the plaintiffs filed a Second Amended Civil Consumer Class Action Complaint (SAC). The Company moved to dismiss the SAC in September 2011. This second motion to dismiss is pending.

Separately, in September 2011, the Company, Johnson & Johnson Inc. and McNeil Consumer Healthcare Division of Johnson & Johnson Inc. received a Notice of Civil Claim filed in the Supreme Court of British Columbia, Canada (the Canadian Civil Claim). The Canadian Civil Claim is a putative class action brought on behalf of persons who reside in British Columbia and who purchased various McNeil children's over-the-counter medicines during the period between September 20, 2001 and the present. The Canadian Civil Claim alleges that the defendants violated the Canadian Business Practices and Consumer Protection Act, and other Canadian statutes and common laws, by selling medicines that did not comply with Canadian Good Manufacturing Practices.

In September 2010, a shareholder, Ronald Monk, filed a lawsuit in the United States District Court for the District of New Jersey seeking class certification and alleging that the Company and certain individuals, including executive officers and employees of the Company, failed to disclose that a number of manufacturing facilities were failing to maintain current good manufacturing practices, and that as a result, the price of the Company's stock has declined significantly. Plaintiff seeks to pursue remedies under the Securities Exchange Act of 1934 to

recover his alleged economic losses. In May 2011, the Company filed a motion to dismiss, which is pending before the Court.

In April 2011, OMJ Pharmaceuticals, Inc. (OMJ PR) filed a lawsuit against the United States in United States District Court for the District of Puerto Rico alleging overpayment of federal income taxes for the tax years ended November 30, 1999 and November 30, 2000. OMJ PR alleges that the Internal Revenue Service erroneously calculated OMJ PR's tax credits under Section 936 of the Tax Code. Discovery is ongoing.

In August 2011, an arbitration panel ruled that Mitsubishi Tanabe Pharma Corporation (Tanabe), JBI's distributor of REMICADE ® in Japan, could seek to modify the proportion of net sales revenue that Tanabe must remit to JBI in exchange for distribution rights and commercial supply of REMICADE ® (the Supply Price). Tanabe commenced the arbitration against JBI in 2009 pursuant to the parties' distribution agreement, which grants Tanabe the right to distribute REMICADE ® in Japan and certain other parts of Asia. JBI has counterclaimed for an increase in the Supply Price. The arbitration hearing to determine the appropriate split of revenue is scheduled for November 2011, and a decision is anticipated in 2012.

The Company or its subsidiaries are also parties to a number of proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, and comparable state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.



<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 <sup>®</sup> Stent	Cordis	Wall	Wall	E.D. TX	Q2/11	11/07
CYPHER <sup>®</sup> Stent	Cordis	Saffran	Saffran	E.D. TX	*Trail concluded	10/07
Blood Glucose Meters and Strips	Lifescan	Wilsey	Roche Diagnostics	D. DE	*	11/07
SIMPONI <sup>®</sup>	Centocor/ COBI	Salfeld	Abbott Laboratories	MA	*	05/09
SIMPONI <sup>®</sup>	Centocor/ COBI	Boyle	Bayer Healthcare	MA	***	08/09
STELARA <sup>®</sup>	Centocor/ COBI	Salfeld	Abbott GmbH	MA	*	08/09

\* Trial date to be scheduled.

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

\*\*\* Summary judgment granted

Brand Name	Patent/NDA	Generic	Trial	Date	30-Month	
Product	Holder	Challen ger	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
		Impax and Teva	D.DE	*	11/10	04/13
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/ 0.025 mg and 0.25 mg/ 0.025 mg		Watson	D. NJ	*	10/08	03/11
		Sandoz	D. NJ	*		10/11
		Lupin	D. NJ	*	01/10	06/12
		Mylan	D.NJ	*	11/10	04/13
ULTRAM ER® 100, 200, 300 mg tablet	Ortho- McNeil/Bi	Par	D. DE	Q2/09	05/07 06/07	09/09 11/09

	ovail					10/07	03/10
ULTRAM ER <sup>®</sup> 100, 200, 300 mg tablet	Ortho- McNeil/Bi ovail	Impax	D. DE			08/08	01/11
						11/08	03/11
ULTRAM ER <sup>®</sup> 100, 200, 300 mg tablet	Ortho- McNeil/Bi ovail	Paddoc k	D.MN	*		09/09	01/12
ULTRAM ER <sup>®</sup> 100, 200, 300 mg tablet	Ortho- McNeil/Bi ovail	Cipher	D. DE	*		10/09	03/12
ULTRAM ER <sup>®</sup> 100, 200, 300 mg tablet	Ortho- McNeil/Bi ovail	Lupin	D. DE	*		01/10	06/12
PREZISTA <sup>®</sup>	Tibotec	Mylan	D.NJ	*		11/10	12/13
	Tibotec	Lupin	D.NJ	*		11/10	12/13

\* Trial date to be scheduled.

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

#### 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>52</sup>

### 20.1 Share Capital<sup>53</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 2011, the Company held 388,291,918 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

<sup>52</sup> Item 21 of Annex I of the Regulation.

<sup>53</sup> Item 21.1 of Annex I of the Regulation.

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>54</sup>**

### **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).

Twelve 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 &

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<sup>54</sup> Item 21.2 of Annex I of the Regulation.

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 12 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.

(l) 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>55</sup>**

None.

## **22 Third party information and statement by experts and declarations of any interest<sup>56</sup>**

This Registration Document does not contain third party information or statements by experts.

## **23 Documents on display<sup>57</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 U.S. 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 U.S.A. (1-732-524-2455).

## **24 Information on holdings<sup>58</sup>**

Please refer to the list of principal global affiliates in section 7 of this Registration Document.

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<sup>55</sup> Item 22 of Annex I of the Regulation.

<sup>56</sup> Item 23 of Annex I of the Regulation.

<sup>57</sup> Item 24 of Annex I of the Regulation.

<sup>58</sup> Item 25 of Annex I of the Regulation.

### 3. SECURITIES NOTE<sup>59</sup>

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<sup>59</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>60</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 1-732-524-0400) is responsible for the information given in this Securities Note<sup>61</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>62</sup>

## 2 Risk factors<sup>63</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,

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<sup>60</sup> Item 1 of Annex III of the Regulation.

<sup>61</sup> Item 1.1 of Annex III of the Regulation.

<sup>62</sup> Item 1.2 of Annex III of the Regulation.

<sup>63</sup> Item 2 of Annex III of the Regulation.

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 international 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, environmental protection, 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;
- Increased scrutiny of the health care industry by government agencies and state attorneys general resulting in investigations and prosecutions carry the risk of significant civil and criminal penalties, including, but not limited to, debarment from government business;
- Difficulties and delays in manufacturing that cause voluntary or involuntary business interruptions or shutdowns, product shortages, substantial modifications to our business practices and operations, withdrawals or suspensions of current products from the market, or possible civil penalties and criminal prosecution;

- Product liability insurance for products may be limited, cost prohibitive or unavailable;
- 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 international counterparts) or declining sales;
- The impact of business combinations, including acquisitions and divestitures, both by and for the Company, as well as externally in the pharmaceutical, medical devices and diagnostics and consumer 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.

### **3 Key information<sup>64</sup>**

#### **3.1 General**

In the Company's opinion, the working capital of the Company is sufficient for the Company's present operational requirements.<sup>65</sup>

The capitalization and indebtedness of Johnson & Johnson:

Please refer to the information contained under Section 19.5.1 (*Johnson & Johnson and subsidiaries consolidated balance sheets (Unaudited; Dollars in Millions)*) here above.

The Plans are attached in Annex 1 and Annex 2 to the Securities Note. Any capitalized terms not defined herein shall have the meanings ascribed to them in the Executive Bonus Plan or the LTIP.

#### **3.2 Executive Bonus Plan**

The purposes of the offer of the Johnson & Johnson Executive Bonus 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.<sup>66</sup>

#### **3.3 LTIP**

The purposes of the LTIP are to provide long-term incentives to those persons with responsibility for the success and growth of the Company and its subsidiaries and affiliated entities, to associate more closely the interests of such persons with those of the Company's shareholders, to assist the Company and its subsidiaries and its affiliated

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<sup>64</sup> Item 3 of Annex III of the Regulation.

<sup>65</sup> Item 3.1 of Annex III of the Regulation.

<sup>66</sup> Item 3.4 of Annex III of the Regulation.



entities in recruiting, retaining, and motivating a diverse and talented group of employees on a competitive basis, and to ensure a pay for performance linkage for such persons.<sup>67</sup>

## **4 Information concerning the securities to be offered under the Executive Bonus Plan<sup>68</sup>**

### **4.1 General**

**4.1.1** The securities offered under the Executive Bonus 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 Executive Bonus Plan, the source of shares of Common Stock shall be determined by the Management Compensation Committee of the Company (the “MCC”) 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 the LTIP and shall not be subject to the terms of the LTIP.

By contrast, if the MCC 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 choice with respect to source of shares is determined in principle on an annual basis, based on historical exercise patterns, RSU vesting and estimated bonus choice.

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>69</sup>.

**4.1.2** 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.

All questions pertaining to the construction, interpretation, regulation, validity, and effect of the provisions of the Executive Bonus 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 U.S. federal law.<sup>70</sup>

**4.1.3** Each share of Common Stock issued or transferred pursuant to the Executive Bonus 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).

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<sup>67</sup> Item 3.4 of Annex III of the Regulation.

<sup>68</sup> Item 4 of Annex III of the Regulation.

<sup>69</sup> Item 4.1 of Annex III of the Regulation.

<sup>70</sup> Item 4.2 of Annex III of the Regulation.

**4.1.4** The currency of the issue is in principle U.S. dollars. However, the obligations of the Company to deliver awards under the terms of the Executive Bonus Plan in cash or shares of Common Stock shall be subject to currency and other restrictions imposed by any government.<sup>71</sup>

**4.1.5** An Eligible Employee shall have no rights as a holder of shares of Common Stock with respect to Awards under the Executive Bonus 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 hereafter 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>

**4.1.6** There is currently no intention to issue any new shares under the Executive Bonus Plan.<sup>73</sup>

**4.1.7** In case the MCC of the Company decides to issue new shares, the expected issue date of the new securities would be 17 January 2012.<sup>74</sup>

**4.1.8** 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 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>

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<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.

<sup>75</sup> Item 4.8 of Annex III of the Regulation.

4.1.9 There are no mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities.<sup>76</sup>

4.1.10 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>

4.1.11 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 MCC, 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>

## 4.2 Terms and conditions of the offer<sup>79</sup>

### 4.2.1 Conditions, offer statistics, expected timetable and action required to apply for the offer<sup>80</sup>

This Securities Note concerns the offer of shares of Common Stock of the Company in accordance with the terms and conditions of the Executive Bonus Plan. Annex 1 to the Securities Note contains the Executive Bonus Plan document.

Subject to the terms and conditions of the Executive Bonus Plan, the MCC 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 Executive Bonus 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 2011 and the amount of any such Awards will be finalized and approved by the Compensation & Benefits Committee of the Company's Board of Directors at its meeting on 17 January 2012. The choice the Eligible Employee makes under the Executive Bonus Plan will be given effect only if that employee actually receives an Award for 2011.

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.

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.

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<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.

The example below illustrates how Awards are adjusted based on Company performance:

Employee Planned Award X Company performance = Final Award e.g. 50,000\*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.

The amount of the offer will be up to 17,895,294 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 17 January 2012 on the New York Stock Exchange.

The Executive Bonus Plan was approved by the MCC on 30 August 2005. The Executive Bonus Plan became effective as of 1 September 2005, and shall remain in effect until such time as it is terminated by the MCC.

The Executive Bonus Plan is offered to the Eligible Employees as from 5 December 2011. The offer shall close on 23 December 2011 (the “**Executive Bonus Plan Offer**”).

The application process relating to an Award is set out in Section 5 of the Executive Bonus Plan.

The MCC may at any time terminate or from time to time amend the Executive Bonus 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 MCC reasonably determines that such termination or amendment is necessary or appropriate to comply with applicable law (including the provisions of the U.S. 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 Executive Bonus 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 MCC shall make such adjustments to the class and aggregate number of shares to be delivered under the Executive Bonus Plan as the Executive Bonus Plan may determine to be appropriate.

Once an Eligible Employee has made his choice during the Executive Bonus Plan Offer, it is not possible to reduce the subscription.

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 Executive Bonus Plan.

**After the close of the Executive Bonus Plan Offer it is not possible to withdraw from the Executive Bonus Plan Offer.**

#### 4.2.2 Plan of distribution and allotment<sup>81</sup>

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.

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.

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.

#### 4.2.3 Pricing<sup>82</sup>

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

<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 17 January 2012 and he actually receives an Award for 2011. If an Eligible Employee terminates employment prior to 17 January 2012, 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 17 January 2012, 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.

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.

No pre-emptive purchase rights exist in respect of the shares of Common Stock offered under the Executive Bonus Plan.

#### 4.2.4 Placing and Underwriting<sup>83</sup>

Please refer to Section 5 of the Executive Bonus Plan relating to Awards.

## 5 Information concerning the securities to be offered under the LTIP

**General.** The exercise of vested stock options is deemed to be a public offer in Germany, requiring this Prospectus. Consequently, the offer of Stock Options as set out in this Prospectus is limited to Johnson & Johnson employees in Germany. This section only relates to the conditions of vesting of the Stock Options and the modalities of exercising the Stock Options in accordance with the terms and conditions of the LTIP and the form of certificate for a Stock Option (the "**Certificate**"). For more information on the LTIP and the various categories of awards offered under the LTIP (including Stock Options), please refer to the Summary of the LTIP above, as well as to the LTIP and the Certificate, which are included as Annex 2 to the Securities Note and which are incorporated by reference.

The source of shares of the underlying Common Stock shall be determined by the Compensation & Benefits Committee of the Company (the "**C&B Committee**") and may consist of authorized but unissued shares, treasury shares or shares acquired on the open market, or any combination thereof.

The choice with respect to source of shares is determined in principle on an annual basis, based on historical exercise patterns, RSU vesting and estimated bonus choice.

The underlying 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>84</sup>.

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<sup>83</sup> Item 5.4 of Annex III of the Regulation.

The Stock Options have been created in accordance with the laws that govern the Company, i.e. under the laws of the State of New Jersey, USA.

All questions pertaining to the construction, interpretation, regulation, validity, and effect of the provisions of the LTIP 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 U.S. federal law.<sup>85</sup>

The securities to be offered consist of up to 1,607,484 shares of Common Stock under outstanding stock options under the LTIP granted to employees in Germany that have vested and are exercisable, or become exercisable for the first time after the date of this Prospectus until 28 November 2012.

The LTIP became effective as of 28 April 2005 and shall remain in effect until 28 April 2015.

The C&B Committee may at any time terminate or from time to time amend the LTIP in whole or in part, but no such action shall adversely affect any rights or obligations with respect to the Stock Options granted prior to the date of such termination or amendment except to the extent that the C&B Committee reasonably determines that such termination or amendment is necessary or appropriate to comply with applicable law (including the provisions of the U.S. 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 the underlying Common Stock is listed or quoted. Notwithstanding the foregoing, unless the Company's shareholders have first approved the amendment, no amendment may (a) increase the number of authorized shares or the maximum individual award limitation, (b) extend the maximum period during which awards may be granted, (c) add to the types of awards that may be made, (d) change the performance measures pursuant to which performance shares are earned, (e) modify the requirements governing eligibility for participation in the Plan or (f) amend the Plan in a manner that would require shareholder approval pursuant to the Plan, applicable law or the rules of the New York Stock Exchange.

**Exercise of the Stock Options.** The Stock Options, and the exercise of the Stock Options, are subject to all of the terms and conditions relating to non-qualified stock options as contained in the LTIP.

*Vesting.* The Stock Options may not be exercised until the day following the Vesting Date, provided that if the holder of a Stock Option dies while actively employed by the Company, the Stock Option shall vest on the date of his or her death. Once vested, the Stock Option shall be exercisable in its entirety. The Stock Options may not be exercised after the Expiration Date or after any earlier date on which the Stock Options are terminated in accordance with the Certificate.

*Exercise Procedure.* Subject to the conditions set forth in the LTIP and the Certificate, a Stock Option may be exercised by providing a written notice of exercise as set out below (see *Notices*). The exercise of the Stock Option shall be effective upon the Company's receipt of the written notice. This notice must be followed by payment in full of the purchase price and any applicable taxes required by law in accordance with the sections *Payment of Purchase Price* and *Notices* below. A Stock Option may not be exercised for a fractional share of Common Stock, but a Stock Option holder may purchase fewer than the number of shares of Common Stock covered by his or her stock option certificate.

*Continuous Employment Required.* Except as otherwise provided below (see *Provisions for Termination*), a Stock Option may not be exercised unless, on the date of exercise, the holder of the Stock Option is, and has been at all times since the Grant Date, an employee of the Company. For

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<sup>84</sup> Item 4.1 of Annex III of the Regulation.

<sup>85</sup> Item 4.2 of Annex III of the Regulation.

purposes of the Stock Options, persons on Company-authorized leaves of absence are considered employees of the Company, but persons on long-term disability are not considered employees of the Company, unless otherwise required by law.

#### **Provisions for Termination.**

*Exercise After Termination of Employment.* If a holder of a Stock Option ceases to be employed by the Company for any reason, including termination for Cause, then except as otherwise provided in this section,

(i) if the Stock Option has not vested as of the Date of Termination of the holder of the Stock Option, the Stock Option shall become void on the Date of Termination of the holder of the Stock Option; or

(ii) if the Stock Option has vested as of the Date of Termination of the holder of the Stock Option, the right to exercise any unexercised portion of the Stock Option shall terminate (i) three (3) months after the Date of Termination of the holder of the Stock Option or (ii) on the Expiration Date, whichever occurs first.

*Exercise After Death.* If the holder of a Stock Option dies while actively employed by the Company, then his or her Stock Option shall be fully vested as of the date of death of the holder of the Stock Option, and the estate or any person who acquires the Stock Option by inheritance or devise shall have the right to exercise any unexercised portion of the Stock Option during the remaining term of the Stock Option.

*Exercise After Disability.* If a holder of a Stock Option ceases to be employed by the Company due to Disability, any unvested or unexercised portion of the Stock Option may be exercised by the holder of the Stock Option in whole or in part during the remaining term of the Stock Option by the holder of the Stock Option (or should the holder of the Stock Option die within said period, then by his or her estate or any person who acquires the Stock Option by inheritance or devise) at such times and to the extent the holder of the Stock Option could have exercised the Stock Option had his or her employment not terminated, provided that:

(i) if subsequent to terminating employment due to Disability, the holder of the Stock Option is no longer considered Disabled because the holder of the Stock Option is re-employed by the Company, then the terms of any unexercised portion of the Stock Option shall be governed by the section above (*Exercise of Option*); and

(ii) if subsequent to terminating employment due to Disability, the status of the holder of the Stock Option changes so that the holder of the Stock Option is no longer considered Disabled for any reason other than death or re-employment by the Company, then the terms of any unexercised portion of the Stock Option shall be governed by the section *Exercise After Termination of Employment* above or the section *Retirement* below, whichever is applicable, based on the age and years of Service on the date the holder of the Stock Option ceased to be employed by the Company due to Disability, provided that any time limitation for exercising the Stock Option that is specified in the section *Exercise After Termination of Employment* above or the section *Retirement* below shall commence as of the date the holder of the Stock Option was no longer considered Disabled.

*Retirement.* If holder of a Stock Option Retires from employment with the Company without being terminated for Cause, then the holder of the Stock Option (or should the holder of the Stock Option die, his or her estate or any person who acquires the Stock Option by inheritance or devise) shall have the right to exercise the Stock Option as follows:



(i) if the holder of the Stock Option has at least ten (10) years of Service with at least five (5) consecutive years of Service immediately before his or her Date of Termination, or has attained age 62 as of his or her Date of Termination, the holder of the Stock Option shall be eligible to exercise any unvested or unexercised portion of the Stock Option, in whole or in part, during the remaining term of the Stock Option at such times and to the extent the holder of the Stock Option could have exercised the Stock Option had his or her employment not terminated; or

(ii) if the holder of the Stock Option does not meet the conditions set forth in the preceding paragraph, his or her right to exercise any unexercised portion of the Stock Option shall terminate on (x) the third anniversary of his or her Date of Termination or (y) the Expiration Date, whichever occurs first, provided that, if the Stock Option is not vested as of his or her Date of Termination, the Stock Option shall become void on that date.

*Stock Option Granted Within Six (6) Months of Termination.* Notwithstanding any other provisions of this section (*Provision for Termination*), if the Grant Date occurred within the six months immediately preceding the Date of Termination of a holder of a Stock Option, and his or her termination of employment was for any reason other than death, the Stock Option shall become void on the Date of Termination of the holder of a Stock Option.

*Employment by a Competitor.* Notwithstanding the provisions of the sections above (*Exercise after Disability and Retirement*), if a holder of a Stock Option ceased to be employed by the Company due to Disability or Retirement and the holder of the Stock Option is Employed by a Competitor within eighteen (18) months after his or her Date of Termination, then

(i) if the Stock Option is unvested on the date the holder of the Stock Option is first Employed by a Competitor, the Stock Option shall become void as of that date; or

(ii) if the Stock Option is vested on the date the holder of the Stock Option is first Employed by a Competitor, the holder of the Stock Option shall have the right to exercise the Stock Option until (A) the date that is three (3) months after the holder of the Stock Option is first Employed by the Competitor or (B) the Expiration Date, whichever occurs first.

**Payment of Purchase Price.** The purchase price for shares of Common Stock purchased upon exercise of a Stock Option and any applicable taxes required by law shall be paid in U.S. dollars or, at the discretion of the C&B Committee and in accordance with procedures approved by the C&B Committee, in (1) Common Stock valued at Fair Market Value at the close of the business day immediately preceding the date of exercise or (2) a combination of such Common Stock and cash; provided that:

(i) fractional shares of Common Stock shall not be accepted in payment of the purchase price;

(ii) shares of Common Stock that a holder of a Stock Option acquired within the six month period immediately preceding the date of exercise may not be used to pay the purchase price; and

(iii) shares of Common Stock that were issued to a holder of a Stock Option by the Company upon the exercise of the holder of the Stock Option of an incentive stock option within the one year period immediately preceding the exercise of the Stock Option may not be used to pay the purchase price.

#### **Delivery of Shares; Compliance With Securities Laws, and Other.**

*General.* Johnson & Johnson shall, after receiving the purchase price for the shares of Common Stock purchased and paid for under the Stock Option, make delivery of such shares to the holder of

the Stock Option, provided that if any law or regulation requires Johnson & Johnson to take any action with respect to such shares before the issuance thereof, the date of delivery of such shares shall be extended for the period necessary to complete such action.

*Registration and Listing.* The Stock Options shall not be exercisable unless at the time of exercise there is in effect a current registration statement or amendment thereto, under the U.S. Securities Act of 1933, as amended, covering the shares of Common Stock to be issued upon exercise of this option and such shares are authorized for listing on the New York Stock Exchange. Nothing herein shall be deemed to require Johnson & Johnson to apply for, to effect or to obtain such registration or listing.

**Nontransferability of Option.** A Stock Option is exercisable during the lifetime of the holder of the Stock Option only by the holder, and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), other than by will or the laws of descent and distribution. Nor shall any such rights be subject to execution, attachment or similar process, other than in accordance with the terms of the LTIP. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of a Stock Option or of such rights contrary to the provisions of the LTIP, or upon the levy of any attachment or similar process upon the Stock Option or such rights, the Stock Option and such rights shall, at the election of Johnson & Johnson, become null and void.

**No Special Employment Rights.** Nothing contained in the LTIP or the Certificate shall be construed or deemed by any person under any circumstances to bind the Company to continue the employment of a holder of a Stock Option for the period within which a Stock Option may be exercised or for any other period.

**Notices.** Unless Johnson & Johnson notifies the holder of the Stock Option otherwise in writing, all notices, designations, and payments to be submitted to Johnson & Johnson in connection with this option shall be addressed to:

Equity Compensation Resources  
One Johnson & Johnson Plaza  
New Brunswick, NJ 08933

**Definitions.** The following capitalized terms shall have the definitions set forth below for purposes of this section:

*“Cause”* means the termination by the Company of a holder of a Stock Option (i) following his or her conviction for or a plea of nolo contendere to the commission of a felony under federal or state law, or (ii) for an act(s) that, in the C&B Committee’s opinion, constitutes fraud, embezzlement, dishonesty, disclosure of confidential information, the willful and deliberate failure to perform employment duties in any material respect, a conflict of interest, or any other event that is inimical or contrary to the best interests of the Company. Any determination of *“Cause”* shall be made by the C&B Committee in its sole discretion, and its determination shall be final and binding.

*“Date of Termination”* means the last date on which the holder of a Stock Option is in an active employment status with the Company. Specifically, if the holder of a Stock Option is covered by a severance agreement or arrangement, the Date of Termination shall be the last date of active employment with the Company, not the date corresponding to the end of the severance period. If the holder of a Stock Option becomes Disabled, his or her Date of Termination is the date on which the holder of a Stock Option is considered to become Disabled.

“*Disability*” or “*Disabled*” means termination of employment with the Company accompanied by a change in status to “disabled” in accordance with the personnel and/or human resources policy of the Company.

“*Employment by a Competitor*” or “*Employed by a Competitor*” means engaging in any activity or providing services, whether as a director, employee, advisor, consultant, or otherwise, for any corporation or other entity that is a competitor of the Company. The C&B Committee shall determine whether the holder of a Stock Option is Employed by a Competitor in its sole discretion, and its determination shall be final.

“*Expiration Date*” means the tenth anniversary of the Grant Date.

“*Grant Date*” means the date on which a Stock Option is granted, as set forth above.

“*Retire*” or “*Retirement*” means termination of employment after the later of (A) the attainment of age 55, or (B) the earliest date on which the holder of a Stock Option could retire and receive a benefit under the Company-sponsored defined benefit retirement program, plan, or agreement in which the holder of a Stock Option is participating on his or her Date of Termination.

“*Service*” means employment with Johnson & Johnson or one of its subsidiaries or affiliates, while that corporation or other legal entity was a subsidiary or affiliate of Johnson & Johnson, unless the C&B Committee has otherwise provided on or before the Grant Date.

“*Vesting Date*” means the date on which the Stock Option vests, as set forth above.

## **6 Admission to trading and dealing arrangements<sup>86</sup>**

**6.1** The shares of Common Stock offered are listed on the New York Stock Exchange.<sup>87</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>88</sup>

## **7 Selling securities holders<sup>89</sup>**

The shares of Common Stock offered under the Executive Bonus Plan, are issued or transferred by the Company.

Should you have further questions with respect to the Plans, please contact your regional Human Resources Leader.

### **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.

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<sup>86</sup> Item 6 of Annex III of the Regulation.

<sup>87</sup> Item 6.1 of Annex III of the Regulation.

<sup>88</sup> Item 6.2 of Annex III of the Regulation.

<sup>89</sup> Item 7 of Annex III of the Regulation.

***United States of America***

This document has not been submitted to the U.S. Securities and Exchange Commission (the "Commission") and is not an offer or sale of securities in the United States. Offers and sales in the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S under the U.S. Securities Act of 1933) are covered by a registration statement filed with the Commission on 8 November 2005 and 18 December 2009.

## ANNEX 1 TO REGISTRATION DOCUMENT

### TRADE MARKS

Johnson & Johnson

2010 Annual Report Trademarks

1-DAY ACUVUE MOIST, contact lens

1-DAY ACUVUE TRUEYE, disposable siliconehydrogel contact lenses

ACIPHEX/PARIET (rabeprazole sodium), proton pump inhibitor

ACUVUE BRAND, contact lens

ACUVUE OASYS, contact lens for asigmatism

ADVANT 55, linear stapler

ALLERFREE, naturally derived fragrance

AVEENO, skin care products

ASR XL ACETABULAR SYSTEM, hip replacement device

BAND-AID BRAND, adhesive bandages

CARTO, provides 3-dimensional view of the heart for treatment of cardiac arrhythmias

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

CYTOMIMIC, skin care technology

DABAO, skin care products

DEPUY ASR HIP RESURFACING SYSTEM, hip replacement device

DURAGESIC (fentanyl transdermal system, sold abroad as DUROGESIC), treatment for chronic pain

EARTHWARDS, program to encourage development of earth-friendly products

EFFERDENT/EFFERGRIP, oral care

ENSEAL, bipolar vessel-sealing technology

EVICEL, fibrin sealant, controls bleeding in surgical procedures.

GLOSAIR, disinfection products

HARMONIC, portfolio of surgical technology

INTELENCE (etravirine), treatment for HIV

INVEGA (paliperidone), treatment for schizophrenia

INVEGA SUSTENNA (paliperidone palmitate), once-monthly dosing for treatment of schizophrenia

JOHNSON'S, adult skin care

JOHNSON'S, baby line of products

JOHNSON'S, baby shampoo

JOHNSON'S NATURAL, baby products

JOHNSON'S NATURAL HEAD TO TOE, foaming baby wash

LE PETIT MARSEILLAIS, French personal cleansing brand

LEVAQUIN/FLOXIN (levofloxacin/ofloxacin), antibiotics

LISTERINE, oral health products

LISTERINE TOTAL CARE ENAMEL GUARD, oral health products

LISTERINE ZERO, mouthwash

MOTRIN, ibuprofen

NATRECOR (nesiritide), treatment for acutely decompensated heart failure

NAVISTAR RMT THERMOCOOL CATHETER

NO MORE TEARS, hair care

NUCYNTA (tapentadol), immediate release tablets for relief of moderate to severe acute pain

ONETOUCH, diabetes care

ONETOUCH ULTRAVUE, blood glucose meter

ONETOUCH VERIO, blood glucose monitoring system

ORTHO EVRA, (norelgestromin/ethinyl estradiol transdermal system), birth control

ORTHO-GYNOL, birth control

ORTHO TRI-CYCLEN LO (norgestimate/ethinyl estradiol), birth control

PRECISE, pain relief

PREZISTA (darunavir), protease inhibitor, anti-HIV medication

PROCRIT/EPREX (Epoetin alfa, sold outside the U.S. as EPREX), a biotechnology derived product that stimulates red blood cell production

QUIXIL, surgical sealant

REMICADE (infliximab), treatment for a number of immune-mediated inflammatory diseases

REOPRO (abciximab), cardiac ischemic complications

RHOGAM, prevention of Rh hemolytic disease of newborn

RISPERDAL (risperidone), RISPERDAL CONSTA (risperidone long-acting injection), for treatment of the symptoms of schizophrenia

RoC MINESOL, sunscreen

SIGMA, rotating platform knee

SIMPONI (golimumab), treatment for moderate to severe active rheumatoid arthritis

STELARA (ustekinumab), severe plaque psoriasis

SUNDOWN, sunscreen

THERMOCOOL NAVIGATION CATHETERS

TOPAMAX (topiramate), migraine prevention treatment

TYLENOL, rapid release gels

ULTRAM ER (tramadol), treatment for moderate to severe pain

VELCADE (bortezomib), treatment for multiple myeloma

VIPER 2, minimally invasive spine system

VITROS, 3600 and 5600 analyzers

ZYRTEC (cetirizine), allergy relief

## ANNEX 2 TO REGISTRATION DOCUMENT

### LIST OF SUBSIDIARIES

#### EXIHIBIT A

Legal Entity Name	Country	State/Region
Janssen Cilag Farmaceutica S.A.	Argentina	
Johnson & Johnson de Argentina S.A.C. e. I.	Argentina	
Janssen-Cilag Pty. Ltd	Australia	
Johnson & Johnson Medical Pty Ltd	Australia	
Johnson & Johnson Pacific Pty. Limited	Australia	
Johnson & Johnson Pty. Limited	Australia	
McNeil Manufacturing Pty Ltd	Australia	
Tasmanian Alkaloids Pty. Ltd.	Australia	
Janssen-Cilag Pharma GmbH	Austria	
Johnson & Johnson Gesellschaft m.b.H.	Austria	
Johnson & Johnson Medical Products GmbH	Austria	
GMED Healthcare BVBA	Belgium	
J.C. General Services CVBA	Belgium	
Janssen Pharmaceutica NV	Belgium	
Janssen-Cilag NV	Belgium	
Johnson & Johnson Medical NV	Belgium	
Omrix Biopharmaceuticals S.A.	Belgium	
Ortho-Clinical Diagnostics NV	Belgium	
Tibotec-Virco Comm. VA	Belgium	
Tibotec-Virco Virology BVBA	Belgium	
Janssen-Cilag Farmaceutica Ltda.	Brazil	
Johnson & Johnson do Brasil Industria E Comercio de Produtos Para Saude Ltda.	Brazil	
Johnson & Johnson Industrial Ltda.	Brazil	
Janssen Inc.	Canada	Ontario
Johnson & Johnson Inc.	Canada	
Lifescan Canada Ltd.	Canada	
Beijing Dabao Cosmetics Co., Ltd.	China	
Johnson & Johnson (China) Investment Ltd.	China	
Johnson & Johnson (China) Ltd.	China	
Johnson & Johnson Medical (China) Ltd.	China	
Johnson & Johnson Medical (Shanghai) Ltd.	China	
Johnson & Johnson Medical (Suzhou) Ltd.	China	
Shanghai Johnson & Johnson Limited	China	
Shanghai Johnson & Johnson Pharmaceuticals, Ltd.	China	
Xian-Janssen Pharmaceutical Ltd.	China	
Johnson & Johnson de Colombia S.A.	Colombia	
Johnson & Johnson S.E. d.o.o.	Croatia	
Janssen-Cilag s.r.o.	Czech Republic	
Johnson & Johnson, s.r.o.	Czech Republic	
Janssen-Cilag A/S	Denmark	
McNeil Denmark ApS	Denmark	



McNeil Esbjerg ApS	Denmark	
Johnson & Johnson del Ecuador S.A.	Ecuador	
Janssen-Cilag OY	Finland	
Apsis	France	
Cordis	France	
DePuy France	France	
Ethicon	France	
Janssen-Cilag	France	
Johnson & Johnson Consumer Holdings France	France	
Johnson & Johnson Sante Beaute France	France	
Laboratoires Polive	France	
Ortho-Clinical Diagnostics	France	
Vania Expansion	France	
Cordis Medizinische Apparate GmbH	Germany	
DePuy Orthopadie GmbH	Germany	
Janssen-Cilag GmbH	Germany	
Johnson & Johnson Financial Services GmbH	Germany	
Johnson & Johnson GmbH	Germany	
Johnson & Johnson Group Holdings GmbH	Germany	
Johnson & Johnson Holding GmbH	Germany	
Johnson & Johnson Medical GmbH	Germany	
McNeil Consumer Healthcare GmbH	Germany	
McNeil GmbH & Co. oHG	Germany	
Ortho-Clinical Diagnostics GmbH	Germany	
Janssen-Cilag Pharmaceutical S.A.C.I.	Greece	
Johnson & Johnson Hellas S.A.	Greece	
Johnson & Johnson (Hong Kong) Limited	Hong Kong	
Johnson & Johnson Kft.	Hungary	
Johnson & Johnson Limited	India	
P.T. Johnson & Johnson Indonesia	Indonesia	
Cordis Cashel	Ireland	
DePuy (Ireland)	Ireland	
Ethicon Ireland	Ireland	
Ethicon PR Holdings	Ireland	
Janssen Alzheimer Immunotherapy	Ireland	
Janssen Alzheimer Immunotherapy (Holding) Limited	Ireland	
Janssen Biologics (Ireland)	Ireland	
Janssen Pharmaceutical	Ireland	
Johnson & Johnson European Treasury Company	Ireland	
Johnson & Johnson International Financial Services Company	Ireland	
Johnson & Johnson Vision Care (Ireland)	Ireland	
Latam International Investment Company	Ireland	
Latam Properties Holdings	Ireland	
OMJ Ireland	Ireland	
OMJ Manufacturing	Ireland	
OMJ PR Holdings	Ireland	
Tibotec Pharmaceuticals	Ireland	
Turnbuckle Investment Company	Ireland	
Biosense Webster (Israel) Ltd.	Israel	

J-C Health Care Ltd.	Israel	
Omxix Biopharmaceuticals Ltd.	Israel	
Crucell Italy S.r.l.	Italy	
Janssen-Cilag S.p.A.	Italy	
Johnson & Johnson Medical S.p.A.	Italy	
Johnson & Johnson S.p.A.	Italy	
Janssen Pharmaceutical K.K.	Japan	
Johnson & Johnson K.K.	Japan	
Ortho-Clinical Diagnostics K.K.	Japan	
Berna Biotech Korea Corporation	Korea, Republic of	
Janssen Korea Ltd.	Korea, Republic of	
Johnson & Johnson Korea, Ltd.	Korea, Republic of	
Johnson & Johnson Medical Korea Limited	Korea, Republic of	
Johnson & Johnson Luxembourg Finance Company Sarl	Luxembourg	
Johnson & Johnson SDN. BHD.	Malaysia	
Cordis de Mexico, S.A. de C.V.	Mexico	
EES Holdings de Mexico, S. de R.L. de C.V.	Mexico	
Janssen de Mexico, S. de R.L. de C.V.	Mexico	
Janssen-Cilag de Mexico S. de R.L. de C.V.	Mexico	
Janssen-Cilag, S.A. de C.V.	Mexico	
Johnson & Johnson de Mexico, S.A. de C.V.	Mexico	
Johnson & Johnson Medical Mexico, S.A. de C.V.	Mexico	
Johnson & Johnson, S.A. de C.V.	Mexico	
Berna Rhein B.V.	Netherlands	
Cordis Europa NV	Netherlands	
Crucell Holland B.V.	Netherlands	
Crucell N.V.	Netherlands	
Janssen Biologics B.V.	Netherlands	
Janssen-Cilag B.V.	Netherlands	
JHC Nederland B.V.	Netherlands	
Johnson & Johnson Consumer B.V.	Netherlands	
Johnson & Johnson Medical B.V.	Netherlands	
Mentor Medical Systems C.V.	Netherlands	
Johnson & Johnson (New Zealand) Limited	New Zealand	
Johnson & Johnson Pakistan (Private) Limited	Pakistan	
Ethnor del Istmo S.A.	Panama	
Johnson & Johnson del Peru S.A.	Peru	
Johnson & Johnson (Philippines), Inc.	Philippines	
Johnson & Johnson Poland Sp. z o.o.	Poland	
Janssen-Cilag Farmaceutica, Lda.	Portugal	
Johnson & Johnson Limitada	Portugal	
Johnson & Johnson Hemisferica S.A.	Puerto Rico	
Johnson & Johnson LLC	Russian Federation	
Johnson & Johnson Pte. Ltd.	Singapore	
Johnson & Johnson, s.r.o	Slovakia	
Johnson & Johnson, Prodaja medicinskih in farmacevtskih izdelkov, d.o.o.	Slovenia	
Janssen Pharmaceutica (Pty) Limited	South Africa	
Johnson & Johnson (Proprietary) Limited	South Africa	

Johnson & Johnson Medical (Pty) Limited	South Africa	
Crucell Spain S.A.	Spain	
Janssen-Cilag, S.A.	Spain	
Johnson & Johnson, S.A.	Spain	
McNeil Consumer Healthcare, S.L.	Spain	
Crucell Sweden AB	Sweden	
Janssen-Cilag AB	Sweden	
Johnson & Johnson AB	Sweden	
Johnson & Johnson Nordic AB	Sweden	
McNeil AB	Sweden	
McNeil Sweden AB	Sweden	
Cilag Advanced Technologies GmbH	Switzerland	
Cilag AG	Switzerland	
Cilag GmbH International	Switzerland	
Cilag Holding AG	Switzerland	
Cilag Pharmaceuticals GmbH	Switzerland	
Crucell Switzerland AG	Switzerland	
DePuy Mitek Sarl	Switzerland	
DePuy Motion Sarl	Switzerland	
DePuy Spine Sarl	Switzerland	
Ethicon Sarl	Switzerland	
Ethicon Women's Health & Urology Sarl	Switzerland	
FMS Future Medical System SA	Switzerland	
Janssen-Cilag AG	Switzerland	
Johnson & Johnson AG	Switzerland	
Medos International Sarl	Switzerland	
Medos Sarl	Switzerland	
Micrus Endovascular Sarl	Switzerland	
OBTECH Medical Sarl	Switzerland	
Johnson & Johnson Taiwan Ltd.	Taiwan	
Janssen-Cilag Limited	Thailand	
Johnson & Johnson (Thailand) Ltd.	Thailand	
Johnson & Johnson Medikal Sanayi ve Ticaret Limited Sirketi	Turkey	
Johnson and Johnson Sihhi Malzeme Sanayi Ve Ticaret Limited Sirkett	Turkey	
DePuy International (Holdings) Limited	United Kingdom	
DePuy International Limited	United Kingdom	
DePuy UK Holdings Limited	United Kingdom	
High Wycombe Property Management Limited	United Kingdom	
Janssen-Cilag Limited	United Kingdom	
Johnson & Johnson Consumer Services EAME Ltd.	United Kingdom	
Johnson & Johnson Finance Limited	United Kingdom	England
Johnson & Johnson Limited	United Kingdom	England
Johnson & Johnson Management Limited	United Kingdom	England
Johnson & Johnson Medical (2004) Limited	United Kingdom	
Johnson & Johnson Medical Limited	United Kingdom	
Johnson & Johnson Swiss Finance Company Limited	United Kingdom	
LifeScan Scotland Limited	United Kingdom	Scotland
McNeil Healthcare (UK) Limited	United Kingdom	England
McNeil Products Limited	United Kingdom	England

Ortho-Clinical Diagnostics	United Kingdom	
RespiVert Ltd.	United Kingdom	England and Wales
Acclarent, Inc.	United States	Delaware
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 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 Mitek, Inc.	United States	Massachusetts
DePuy Orthopaedics, Inc.	United States	Indiana
DePuy Products, Inc.	United States	Indiana
DePuy Spine Sales Limited Partnership	United States	Massachusetts
DePuy Spine, Inc.	United States	Ohio
DePuy, Inc.	United States	Delaware
Diabetes Diagnostics, Inc.	United States	Delaware
Ethicon Endo-Surgery Services, L.P.	United States	Texas
Ethicon Endo-Surgery, Inc.	United States	New Jersey
Ethicon Endo-Surgery, LLC	United States	Delaware
Ethicon LLC	United States	Delaware
Ethicon, Inc.	United States	New Jersey
GUH Corporation	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 Biotech, Inc.	United States	Pennsylvania
Janssen Global Services, LLC	United States	New Jersey
Janssen Ortho LLC	United States	Delaware
Janssen Pharmaceuticals, Inc.	United States	Pennsylvania
Janssen Products, LP	United States	New Jersey
Janssen Services, LLC	United States	New Jersey
Janssen Supply Group, LLC	United States	Pennsylvania
JJHC, LLC	United States	Delaware
JNJ International Investment LLC	United States	Delaware

Johnson & Johnson	United States	New Jersey
McNeil Consumer Pharmaceuticals Co.	United States	New Jersey
Johnson & Johnson (Middle East) Inc.	United States	New Jersey
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 Pharmaceutical Research & Development, L.L.C.	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 LLC	United States	Delaware
LifeScan Products, LLC	United States	Delaware
LifeScan, Inc.	United States	California
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
Micrus Endovascular LLC	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
Omrix Biopharmaceuticals, 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
Patriot Pharmaceuticals, LLC	United States	Pennsylvania
Rutan Realty LLC	United States	New Jersey
Scios Inc.	United States	Delaware
SterilMed, Inc.	United States	Minnesota
SurgRx, Inc.	United States	Delaware
TERAMed Corporation	United States	Delaware
The Tylenol Company	United States	New Jersey
Therakos, Inc.	United States	Florida
Therapeutic Discovery Corporation	United States	Delaware
Veridex, LLC	United States	Delaware
Johnson & Johnson de Uruguay S.A.	Uruguay	

Ethnor Farmaceutica, S.A.	Venezuela	
Johnson & Johnson de Venezuela, S.A.	Venezuela	

**ANNEX 1 TO SECURITIES NOTE  
EXECUTIVE BONUS 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  
LTIP AND CERTIFICATE**



## 2005 LONG-TERM INCENTIVE PLAN

### 1. Purposes.

The purposes of the Plan are to provide long-term incentives to those persons with responsibility for the success and growth of Johnson & Johnson, a New Jersey corporation (the “Corporation”) and its subsidiaries and affiliated entities, to associate more closely the interests of such persons with those of the Corporation’s shareholders, to assist the Corporation and its subsidiaries and affiliated entities in recruiting, retaining, and motivating a diverse and talented group of employees on a competitive basis, and to ensure a pay for performance linkage for such persons. If approved by the Corporation’s shareholders, the Plan shall succeed the Johnson & Johnson 2000 Stock Option Plan (the “2000 Option Plan”) and the Johnson & Johnson 2000 Stock Compensation Plan (the “2000 Stock Plan”).

### 2. Definitions.

For purposes of the Plan:

“Award” means a grant of Options, Stock Appreciation Rights, Restricted Shares, Restricted Share Units, Stock Awards, Performance Shares, or any or all of them.

“Board” means the Board of Directors of the Corporation.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Compensation & Benefits Committee of the Board (or any successor committee). The Committee shall be appointed by the Board and shall consist of at least three independent, outside members of the Board. The members of the Committee, in the judgment of the Board, shall constitute (a) non-employee directors as defined in Rule 16b-3 of the Securities and Exchange Act of 1934 and any rules and regulations of the principal stock exchange on which Common Stock is listed or quoted and (b) outside directors as defined in the regulations under Section 162(m) of the Code.

“Common Stock” means the common stock, par value \$1.00 per share, of the Corporation.

“Dividend Equivalent” means, on any dividend record date, an amount equal in value to the dividend on one share of Common Stock as declared by the Board with respect to such record date.

“Eligible Participants” means (i) directors who are employees of the Corporation or its domestic subsidiaries, employees of the Corporation and its domestic subsidiaries (including executive officers and officers of the Corporation), employees of international subsidiaries and joint venture operations of the Corporation and its subsidiaries, and employees of joint venture partners who are assigned to any such joint ventures and (ii) any Non-Employee Director who is eligible to receive a Stock Award and/or Restricted Shares in accordance with Section 8 hereof.

“Employee Director” means, on any date, a member of the Board who is also an employee of the Corporation or any of its subsidiaries or affiliates on such date.

“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 for purposes of valuation.

“Fiscal Year” means the fiscal year of the Corporation.

“Full Value Award” means any Award that is not an Option or a Stock Appreciation Right.

“ISO” or “Incentive Stock Option” means an Option satisfying the requirements of Section 422 of the Code and designated by the Committee as an ISO.

“Named Executive Officer” means, for any Fiscal Year, the Corporation’s Chief Executive Officer and the Corporation’s next four highest paid executive officers, as reported in the Corporation’s proxy statement pursuant to Regulation S-K, Item 402(a)(3) for such Fiscal Year.

“Non-Employee Director” means, on any date, a member of the Board who is not an employee of the Corporation or any of its subsidiaries or affiliates on such date.

“NQSO” or “Non-Qualified Stock Option” means an Option that does not satisfy the requirements of Section 422 of the Code or that is not designated as an ISO by the Committee.

“Option” means the right, granted pursuant to the Plan, to purchase shares of Common Stock at a specified price per share for a specified period of time.

“Option Exercise Price” means the purchase price per share of Common Stock covered by an Option.

“Participant” means an individual who has received an Award under the Plan.

“Performance-Based Exception” means the performance-based exception (set forth in Section 162(m)(4)(C) of the Code) from the deductibility limitation imposed by Section 162(m) of the Code.

“Performance Goals” means the goals established by the Committee in accordance with Section 7(e) hereof.

“Performance Measures” means the criteria set forth in Section 7(e) hereof that may be used by the Committee as the basis for a Performance Goal.

“Performance Period” means the period established by the Committee for which the achievement of Performance Goals is assessed in order to determine whether and to what extent a Performance Share has been earned.

“Performance Shares” means an Award, described in Section 7(e) hereof, of shares of Common Stock based on the achievement of Performance Goals during a Performance Period.

“Plan” means the Johnson & Johnson 2005 Long-Term Incentive Plan, as set forth herein and as amended from time to time.

“Restricted Shares” means an Award of shares of Common Stock, described in Section 7(c) or 8(c) hereof, which may not be traded or sold until the date that the restrictions on transferability imposed by the Committee with respect to such shares have lapsed or as otherwise determined by the Committee.

“Restricted Share Units” means an Award, described in Section 7(c) hereof, of an amount, payable in cash, shares of Common Stock, or a combination thereof, as determined by the Committee, based on the value of a specified number of shares of Common Stock.

“Restriction Period” means, with respect to Restricted Shares or Restricted Share Units, the period during which any restrictions on transferability established by the Committee remain in effect. Such restrictions shall remain in effect until such time as they have lapsed in accordance with the terms and conditions of the Restricted Shares or Restricted Share Units or as otherwise determined by the Committee.

“Stock Appreciation Rights” or “SARs” means an Award, described in Section 7(b) hereof, of the right to receive a payment equal to the excess (if any) of (a) the Fair Market Value of a share of Common Stock on the date the Stock Appreciation Rights are exercised over (b) the exercise price per share of Common Stock established for those Stock Appreciation Rights at the time of grant (the “exercise price”), multiplied by the number of shares of Common Stock with respect to which the Stock Appreciation Rights are exercised.

“Stock Award” means an Award, described in Section 7(d) or 8(b) hereof, of shares of Common Stock, which shall be subject to such terms, conditions, and restrictions (if any) as the Committee shall determine.

### **3. Administration of the Plan.**

(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, such powers to include the authority (within the limitations described in the Plan, including Section 8 hereof):

- to select the persons to be granted Awards under the Plan;
- to determine the type, size, and terms of Awards to be made to each Participant, including Participants who are Non-Employee Directors in accordance with Section 8 hereof;
- to determine the time when Awards are to be granted and any conditions that must be satisfied before an Award is granted;
- to establish objectives and conditions for Awards;
- to determine whether an Award shall be evidenced by an agreement and, if so, to determine the terms and conditions of such agreement (which shall not be inconsistent with the Plan) and who must be the parties to such agreement;
- to determine whether any conditions applicable to an Award have been met and whether an Award will be paid at the end of a Performance Period;
- to determine if, when, and under what conditions payment of all or any part of an Award shall be deferred; and
- to determine the guidelines and/or procedures for the payment or exercise 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, which are not inconsistent with the Plan and which, 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 parties concerned, including the Corporation, its shareholders, and all Eligible Participants.

(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, except that no such delegation shall be

permitted with respect to Awards to Eligible Participants who are subject to Section 16 of the Securities Exchange Act of 1934. Any person to whom the Committee delegates its authority pursuant to this Section 3(c) may receive Awards only if such Awards are granted directly by the Committee without delegation.

(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.* Except as provided in Section 8 hereof, the terms and conditions that apply to Awards need not be uniform among all Awards, among all Awards of the same type, among all Awards granted to the same Participant, or among all Awards granted at the same time.

#### **4. Eligibility.**

(a) *General.* Subject to the terms and conditions of the Plan, including Section 8 hereof, the Committee may, from time to time, select from all Eligible Participants those to whom Awards shall be granted under Section 7 hereof and shall determine the nature and amount of each Award.

(b) *International Participants.* Notwithstanding any provision of the Plan to the contrary, in order to foster and promote achievement of the purposes of the Plan or to comply with provisions of law in other countries in which the Corporation or any of its subsidiaries or affiliates operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (i) determine which Eligible Participants employed by the Corporation or any of its subsidiaries or affiliates outside the United States should participate in the Plan, (ii) modify the terms and conditions of any Awards made to such Eligible Participants, and (iii) establish subplans, modified Option exercise procedures, 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 countries outside the United States in order to assure the lawfulness, validity and effectiveness of Awards granted under the Plan.

#### **5. Shares of Common Stock Subject to the Plan.**

(a) *Authorized Number of Shares.* Unless otherwise authorized by the Corporation's shareholders and subject to the terms and conditions of this Section 5 and Section 10 hereof, the maximum aggregate number of shares of Common Stock available for issuance under the Plan shall be 260 million shares. Any of the authorized shares of Common Stock may be used for any of the types of Awards described in the Plan, except that no more than 160 million shares of Common Stock may be issued pursuant to ISOs.

(b) *Share Counting.* The following rules shall apply in determining the number of shares of Common Stock remaining available for issuance under the Plan:

(i) In connection with the grant of an Option or other Award, the number of shares of Common Stock available for issuance under the Plan shall be reduced by the number of shares of Common Stock in respect of which such Option or other Award is granted or denominated.

(ii) Notwithstanding the provisions of Section 5(b)(i) above, if at the time of grant of any Full Value Award, there have previously been granted under the Plan Full Value Awards with respect to more than 60 million shares of Common Stock (excluding any previously granted Full Value Award (or portion thereof) that has expired, been canceled, been forfeited or otherwise terminated without payment having been made in respect of such Full Value Award or portion thereof) (the "net threshold"), then and for so long as the net threshold continues to be exceeded, each subsequent Full Value Award shall

reduce the total number of shares of Common Stock available for issuance under the Plan by four shares of Common Stock for each share of Common Stock in respect of which such subsequent Full Value Award is granted.

(iii) When an outstanding Option or other Award (or portion thereof) expires, is canceled, is forfeited or is otherwise terminated for any reason without having been exercised or payment having been made in respect of the entire Option or other Award, the shares of Common Stock allocable to the expired, canceled, or otherwise terminated Option (or portion thereof) or other Award (or portion thereof) may again be available for issuance in respect of Options or other Awards granted under the Plan. However, to the extent any such expired, canceled, forfeited or otherwise terminated Award (or portion thereof) was a Full Value Award and, at the time of such expiration, cancellation, forfeiture, or other termination, the net threshold is exceeded, the number of shares of Common Stock that may again be available for issuance in respect of Options or other Awards granted under the Plan pursuant to this Section 5 shall increase by four shares of Common Stock for every share of Common Stock allocable to the expired, canceled, forfeited or otherwise terminated Full Value Award, it being understood that if any subsequent Award is made under the Plan while the net threshold is still exceeded, if such grant were an Option or SAR, the number of shares of Common Stock allocable to such Option or SAR shall be one share per each such Option or SAR, and if such Award is a Full Value Award, the number of shares of Common Stock allocable to such Full Value Award shall be four shares of Common Stock for each such Full Value Award. Any such restored shares of Common Stock shall be available for issuance under the Plan pursuant to this Section 5, provided that if a subsequent Award is made under the Plan when the net threshold is exceeded, (A) if such subsequent Award is an Option or SAR, the number of shares of Common Stock available for issuance under the Plan shall be reduced by the number of shares of Common Stock in respect of which such Option or SAR is granted, and (B) if such subsequent Award is a Full Value Award, the number of shares of Common Stock available for issuance under the Plan shall be reduced by four shares of Common Stock for each share of Common Stock in respect of which such Full Value Award is granted.

(iv) Any shares of Common Stock underlying Awards granted in assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Corporation or any subsidiary or affiliate thereof or with which the Corporation or any subsidiary or affiliate thereof combines, shall not, unless required by law or regulation, count against the reserve of available shares of Common Stock under the Plan.

(c) *Shares to be Delivered.* The source of shares of Common Stock to be delivered by the Corporation under the Plan shall be determined by the Committee and may consist in whole or in part of authorized but unissued shares, treasury shares, or shares acquired on the open market.

## **6. Award Limitations.**

Options and SARs may be granted, in the aggregate, to an Eligible Participant with respect to a maximum of 2 million shares of Common Stock during a single Fiscal Year. Full Value Awards may be granted, in the aggregate, to an Eligible Participant, with respect to a maximum of \$15 million during a single Fiscal Year; provided that the foregoing dollar limitation shall be applied to an Award that is denominated in shares of Common Stock on the basis of the Fair Market Value of such shares on the date the Award is granted. The maximum Award (excluding Options and SARs) that may be granted to any Eligible Participant for a Performance Period longer than one Fiscal Year shall not exceed the foregoing annual maximum multiplied by the number of full Fiscal Years in the Performance Period.

## 7. Awards to Eligible Participants.

### (a) *Options.*

(i) *Grants.* Subject to the terms and conditions of the Plan, including Section 8 hereof, Options may be granted to Eligible Participants. Options may consist of ISOs or NQSOs, as the Committee shall determine. Options may be granted alone or in tandem with SARs. With respect to Options granted in tandem with SARs, the exercise of either such Options or such SARs shall result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

(ii) *Option Exercise Price.* The Option Exercise Price shall be equal to or greater than the Fair Market Value of a share of Common Stock on the date the Option is granted, unless the Option was granted through the assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Corporation or any subsidiary or affiliate thereof or with which the Corporation or any subsidiary or affiliate thereof combines.

(iii) *Term.* The term of each Option shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten years from the date of grant.

(iv) *ISO Limits.* ISOs may be granted only to Eligible Participants who are employees of the Corporation (or of any subsidiary corporation (within the meaning of Section 424 of the Code) of the Corporation or any joint venture operation or joint venture partner of the Corporation or its subsidiaries) on the date of grant. The aggregate Fair Market Value (determined as of the date the ISO is granted) of the shares of Common Stock with respect to which ISOs are exercisable for the first time by any Participant during any calendar year (under all plans of the Corporation (or of any parent or subsidiary corporation (within the meaning of Section 424 of the Code) of the Corporation)) shall not exceed \$100,000 or such other amount as may subsequently be specified by the Code and/or applicable regulations; provided that if such limitation is exceeded, any Options on shares of Common Stock in excess of such limitation shall be deemed to be NQSOs. ISOs shall contain such other provisions as the Committee shall deem advisable but shall in all events be consistent with and contain or be deemed to contain all provisions required in order to qualify as incentive stock options under Section 422 of the Code. All ISOs must be granted within ten years from the date the Plan was approved by the Corporation's shareholders.

(v) *No Repricing.* Except for adjustments made pursuant to Section 10 hereof, the Option Exercise Price under any outstanding Option granted under the Plan may not be decreased after the date of grant nor may any outstanding Option granted under the Plan be surrendered to the Corporation as consideration for the grant of a new Option with a lower Option Exercise Price without the approval of the Corporation's shareholders.

(vi) *Payment.* When an Option is exercised, the Option Exercise Price shall be payable to the Corporation in full:

(a) In cash or its equivalent;

(b) By tendering previously acquired shares of Common Stock having an aggregate Fair Market Value at the time of exercise equal to the total Option Exercise Price (provided that the shares that are tendered must have been beneficially owned by the Eligible Participant for at least six months prior to their tender); or

(c) By a combination of (a) and (b).

(b) *Stock Appreciation Rights.*

(i) *Grants.* Subject to the terms and conditions of the Plan, including Section 8 hereof, SARs may be granted to Eligible Participants. SARs may be granted alone or in tandem with Options. With respect to SARs granted in tandem with Options, the exercise of either such Options or such SARs shall result in the simultaneous cancellation of the same number of tandem SARs or Options, as the case may be.

(ii) *Exercise Price.* The exercise price per share of Common Stock covered by a SAR granted pursuant to the Plan shall be equal to or greater than Fair Market Value on the date the SAR was granted, unless the SAR was granted through the assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Corporation or any subsidiary or affiliate thereof or with which the Corporation or any subsidiary or affiliate thereof combines.

(iii) *Term.* The term of each SAR shall be determined by the Committee in its sole discretion, but in no event shall the term exceed ten years from the date of grant.

(iv) *No Repricing.* Except for adjustments made pursuant to Section 10 hereof, the exercise price under any outstanding SAR granted under the Plan may not be decreased after the date of grant nor may any outstanding SAR granted under the Plan be surrendered to the Corporation as consideration for the grant of a new SAR with a lower exercise price without the approval of the Corporation's shareholders.

(v) *Form of Payment.* The Committee may authorize payment of a SAR in the form of cash, Common Stock that (when valued at its Fair Market Value on the date of exercise) has a value equal to such cash amount, a combination thereof, or any other method as the Committee may determine.

(c) *Restricted Shares/Restricted Share Units.*

(i) *Grants.* Subject to the terms and conditions of the Plan, including Section 8 hereof, Restricted Shares or Restricted Share Units, or both, may be granted to Eligible Participants.

(ii) *Restricted Shares.* A Restricted Share is an Award of a share of Common Stock that is subject to such restrictions on transfer and such other terms and conditions as the Committee may establish.

(iii) *Restricted Share Units.* A Restricted Share Unit is an Award of a contractual right to receive an amount based on the Fair Market Value of a share of Common Stock, subject to such terms and conditions as the Committee may establish. Restricted Share Units that become payable in accordance with their terms and conditions shall be settled in cash, shares of Common Stock, or a combination of cash and shares, as determined by the Committee. Any person who holds Restricted Share Units shall have no ownership interest in the shares of Common Stock to which such Restricted Share Units relate until and unless payment with respect to such Restricted Share Units is actually made in shares of Common Stock.

(iv) *Terms and Conditions.* The Committee shall impose such terms, conditions, and/or restrictions on any Restricted Shares or Restricted Share Units granted pursuant to the Plan as it may deem advisable including: a requirement that Participants pay a stipulated purchase price for each Restricted Share or each Restricted Share Unit; forfeiture conditions; transfer restrictions; restrictions based upon the achievement of specific performance goals (as described in Section 7(e) (iii) hereof or otherwise); time-based restrictions on vesting; and/or restrictions under applicable federal or state securities laws. Unless otherwise determined by the Committee, any time-based Restriction Period shall be at least three years. To the extent the Restricted Shares or Restricted Share Units are intended to be deductible under Section 162(m) of the Code, the applicable restrictions shall be based on the achievement of Performance Goals over a Performance Period, as described in Section 7(e) hereof.

(v) *Transfer Restrictions.* During the Restriction Period, Restricted Shares may not be sold, assigned, transferred, or otherwise disposed of, or mortgaged, pledged, or otherwise encumbered. In order to enforce the limitations imposed upon the Restricted Shares, the Committee may (a) cause “stop transfer” instructions to be issued, and/or (b) cause a legend or legends to be placed on certificates (if any) evidencing such Restricted Shares, as the Committee deems necessary or appropriate. Restricted Share Units may not be sold, assigned, transferred, or otherwise disposed of, or mortgaged, pledged, or otherwise encumbered at any time.

(vi) *Dividend and Voting Rights.* Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Shares shall have the right to receive dividends in cash or other property or distribution rights in respect of such shares, and Participants who hold Restricted Shares shall have the right to vote such shares as the record owners thereof; provided that, unless otherwise determined by the Committee, any dividends or other property payable to a Participant during the Restriction Period shall be distributed to the Participant only if and when the restrictions imposed on the applicable Restricted Shares lapse. Unless otherwise determined by the Committee, during the Restriction Period, Participants who hold Restricted Share Units shall be credited with Dividend Equivalents in respect of such Restricted Share Units; and unless otherwise determined by the Committee, such Dividend Equivalents shall be immediately converted, in accordance with such terms and conditions as the Committee shall determine, to Restricted Share Units with an initial value equal to the amount of such Dividend Equivalents.

(vii) *Evidence of Interest in Shares.* Each Restricted Share issued pursuant to the Plan shall be evidenced by an interest in such Restricted Share registered in the name of the applicable Participant on the books and records of the Corporation or its designee (or by one or more physical certificates if physical certificates are issued with respect to such Restricted Share), subject, in any such case, to the transfer restrictions imposed by Section 7(c)(v) hereof. If a Restricted Share is forfeited in accordance with the restrictions that apply to such Restricted Share, such interest or certificate, as the case may be, shall be canceled. At the end of the Restriction Period that applies to Restricted Shares, the Corporation shall cause the applicable transfer restrictions to be removed with respect to any shares of Common Stock to which such Participant is then entitled. No interest shall be recorded (and no physical certificate shall be issued) with respect to a Restricted Share Unit unless and until such Restricted Share Unit is paid in shares of Common Stock.

(d) *Stock Awards.*

(i) *Grants.* Subject to the terms and conditions of the Plan, including Section 8 hereof, Stock Awards consisting of shares of Common Stock may be granted to Eligible Participants. Stock Awards may be granted either alone or in addition to other Awards made under the Plan.

(ii) *Terms and Conditions.* The Committee shall determine the terms and conditions governing each Stock Award. Such terms and conditions may include such restrictions on the transferability of the shares of Common Stock covered by the Stock Award as the Committee, in its discretion, shall determine.

(e) *Performance Shares.*

(i) *Grants.* Subject to the terms and conditions of the Plan, including Section 8 hereof, Performance Shares may be granted to Eligible Participants. Performance Shares may be granted either alone or in addition to other Awards made under the Plan.

(ii) *Performance Goals.* Unless otherwise determined by the Committee, Performance Shares shall be conditioned on the achievement of Performance Goals (which shall be based on one or more Performance



Measures, as determined by the Committee) over a Performance Period. The Performance Period shall be three years, unless otherwise determined by the Committee.

(iii) *Performance Measures.* The Performance Measure(s) to be used for purposes of Performance Shares may be described in terms of objectives that are related to the individual Participant or objectives that are Corporation-wide or related to a subsidiary, division, department, region, function or business unit of the Corporation, and may consist of one or more or any combination of the following criteria:

- Income measures (including gross profit, operating income, earnings before or after taxes, net income, or earnings per share);
- Return measures (including return on assets, investment, equity, or sales);
- Cash flow;
- Costs;
- Revenue measures; and
- Stock price (including growth measures and total shareholder return).

The Performance Goals based on these Performance Measures may be expressed either in absolute terms or in relation to the performance of other entities.

(iv) *Negative Discretion.* Notwithstanding the achievement of any Performance Goal established under the Plan, the Committee has the discretion to reduce some or all of the Performance Shares that would otherwise be paid to a Participant.

(v) *Extraordinary Events.* At any time (or from time to time) after an Award is granted, and to the extent permitted under Section 162(m) of the Code and the regulations thereunder without adversely affecting the treatment of the Award under the Performance-Based Exception, the Committee, in its sole discretion, may provide for the manner in which performance will be measured against the Performance Goals (or may adjust the Performance Goals) to reflect the impact of specific corporate transactions, accounting or tax law changes, and other extraordinary and nonrecurring events.

(vi) *Interpretation.* With respect to any Award that is intended to satisfy the conditions for the Performance-Based Exception under Section 162(m) of the Code: (A) the Committee shall interpret the Plan and this Section 7 in light of Section 162(m) of the Code and the regulations thereunder; (B) the Committee shall have no discretion to amend the Award in any way that would adversely affect the treatment of the Award under Section 162(m) of the Code and the regulations thereunder; and (C) such Award shall not be paid until the Committee shall first have certified that the Performance Goals have been achieved.

## **8. Awards to Non-Employee Directors.**

(a) *Sole Awards.* The only Awards that may be granted to Non-Employee Directors under the Plan shall be the Awards authorized by this Section 8.

(b) *Initial Stock Award.* Each newly elected Non-Employee Director shall, as soon as practicable after initially becoming a member of the Board, be granted a Stock Award consisting of 1,000 shares of Common Stock. Any grant of a Stock Award to a newly elected Non-Employee Director for a Fiscal Year pursuant to this Section 8(b) shall be in addition to any Award of Restricted Shares to such newly elected Non-Employee Director for such Fiscal Year that is made in accordance with Section 8(c) hereof.

(c) *Annual Award of Restricted Shares.* An Award of Restricted Shares shall be granted to each Non-Employee Director for each Fiscal Year that the Plan is in effect. Each such Award shall be granted as of such date or dates in each Fiscal Year as the Committee shall determine. If a Non-Employee Director is not a member of the Board on the date or dates determined by the Committee in accordance with this Section 8(c) for a Fiscal Year, such Non-Employee Director shall not be entitled to an Award of Restricted Shares for such Fiscal Year pursuant to this Section 8(c); provided that the Committee may (but shall not be required to) determine that an Award of Restricted Shares shall be made to such Non-Employee Director as of a date in such Fiscal Year designated by the Committee. Each annual Award of Restricted Shares to a Non-Employee Director pursuant to this Section 8(c) shall grant the greatest number of shares of Common Stock with an aggregate Fair Market Value (determined as of the date on which such Award is granted) that does not exceed \$100,000; provided that if an individual serving as a Non-Employee Director on the date an Award of Restricted Shares is granted for a Fiscal Year pursuant to this Section 8(c) has not served as a Non-Employee Director since the beginning of such Fiscal Year, the Committee may (but shall not be required to) determine that the Award of Restricted Shares to such individual for such Fiscal Year shall be reduced to reflect such individual's partial year of service.

(d) *No Assignment or Transfer.* Restricted Shares granted to a Non-Employee Director pursuant to Section 8(c) hereof, and any rights or interests therein, may not be sold, assigned, transferred, or otherwise disposed of, or mortgaged, pledged, or otherwise encumbered until the earlier of (i) the third anniversary of the date as of which such Restricted Shares were granted or (ii) the Non-Employee Director's death or disability (as determined by the Committee). In order to enforce the limitations imposed upon such Restricted Shares, the Committee may (a) cause "stop transfer" instructions to be issued, and/or (b) cause a legend or legends to be placed on certificates (if any) evidencing such Restricted Shares, as the Committee deems necessary or appropriate.

(e) *No Forfeiture.* Restricted Shares granted to a Non-Employee Director pursuant to Section 8(c) hereof, and any rights or interests therein, shall be vested and nonforfeitable at all times. The only restrictions imposed by the Plan on such Restricted Shares shall be the transfer restrictions set forth in Section 8(d) hereof.

(f) *Dividend and Voting Rights.* During the Restriction Period, Participants who hold Restricted Shares granted pursuant to Section 8(c) hereof shall have the right to receive dividends in cash or other property or distribution rights in respect of such Restricted Shares, and shall have the right to vote such Restricted Shares as the record owners thereof; provided that any securities of the Corporation that are distributed to a Participant during the Restriction Period by reason of such Participant's holding of Restricted Shares shall be subject to the same transfer restrictions that apply to such Restricted Shares, and the transfer restrictions on such securities shall lapse only when the transfer restrictions that apply to such Restricted Shares lapse.

(g) *Evidence of Interest in Shares.* Each Restricted Share issued pursuant to Section 8(c) hereof shall be evidenced by an interest in such Restricted Share registered in the name of the applicable Participant 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 Restricted Share), subject, in any such case, to the transfer restrictions imposed by Section 8(d) hereof. At the end of the Restriction Period that applies to Restricted Shares, the Corporation shall cause the applicable transfer restrictions to be removed with respect to the shares of Common Stock to which such Participant is then entitled.

## **9. Deferred Payments and No Deferral of Option or SAR Gains.**

Subject to the terms and conditions of the Plan, the Committee may determine that all or a portion of any Award to a Participant, whether it is to be paid in cash, shares of Common Stock or a combination thereof, shall be deferred or may, in its sole discretion, approve deferral elections made by Participants. Deferrals shall be for such periods and upon such terms as the Committee may determine in its sole discretion. Notwithstanding the foregoing, deferral of Option or SAR gains shall not be permitted under the Plan.

## **10. Dilution and Other Adjustments.**

In the event of any 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 shall make such adjustments in the class and aggregate number of shares that may be delivered under the Plan as described in Section 5 hereof, the individual Award maximums under Section 6 hereof, individual Awards under Section 8(b) hereof, the class, number, and Option Exercise Price of outstanding Options, the class, number, and exercise price of outstanding SARs, and the class and number of shares subject to any other Awards granted under the Plan (provided the number of shares of any class subject to any Award shall always be a whole number), as may be determined to be appropriate by the Committee, and any such adjustment may, in the sole discretion of the Committee, take the form of Awards covering more than one class of Common Stock. Such adjustment shall be conclusive and binding for all purposes of the Plan.

## **11. Miscellaneous Provisions.**

(a) *Rights as Shareholder.* Except as otherwise provided herein, a Participant shall have no rights as a holder of Common Stock with respect to Awards hereunder, unless and until interests in, or certificates evidencing, shares of Common Stock are issued to the Participant.

(b) *No Loans.* No loans from the Corporation or any of its subsidiaries or affiliates to Participants shall be permitted in connection with the Plan.

(c) *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, and all Awards under the Plan shall be exercisable, during the Participant's lifetime, only by the Participant. Once awarded, the shares of Common Stock (other than Restricted Shares) received by Participants 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 (and any other payment hereunder) 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 or upon the exercise of Options, to require the payment (through withholding from the Participant's salary or otherwise) of any such taxes. Subject to the approval of the Committee, with respect to any withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Shares, or upon any other taxable event arising as a result of Awards granted hereunder, a Participant may elect to satisfy the withholding requirement, in whole or in part, by having the Corporation withhold shares of Common Stock having a Fair Market Value on the date as of which the tax is to be determined equal to the minimum statutory withholding

tax that could be imposed on the transaction. All such elections shall be irrevocable and shall be subject to any restrictions or limitations that the Committee, in its discretion, deems appropriate.

(e) *Currency and Other Restrictions.* The obligations of the Corporation to make delivery of Awards in cash or Common Stock shall be subject to currency and other restrictions imposed by any government.

(f) *No Rights to Awards.* Neither the Plan nor any action taken hereunder shall be construed as giving any person any right to be retained in the employ or service 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 or service at any time. Except as set forth herein, no employee or other person shall have any claim or right to be granted an Award under the Plan. By accepting an Award, the Participant acknowledges and agrees that (i) the Award shall be exclusively governed by the terms and conditions of the Plan, including the right reserved by the Corporation to amend or cancel the Plan at any time without the Corporation incurring liability to the Participant (except, to the extent that the terms of the Award so provide, for Awards already granted under the Plan), (ii) Awards are not a constituent part of salary and the Participant is not entitled, under the terms and conditions of employment, or by accepting or being granted Awards under the Plan to require Awards to be 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 Participant shall seek all necessary approval under, make all required notifications under, and comply with all laws, rules, and regulations applicable to the ownership of Options and shares of Common Stock and the exercise of Options, including currency and exchange laws, rules, and regulations.

(g) *Beneficiary Designation.* To the extent allowed by the Committee, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named on a contingent or successive basis) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Unless the Committee determines otherwise, each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and shall be effective only when filed by the Participant with the Corporation or its designee during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

(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 Participant.

(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 may round off fractional shares, 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 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.”

## **12. Effective Date, Governing Law, Amendments, and Termination.**

(a) *Effective Date.* The Plan was approved by the Board on February 14, 2005, subject to the approval of the Corporation’s shareholders, and shall become effective on the date it is approved by the Corporation’s shareholders.

(b) *Amendments.* 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) pertaining to the deferral of compensation) 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 of the Plan shall be effective if the amendment would (i) increase the maximum number of shares of Common Stock that may be delivered under the Plan or to any one individual (except to the extent such amendment is made pursuant to Section 10 hereof), (ii) extend the maximum period during which Awards may be granted under the Plan, (iii) add to the types of awards that may be made under the Plan, (iv) change the Performance Measures pursuant to which Performance Shares are earned, (v) modify the requirements as to eligibility for participation in the Plan, or (vi) require shareholder approval pursuant to the Plan, applicable law, or the rules of the principal securities exchange on which shares of Common Stock are traded in order to be effective.

(c) *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.

(d) *Termination.* No Awards shall be made under the Plan after the tenth anniversary of the date on which the Corporation’s shareholders approve the Plan.

**JOHNSON & JOHNSON**  
**CERTIFICATE – STOCK OPTION**

**Grant Date:**

**Granted To:**

PID #

Total Shares:

Vesting Date:

Purchase Price:

<u>Grant No.</u>	<u>Grant Type</u>	<u>No. of Shares</u>
	NQSO	

1. **Grant of Option.** Subject to the terms and conditions of this Certificate and the Johnson & Johnson 2005 Long-Term Incentive Plan, as amended from time to time (the "Plan"), Johnson & Johnson, a New Jersey corporation, hereby grants you an option to purchase from it the above-stated number of shares of common stock of Johnson & Johnson, par value \$1.00 per share ("Common Stock"), at the above-stated price. Except where the context clearly indicates otherwise, each capitalized term used herein shall have the definition assigned to it by this Certificate or, to the extent that this Certificate does not define a capitalized term used herein, by the Plan. A copy of the Plan is available in and from the Office of the Secretary of Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, NJ 08933 (732-524-0400).

2. **Exercise of Option.** This option, and the exercise of this option, is subject to all of the terms and conditions relating to Non-Qualified Stock Options ("NQSOs") contained in the Plan. The terms of the Plan are hereby incorporated herein by reference.

(a) *Vesting.* This option may not be exercised until the day following the Vesting Date, provided that if you die while actively employed by the Company, this option shall vest on your date of death. Once vested, this option shall be exercisable in its entirety. This option may not be exercised after the Expiration Date or after any earlier date on which this option is terminated in accordance with this Certificate.

(b) *Exercise Procedure.* Subject to the conditions set forth in this Certificate and the Plan, you may exercise this option by providing a written notice of exercise in accordance with Section 8 hereof. Your exercise of this option shall be effective upon Johnson & Johnson's receipt of the written notice. This notice must be followed by payment in full of the purchase price and any applicable taxes required by law in accordance with Sections 4 and 8 hereof. You may purchase less than the number of shares covered hereby. You may not exercise this option for a fractional share.

(c) *Continuous Employment Required.* Except as otherwise provided in Section 3 hereof, this option may not be exercised unless, on the date of exercise, you are, and have been at all times since the Grant Date, an employee of the Company. For purposes of this option, persons on Company-authorized leaves of absence are considered employees of the Company, but persons on long-term disability are not considered employees of the Company, unless otherwise required by law.

<p><b>This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.</b></p>
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3. **Provisions for Termination.**

(a) *Exercise After Termination of Employment.* If you cease to be employed by the Company for any reason, including termination for Cause, then except as otherwise provided in this Section 3,

(i) if this option has not vested as of your Date of Termination, this option shall become void on your Date of Termination; or

(ii) if this option has vested as of your Date of Termination, your right to exercise any unexercised portion of this option shall terminate (i) three (3) months after your Date of Termination or (ii) on the Expiration Date, whichever occurs first.

(b) *Exercise After Death.* If you die while actively employed by the Company, then this option shall be fully vested as of your date of death, and your estate or any person who acquires this option by inheritance or devise shall have the right to exercise any unexercised portion of this option during the remaining term of this option.

(c) *Exercise After Disability.* If you cease to be employed by the Company due to Disability, any unvested or unexercised portion of this option may be exercised by you in whole or in part during the remaining term of this option by you (or should you die within said period, then by your estate or any person who acquires this option by inheritance or devise) at such times and to the extent you could have exercised this option had your employment not terminated, provided that:

(i) if subsequent to terminating employment due to Disability, you are no longer considered Disabled because you are re-employed by the Company, then the terms of any unexercised portion of this option shall be governed by Section 2 hereof; and

(ii) if subsequent to terminating employment due to Disability, your status changes so that you are no longer considered Disabled for any reason other than death or re-employment by the Company, then the terms of any unexercised portion of this option shall be governed by Section 3(a) or 3(d) hereof, whichever is applicable, based on your age and years of Service on the date you ceased to be employed by the Company due to Disability, provided that any time limitation for exercising this option that is specified in Section 3(a) or 3(d) hereof shall commence as of the date you were no longer considered Disabled.

(d) *Retirement.* If you Retire from employment with the Company without being terminated for Cause, then you (or should you die, your estate or any person who acquires this option by inheritance or devise) shall have the right to exercise this option as follows:

(i) if you have at least ten (10) years of Service with at least five (5) consecutive years of Service immediately before your Date of Termination, or have attained age 62 as of your Date of Termination, you shall be eligible to exercise any unvested or unexercised portion of this option, in whole or in part, during the remaining term of this option at such times and to the extent you could have exercised this option had your employment not terminated; or

(ii) if you do not meet the conditions set forth in paragraph (i) of this Section 3(d), your right to exercise any unexercised portion of your option shall terminate on (x) the third (3<sup>rd</sup>) anniversary of your Date of Termination or (y) the Expiration Date, whichever occurs first, provided that, if this option is not vested as of your Date of Termination, this option shall become void on that date.

(e) *Option Granted Within Six (6) Months of Termination.* Notwithstanding any other provisions of this Section 3, if the Grant Date occurred within the six (6) months immediately preceding your Date of Termination, and your termination of employment was for any reason other than death, this option shall become void on your Date of Termination.

(f) *Employment by a Competitor.* Notwithstanding the provisions of Sections 3(c) and 3 (d) hereof, if you ceased to be employed by the Company due to Disability or Retirement and you are Employed by a Competitor within eighteen (18) months after your Date of Termination, then

(i) if this option is unvested on the date you are first Employed by a Competitor, this option shall become void as of that date; or

(ii) if this option is vested on the date you are first Employed by a Competitor, you shall have the right to exercise this option until (A) the date that is three (3) months after you are first Employed by the Competitor or (B) the Expiration Date, whichever occurs first.

4. **Payment of Purchase Price.** The purchase price for shares of Common Stock purchased upon exercise of this option and any applicable taxes required by law shall be paid in U.S. dollars or, at the discretion of the Committee and in accordance with procedures approved by the Committee, in (1) Common Stock valued at Fair Market Value at the close of the business day immediately preceding the date of exercise or (2) a combination of such Common Stock and cash; provided that:

(i) fractional shares of Common Stock shall not be accepted in payment of the purchase price;

(ii) shares of Common Stock that you acquired within the six (6) month period immediately preceding the date of exercise may not be used to pay the purchase price; and

(iii) shares of Common Stock that were issued to you by Johnson & Johnson upon your exercise of an incentive stock option within the one (1) year period immediately preceding the exercise of this option may not be used to pay the purchase price.

5. **Delivery of Shares; Compliance With Securities Laws, and Other.**

(a) *General.* Johnson & Johnson shall, after receiving the purchase price for the shares of Common Stock purchased and paid for under this option, make delivery of such shares to you, provided that if any law or regulation requires Johnson & Johnson to take any action with respect to such shares before the issuance thereof, the date of delivery of such shares shall be extended for the period necessary to complete such action.

(b) *Registration and Listing.* This option shall not be exercisable unless at the time of exercise there is in effect a current registration statement or amendment thereto under the Securities Act of 1933, as amended, covering the shares of Common Stock to be issued upon exercise of this option and such shares are authorized for listing on the New York Stock Exchange. Nothing herein shall be deemed to require Johnson & Johnson to apply for, to effect or to obtain such registration or listing.

6. **Nontransferability of Option.** This option is exercisable during your lifetime only by you, and no rights granted hereunder may be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), other than by will or the laws of descent and distribution. Nor shall any such rights be subject to execution, attachment or similar process, other than in accordance



with the terms of the Plan. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option or of such rights contrary to the provisions of the Plan, or upon the levy of any attachment or similar process upon this option or such rights, this option and such rights shall, at the election of Johnson & Johnson, become null and void.

7. **No Special Employment Rights.** Nothing contained in the Plan or this Certificate shall be construed or deemed by any person under any circumstances to bind the Company to continue your employment for the period within which this option may be exercised or for any other period.

8. **Notices.** Unless Johnson & Johnson notifies you otherwise in writing, all notices, designations, and payments to be submitted to Johnson & Johnson in connection with this option shall be addressed to:

Equity Compensation Resources  
One Johnson & Johnson Plaza  
New Brunswick, NJ 08933

9. **Definitions.** The following capitalized terms shall have the definitions set forth below for purposes of this Certificate:

(a) "Cause" means your termination by the Company (i) following your conviction for or a plea of nolo contendere to the commission of a felony under federal or state law, or (ii) for an act(s) that, in the Committee's opinion, constitutes fraud, embezzlement, dishonesty, disclosure of confidential information, the willful and deliberate failure to perform your employment duties in any material respect, a conflict of interest, or any other event that is inimical or contrary to the best interests of the Company. Any determination of "Cause" shall be made by the Committee in its sole discretion, and its determination shall be final and binding.

(b) "Company" means Johnson & Johnson and its subsidiaries and affiliates, as determined by the Committee.

(c) "Date of Termination" means the last date on which you were in an active employment status with the Company. Specifically, if you are covered by a severance agreement or arrangement, the Date of Termination shall be your last date of active employment with the Company, not the date corresponding to the end of the severance period. If you become Disabled, your Date of Termination is the date on which you are considered to become Disabled.

(d) "Disability" or "Disabled" means termination of employment with the Company accompanied by a change in status to "disabled" in accordance with the personnel and/or human resources policy of the Company.

(e) "Employment by a Competitor" or "Employed by a Competitor" means engaging in any activity or providing services, whether as a director, employee, advisor, consultant, or otherwise, for any corporation or other entity that is a competitor of the Company. The Committee shall determine whether you are Employed by a Competitor in its sole discretion, and its determination shall be final.

(f) "Expiration Date" means the tenth anniversary of the Grant Date.

(g) "Grant Date" means the date on which this option is granted, as set forth above.

(h) "Retire" or "Retirement" means termination of employment after the later of (A) the attainment of age 55, or (B) the earliest date on which you could retire and receive a benefit under the Company-sponsored defined benefit retirement program, plan, or agreement in which you are participating on your Date of Termination.

(i) "Service" means employment with Johnson & Johnson or one of its subsidiaries or affiliates, while that corporation or other legal entity was a subsidiary or affiliate of Johnson & Johnson, unless the Committee has otherwise provided on or before the Grant Date.

(j) "Vesting Date" means the date on which this option vests, as set forth above.

10. **Miscellaneous.**

(a) Except as provided herein, this Certificate may not be amended or otherwise modified unless evidenced in writing and signed by Johnson & Johnson.

(b) This Certificate shall be governed by and construed 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.

JOHNSON & JOHNSON

By: \_\_\_\_\_

Helen W. Hsu  
Director, Equity Compensation Resources  
Johnson & Johnson  
One Johnson & Johnson Plaza  
New Brunswick, NJ 08933

## ANNEX 3 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 October 2011, 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 2011: EUR 4,200 monthly for current wages and EUR 8,400 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% in Austria. Dividends paid by non-Austrian corporations may also be subject to foreign taxes for which a tax credit may be available.

(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 2011: EUR 4,200 monthly for current wages and EUR 8,400 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

Shares acquired before 1 January 2011

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, provided that 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.

Shares acquired after 31 December 2010

Capital gains from the sale of shares before 1 April 2012 will in any case be treated as income from speculative transactions. As of 1 April 2012, capital gains realised on shares acquired after 31 December 2010 will be regarded as investment income and in principle be subject to income tax at the special rate of 25% (which may be levied by way of withholding in certain cases).

(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. Oktober 2011, 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 2011: EUR 4,200 monatlich für laufende Lohnzahlungen und EUR 8,400 jährlich für Sonderzahlungen).

### 1.2.2 Steuer und Sozialversicherungsabgaben auf zugeteilte Aktien

(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 in Österreich der Einkommensteuer in der Höhe von 25%. Von einer nicht in Österreich für steuerliche Zwecke ansässigen Gesellschaft gezahlte Dividenden können auch ausländischen Steuern unterliegen, für die eine Anrechnungsmöglichkeit bestehen kann.

(ii) Sozialversicherung

Auf den Vorteil aus der Zuteilung der Aktien sind Sozialversicherungsbeiträge zu leisten sofern die Höchstbemessungsgrundlage für Sozialversicherungsbeiträge noch nicht überschritten ist (für 2011: EUR 4,200 monatlich für laufende Lohnzahlungen und EUR 8,400 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

#### Vor dem 1. Jänner 2011 erworbene Aktien

Werden die Aktien innerhalb 1 Jahres nach deren Erwerb verkauft (sogenanntes Spekulationsgeschäft), unterliegt der Veräußerungsgewinn der Einkommensteuer zum Normaltarif von bis zu 50%, sofern 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% an der Gesellschaft gehalten.

#### Nach dem 31. Dezember 2010 erworbene Aktien

Gewinne aus der Veräußerung von Aktien vor dem 1. April 2012 werden jedenfalls als Einkünfte aus Spekulationsgeschäften behandelt. Ab 1. April 2012 unterliegen Gewinne aus der Veräußerung von Aktien, die nach dem 31. Dezember 2010 erworben wurden, generell der Einkommensteuer zum besonderen Steuersatz von 25% (die in bestimmten Fällen durch Steuerabzug erhoben wird).

#### (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 ne retiendra pas de précompte professionnel sur le paiement effectué en espèces. Le participant devra reprendre le paiement dans sa déclaration fiscale relative à l'année au cours de laquelle il a reçu le paiement. 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 ne retiendra pas de précompte professionnel sur le montant imposable. Le participant devra reprendre ce montant imposable dans sa déclaration fiscale relative à l'année au cours de laquelle il a reçu le montant imposable. 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 geen bedrijfsvoorheffing inhouden op de cash betaling. De werknemer zal dit belastbare bedrag moeten opnemen in zijn belastingaangifte die betrekking heeft op het jaar waarin hij de cash betaling gekregen heeft. 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 geen bedrijfsvoorheffing inhouden op het belastbare bedrag. De werknemer zal dit belastbare bedrag moeten opnemen in zijn belastingaangifte die betrekking heeft op het jaar waarin hij het belastbaar bedrag gekregen heeft. 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)
<b>Waarde van bonus / aandelen</b>	<b>€ 6.000</b>	<b>€ 6.000</b>	<b>€ 6.000</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>90</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 2011 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 BGN (apprx. 700 EUR). For the year 2008 the cap monthly size under which social security contributions are payable is 2,000 BGN.<sup>91</sup> For the year 2011 the cap monthly amount under which social security contributions are payable is 2,000 BGN.

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 2011 those contributions are distributed between the employer and the employee (born after 31.12.1959) in the following ratio:

- fund Pensions – total amount 12,8 %, distributed between employer and employee in the following ratio – for the Employer – 7.1 %, for the Employee – 5.7 %;
- fund General illness and maternity – 3.5 %, distributed between employer and employee in the following ratio – 60 : 40;

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<sup>90</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>91</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 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.

The following table summarizes the social and health insurance contributions mandatory for 2011 as well as the distribution ratio between employer: employee applicable for 2011:

<b>Fund</b>	<b>Born before 01.01.1960</b>	<b>Born after 31.12.1959</b>
Fund retirement pensions	17,8 %	12.8 %
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 2011 regarding:**

**EMPLOYEES BORN AFTER 31.12.1959**

	<b>Employer</b>	<b>Employee</b>
Fund retirement pensions (11%)	7.1%	5.7%
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>18,5%</b>	<b>12,9%</b>

**EMPLOYEES BORN BEFORE 1960**

	<b>Employer</b>	<b>Employee</b>
Fund retirement pensions (16%)	9.9%	7.9%
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%	/
Health insurance (8%)	4.8%	3.2%
<b>Total</b>	<b>18,5%</b>	<b>12,9%</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 3.3 and 6.6 % (on the basis of the market value of the shares) determined by the various municipalities (for Sofia Municipality the gift tax for the year 2011 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 2011 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 2011. 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 (*)	- 194 BGN (apprx. € 97)	- 194 BGN (apprx. € 97)
Less: health security (**)	- 64 BGN (apprx. 32 EUR)	- 64 BGN (apprx. 32 EUR)
Less : income tax (***)	<b>- 10 % flat rate of BGN 13 433 (apprx. € 6 716.5) = BGN 1 343.3 (€ 671.65)</b>	<b>- 10 % flat rate of BGN 13 433 (apprx. € 6 716.5) = BGN 1 343.3 (€ 671.65)</b>
Net received per month	BGN 11719.7 (€ 5 859.85)	BGN 11 719.7 (€ 5 859.85)

(\*) 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 2011 is 2,000 BGN – the payment has to be reduced with the relevant percentage depending on the type of profession. The distribution between the employer and the employee has been described above in a separate table.

(\*\*) The health security contribution for the year 2011 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 2011 is 2,000 BGN, i.e., the payment should be reduced with the relevant percentage.

(\*\*\*) tax rate for the year 2011 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 2011 those contributions are distributed between the employer and the employee (born after 31.12.1959) in the following ratio:

- fund Pensions – 12.8 %, distributed between employer and employee in the following ratio – for the employer – 7.1 %, for the employee – 5.7 %;
  - 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 BGN it should be reduced with maximum amount of 258 BGN (apprx. 129 EUR). Monthly payments (salary, bonuses, etc.) minus 258 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>92</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 %. За 2011 г. плоският данък от 10 % запазва приложението си.

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 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 заплатата. 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>93</sup> За 2009 г. този

<sup>92</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.

<sup>93</sup> Този праг се преразглежда годишно от Народното събрание чрез Закона за бюджета на държавното обществено осигуряване за да се отчете инфлацията.



максимален месечен праг е 2000 лева. Максималният праг за 2010 г е непроменен и е 2000 лв. Максималният праг за 2011 година остава 2000 лв.

Работодателят на отговарящия на изискванията участник удържа тези социалноосигурителни вноски на служителя от заплатата 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 2011 г. тези вноски се разпределят между работодателя и служителя (роден след 31.12.1959 г.) в следното съотношение:

- фонд „Пенсии” – 12.8 %, разпределени между работодател и служител в следното съотношение – за работодателя – 7,1 %, а за служителя – 5,7 %;
- 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 2011 г., както и съотношението работодател : служител, в което се разпределят, приложимо за 2011 г.:

<b>ФОНД / ВЪЗРАСТ</b>	<b>РОДЕНИ ПРЕДИ 01.01.1960 Г.</b>	<b>РОДЕНИ СЛЕД 31.12.1959 Г.</b>
ФОНД „ПЕНСИИ”	17.8 %	12.8%
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 %
ФОНД „ДОПЪЛНИТЕЛНО ЗАДЪЛЖИТЕЛНО ПЕНСИОННО ОСИГУРЯВАНЕ”	-	5%
ЗДРАВНО ОСИГУРЯВАНЕ	8%	8%

**РАЗПРЕДЕЛЕНИ И СЪОТНОШЕНИЕ НА ВНОСКИТЕ ЗА СОЦИАЛНО И  
ЗДРАВНООСИГУРЯВАНЕ, ДЪЛЖИМИ ЗА 2011 Г.**

**СЛУЖИТЕЛИ, РОДЕНИ СЛЕД 31.12.1959 Г.**

	<b>ДЪЛЖИМИ ОТ РАБОТОДАТЕЛЯ</b>	<b>ДЪЛЖИМИ ОТ СЛУЖИТЕЛЯ</b>
ФОНД „ПЕНСИИ” 11 %	7.1 %	5.7 %
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>18.5 %</b>	<b>12.9 %</b>

**СЛУЖИТЕЛИ, РОДЕНИ ПРЕДИ 1960 Г.**

	<b>ДЪЛЖИМИ ОТ РАБОТОДАТЕЛЯ</b>	<b>ДЪЛЖИМИ ОТ СЛУЖИТЕЛЯ</b>
ФОНД „ПЕНСИИ”	9.9 %	7.9 %

16 %		
ФОНД „ОБЩО ЗАБОЛЯВАНЕ И МАЙЧИНСТВО” – 3.5 % ФОНД „БЕЗРАБОТИЦА” – 1 % 60 : 40	2.7 %	1.8 %
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>18.5 %</b>	<b>12.9 %</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 3.3 и 6.6 % (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 2011 г., 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 2011 г.

Дивиденди, получени от акции на J&J се облагат с данъчна ставка 5% за 2011 г. 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 (*)	- 194 BGN (прибл. € 97)	- 194 BGN (прибл. € 97)
редукция: ЗО (**)	- 64 BGN (прибл. 32 EUR)	- 64 BGN (прибл. 32 EUR)
редукция : данък върху дохода (***)	<b>- 10 % плюсък данък върху BGN 13 433 (прибл. € 6 716.5) = BGN 1 343.3 (€ 671.65)</b>	<b>- 10 % плюсък данък върху BGN 13 433 (прибл. € 6716.5) = BGN 1 343.3 (€ 671.65)</b>
Нетна стойност, получена за месец	BGN 11 719.7 (€ 5 859.85)	BGN 11 719.7 (€ 5 859.85)

(\*) Не се дължат социалноосигурителни вноски за полученото (вкл. се всички месечни плащания – заплата, бонуси и др.) над определения максимален месечен праг, който за 2011 г. е 2000 лв. – полученото се редуцира максимум със съответния процент според различните професии. Разпределението между работодател и служител е описано по-горе в отделна таблица.

(\*\*) Здравноосигурителната вноска (ЗО) за 2011 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 2011 г. е 2000 лв. – полученото се редуцира със съответния процент.

(\*\*\*) Подоходният данък за 2011 г. е плосък данък от 10 %, с който се облага целият получен доход, редуциран с изплатените от служителя ДОО и ЗО. За 2011 г. тези вноски се разпределят между работодателя и служителя (роден след 31.12.1959 г.) в следното съотношение:

- фонд „Пенсии” – 12.8 %, разпределени между работодател и служител в следното съотношение – за работодателя – 7,1 %, а за служителя – 5.7 %;
- 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 258 лв. (прибл. € 129). Полученото през месеца (заплата, бонуси и др.) минус 258 лв. се облага с плосък данък от 10 %.

## 4 Czech Republic

### 4.1 Tax analysis<sup>94</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>95</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.

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<sup>94</sup> The tax analyses presumes that the costs of Bonus Plan/LTIP are recharged to the local subsidiary/employer of the eligible participant.

<sup>95</sup> Social security contributions in the Czech Republic include both health insurance and social security.

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% 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 2011 is met already at the annual income of CZK 1,781,280 (approx. EUR 71,000). 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 započítatelná 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

	<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 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 2011 je totiž dosažen již při ročním příjmu **1.781.280 Kč**, tj. cca EUR 71.000. 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 5 October 2011, 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% (27% as of 2012) on share income up to DKK 48,300 and 42% of share income exceeding DKK 48,300. The stated amount limits are applicable for 2011 and adjusted annually (however, no adjustment will take place from 2011 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% (27% as of 2012) on share income up to DKK 48,300 and 42% of share income exceeding DKK 48,300. The stated amount limits are applicable for 2011 and adjusted annually (however, no adjustment will take place from 2011 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.

## 5.1 Tax analysis: LTIP

### 5.1.1 Restricted Stock Units (LTIP)

#### (i) Taxation upon grant of Restricted Stock Units

##### (a) Tax treatment

As a Danish employee you will generally be taxed upon the grant of restricted stock units. The stock price of the J&J shares at the date of the grant will be taxable as personal income at progressive income tax rates (up to 51.5%). Depending on the circumstances, the time of taxation may be postponed until the Restricted Stock Units are vested and you receive the J&J shares.

Your employer will report the taxable amount on your annual salary slip. Please note that you will also have to report the taxable amount in your personal income tax return relating to the income year wherein the J&J shares were delivered to you. The tax authorities will levy the income tax in connection with your annual tax statement.

##### (b) Labour market contribution

The taxable amount in clause (a) will be subject to an 8% labour market contribution (*arbejdsmarkedsbidrag*). Said amounts are included in the calculation of the income tax and will be levied by the tax authorities in connection with your annual tax statement.

#### (ii) Taxation upon delivery of the shares

##### (a) Tax treatment and labour market contribution

Provided you have been subject to taxation at the date of the grant of the Restricted Stock Units, you will not be subject to taxation upon delivery of the shares.

#### (iii) Taxation upon sale of the J&J shares

##### (a) Tax treatment

Any capital gains realized upon the sale of the J&J shares will be subject to taxation as share income at a rate of 28% (27% as of 2012) on share income up to DKK 48,300 and 42% of share income exceeding DKK 48,300. The stated amount limits are applicable for 2011 and adjusted annually (however, no adjustment will take place from 2011 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.

Provided you have been subject to taxation at the date of the grant of the Restricted Stock Units, the capital gain is calculated as the difference between the stock price of the J&J shares at the time of grant of your Restricted Stock Units and the sales price of the J&J shares.

You should report the gains realized in your personal income tax return.

##### (b) Labour market contribution

The capital gains realised upon the sale of the J&J shares will not be subject to labour market contribution.

## 5.2 Translated tax analysis: LTIP

### 5.2.1 Betingede aktier (LTIP)

(i) Beskatning ved tildeling af betingede aktier

(a) Skattemæssig behandling

Som dansk medarbejder vil du normalt blive beskattet ved tildeling af betingede aktier. Aktiekursen på J&J aktier på tidspunktet for tildelingen vil være skattepligtig som personlig indkomst i forhold til en progressiv indkomstskattesatser (op til 51,5%). Afhængig af omstændighederne, kan tidspunktet for beskatningen udskydes indtil de betingede aktier er optjent og du modtager J&J aktierne.

Din arbejdsgiver vil rapportere det skattepligtige beløb på din årsopgørelse. Bemærk venligst, at du også skal indberette beskatningsgrundlaget i din personlige selvangivelse vedrørende det indkomstår, hvori du modtog aktierne. Skattemyndighederne vil opkræve indkomstskat i forbindelse med din årsopgørelse.

(b) Arbejdsmarkedsbidrag

Af det skattepligtige beløb i punkt (a) skal der betales 8% arbejdsmarkedsbidrag. Nævnte beløb er inkluderet i beregningen af indkomstskatten og vil blive opkrævet af skattemyndighederne i forbindelse med din årsopgørelse.

(ii) Skattemæssig behandling af modtagelse af aktierne

(a) Skattemæssig behandling og arbejdsmarkedsbidrag

Såfremt du er blevet beskattet på tidspunktet for tildeling af de betingede aktier, vil du ikke blive beskattet ved levering af aktierne.

(iii) Skattemæssig behandling ved salg af J&J aktier

(a) Skattemæssig behandling

Ved salg af aktierne er gevinsten skattepligtig som aktieindkomst med 28% (27% fra 2012) af aktieindkomst op til DKK 48.300 og med 42% af aktieindkomst, som overstiger DKK 48.300. De angivne beløbsgrænser gælder for 2011 og reguleres årligt (dog gennemføres ingen regulering fra 2011 til 2013). For ægtepar, som bor sammen ved slutningen af indkomståret, er beløbsgrænserne det dobbelte, da de deler beløbsgrænserne.

Såfremt du er blevet beskattet på tidspunktet for tildelingen af de betingede aktier, beregnes kursgevinsten som forskellen aktiekursen af J&J aktierne på tildelingstidspunktet og salgsprisen på J&J aktierne.

Realiserede gevinster skal angives i din personlige selvangivelse.

(b) Arbejdsmarkedsbidrag

På kapitalgevinster i forbindelse med afståelse af J&J aktier skal der ikke indeholdes arbejdsmarkedsbidrag.

(iv) 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.

### 5.2.2 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%

### 5.3 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 5. oktober 2011, 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.

#### 5.3.1 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.

### 5.3.2 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% (27% fra 2012) af aktieindkomst op til DKK 48.300 og med 42% af aktieindkomst, som overstiger DKK 48.300. De angivne beløbsgrænser gælder for 2011 og reguleres årligt (dog gennemføres ingen regulering fra 2011 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% (27% fra 2012) af aktieindkomst op til DKK 48.300 og med 42% af aktieindkomst, som overstiger DKK 48.300. De angivne beløbsgrænser gælder for 2011 og reguleres årligt (dog gennemføres ingen regulering fra 2011 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.

### 5.3.3 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 cash and stock bonuses and does not cover all aspects of state and regional tax laws. It is based on tax law in effect on 1 October 2011, 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\*
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share
- 2011 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

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\*The basic exemption deductible from the income of a resident natural person during a period of taxation (one calendar year) is as from 2011 1,728 EUR;

	Cash bonus	Share award (100 shares x € 60)
Net bonus	€ 4,740	€ 6,000

## 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. oktoobril 2011 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 residentide maksustamine
- Regulaarne aastane sissetulek 80 000 EUR<sup>96</sup>
- 6000 EUR suurune lisatasu maksmine 100 aktsia väärtusega 60 EUR / aktsia andmine
- 2011. aastal ettenähtud tulumaksumäärad

<sup>96</sup> Maksuvabastusalus, mis lahutatakse füüsilisest isikust residentide sissetulekust maksustamisperioodil (üks kalendriaasta), on alates 2011. a. 1728 EUR

(ii) Tulemus

	<b>Rahaline lisatasu</b>	<b>Kingitud aktsiad (100 aktsiat x 60 EUR)</b>
Lisatasu/aktsiate väärtus	€ 6,000	€ 6,000
Tulumaks (piirmäär 21%)	- € 1260	- € 0
<b>Puhastulu</b>	<b>€ 4,740</b>	<b>€ 6,000</b>

## 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 21.50 % 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>97</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 4.7% until age of 52 (6.0% as of age 53), unemployment security premium of 0.6%, medical care premium of 1.19% (included in tax withholding percentage) and daily allowance premium of 0.82% (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 21.50 % 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>97</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>98</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% (in 2011, the rate is expected to be raised to 30 % and for capital income exceeding 50,000 to 32 % in 2012) 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%** (in 2011, the rate is expected to be raised to 30 % and for capital income exceeding 50,000 to 32 % in 2012). **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 4.7% until age of 52 (6.0% as of age 53), unemployment security premium of 0.6%, medical care premium of 1.19% (included in tax withholding percentage) and daily allowance premium of 0.82% (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>

<sup>98</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: social security		
- daily allowance premium	- € 49.20	- € 49.20
- medial care premium	- € 71.40	- € 71.40
- pension premium	- € 360.00	- € 360.00
- unemployment premium	- € 36.00	- € 36.00
Less: income tax (*)		
- state tax (**)	- € 1,666.44	- € 1,666.44
- municipal tax	- € 1,166.51	- € 1,166.51
<b>Net bonus</b>	<b>€ 2,650.45</b>	<b>€ 2,650.45</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 68,200

## 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 16,25–21,50 % 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>99</sup>. Työnantaja ilmoittaa käteismaksun verottajalle kuukausittain ja vuosittain työnantajan suoritusilmoituksessa. Tämän lisäksi työnantaja antaa pätevälle osapuolelle vuosittaisen kokonaispalkkatositteen.

#### (ii) Sosiaaliturva

Käteismaksusta suoritetaan työntekijän eläkemaksu 4,7 % alle 53-vuotiailla (6,0 % ikävuodesta 53 lähtien), palkansaajan työttömyysvakuutusmaksu 0,6 %, vakuutetun sairaanhoitomaksu 1,19 % (sisältyy ennakonpidätysprosenttiin) ja päivärahamaksu 0,82 % (sisältyy ennakonpidätysprosenttiin). Pätevän osapuolen työnantaja pidättää nämä työntekijän sosiaaliturvamaksut.

<sup>99</sup> Työntekijä on velvollinen maksamaan lopullisen tuloveron ja enakkoon 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 enakkoverona. Tällainen menettely ei kuitenkaan ole mahdollinen ilman työntekijän oma pyyntöä esimerkiksi työsuhteeseen perustuvien optioiden osalta.

## 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 16,25–21,50 % riippuen asuinkunnasta) ja kirkollisvero Suomen seurakuntien jäsenelle (vaihteluväli 1–2 % riippuen asuinkunnasta).

Verotettava etuus on sama kuin osakemäärän markkina-arvo antamishetkellä.

Pätevän osapuolen työnantaja pidättää veron etuuden mukaisena<sup>100</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 % (vuonna 2011, verokannan odotetaan nousevan 30 %:iin ja yli 50 000 euron ylittävän pääomatulon osalta 32 %:iin vuonna 2012) 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 % (vuonna 2011, verokannan odotetaan nousevan 30 %:iin ja yli 50 000 euron ylittävän pääomatulon osalta 32 %:iin vuonna 2012). Loppu 30 % on verovapaata.

Suosittelomme pätevää osapuolta kääntymään henkilökohtaisen veroneuvojan puoleen, jos osakkeita aiotaan myydä.

### (ii) Sosiaaliturva

Verotettavasta summasta suoritetaan työntekijän eläkemaksu 4,7 % alle 53-vuotiailla (6,0 % ikävuodesta 53 lähtien), palkansaajan työttömyysvakuutusmaksu 0,6 %, vakuutetun sairaanhoitomaksu 1,19 % (sisältyy ennakonpidätysprosenttiin) ja päivärahamaksu 0,82 % (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 %

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<sup>100</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.

- Kirkollisveron poistaminen

(ii) Tulos

	<b>Käteisbonus</b>	<b>Osake-etu (100 osaketta x 60 €)</b>
<b>Bonus/osakkeiden arvo</b>	<b>6 000 €</b>	<b>6 000 €</b>
Vähennetään:		
sosiaaliturvamaksut		
- päivärahamaksu	- 49.20 €	- 49.20 €
- vakuutetun sairaanhoitomaksu	- 71.40 €	- 71.40 €
- työntekijän eläkemaksu		
- työttömyysvakuutusmaksu	- 360.00 €	- 360.00 €
	- 36.00 €	- 36.00 €
Vähennetään: tulovero (*)		
- valtion tulovero (**)	-1,666.44 €	-1,666,44 €
- kunnallisvero	-1,166.51 €	-1,166.51 €
<b>Nettobonus</b>	<b>2,650.45€</b>	<b>2,650.45 €</b>

(\*) eläke- ja työttömyysvakuutus- ja päivärahamaksut ovat verotuksessa vähennettäviä; terveydenhoitomaksu ei ole vähennyskelpoinen

(\*\*) korkein veroprosentti (30 %) saavutetaan, kun verotettava tulo on 68 200 EUR



## 8 France

### 8.1 Tax analysis: Bonus Plan

The draft Finance Bill for 2012 (“DFB12”) is currently under discussion before the French Parliament and the Senate. This bill includes 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 41<sup>101</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 41%<sup>1</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 32.5% capital gains tax (including 13.5% 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.

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<sup>101</sup> The DFB12 could provide for (i) an additional 3% tax on net taxable income exceeding K€250 and (ii) an additional 4% tax on net taxable income exceeding K€500.

Any loss can be offset against capital gains realized during the same year or in the 10 subsequent years.

In general, dividends derived from J&J shares will be subject to:

- progressive income tax up to 41%<sup>1</sup> applied on the gross amount of such dividends after a 40% rebate on gross dividends; an additional annual allowance of EUR 1,525 or EUR 3,050 for couple is then deducted from this taxable base; or
- upon election, a flat tax rate of 19%.

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 13.5%.

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
- 2011 French income tax rates

(ii) Result (simplified)

	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
Less : income tax (marginal rate of 41%)	- €1,895	- €1,895

	Cash bonus	Share award (100 shares x € 60)
<b>Approx. net bonus</b>	<b>€2,725</b>	<b>€2,725</b>

## 8.2 Translated tax analysis: Bonus Plan

### 8.2.1 Régime fiscal et de 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 41% (le projet de loi de finances pour 2012 pourrait prévoir l'instauration (i) d'une taxe additionnelle de 3% pour les revenus nets supérieurs à KEUR 250 et (ii) d'une taxe additionnelle de 4% pour les revenus nets supérieurs à KEUR 500).

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 41% (le projet de loi de finances pour 2012 pourrait prévoir l'instauration (i) d'une taxe additionnelle de 3% pour les revenus nets supérieurs à 250K€ et (ii) d'une taxe additionnelle de 4% pour les revenus nets supérieurs à 500K€).

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 soumise à l'impôt sur le revenu au taux de 32,5% (incluant 13,5% de charges sociales).

Toute perte pourra être reportée sur les plus-values réalisées durant une même année ou durant les 10 années suivantes.

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.
- (d) soit, sur option du contribuable, à un prélèvement forfaitaire libératoire au taux proportionnel de 19%, 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, 13,5% de contributions 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

- 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 2011

(ii) Résultat (simplifié)

	<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 41%)	- € 1,895	- € 1,895
<b>Montant net approximatif</b>	<b>€ 2,725</b>	<b>€ 2,725</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 (2.8%).

## 9 Germany

### 9.1 Tax analysis: LTIP

#### 9.1.1 Restricted Stock Units (LTIP)

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 06 October 2011, 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.

(i) Tax and social security treatment upon grant of restricted stock units

(a) Tax treatment

You will not be taxed upon the grant of the restricted stock units.

(b) Social security treatment

You will not be subject to social security upon the grant of the restricted stock units.

(ii) Tax and social security treatment upon delivery of the shares

(a) Tax treatment

You will be taxed upon the delivery of the J&J shares granted. The J&J shares will be taxable as professional income at the progressive income tax rates (ranging from 15% to 42%, whereas, however a maximum rate of 45% applies to an annual income which exceeds EUR 250,731 for a single taxpayer and EUR 501,462 for a couple filing joint tax returns). Furthermore, a solidarity surcharge (5.5% on the tax amount) and church tax between 8% - 9% (if applicable) will be charged. Please note that the rates may change annually.

The taxable amount is equal to the lowest stock price of the J&J shares on a German stock exchange upon the date of delivery of these shares less any related costs (if applicable).

Your employer will withhold income tax, solidarity surcharge and (if applicable) church tax through salary tax withholding from the monthly wage of the participant in addition to the regular tax and social security deductions on such monthly wage. In case the relevant monthly wage is not sufficient to fund any due income tax, solidarity surcharge, church tax (if applicable) and employee social security contributions on the delivery of shares the missing amount must be borne by the relevant participant. The wage tax withheld is fully creditable to the income tax, solidarity surcharge and church tax (if applicable) due by the eligible participant. Your employer will also report the cash payment on your annual salary slip.

**Please note that rates may change.**

(b) Social security treatment

The total amount of contributions amounts to approximately 41% of the taxable income and are borne about approximately half by the employer and approximately half by you. (In 2011, the employer has to bear approximately 19.725% and you have to bear between approximately 20.725% and 20.975%, depending on individual circumstances). Should the income exceed a certain cap amount (in 2011, EUR 44,500 per year or EUR 3,712.50 per month for statutory health and nursing insurance and EUR 66,000 per year or EUR 5,500 per month for statutory pension benefit and unemployment insurance), no further social security obligations will be due on the exceeding amount.

Please note that rates and thresholds may change with effect as of 1 January 2012.

(iii) Tax and social security treatment upon sale of the J&J shares

(a) Tax treatment

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.

(b) 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 obligations.

### 9.1.2 Stock Options (LTIP)

**The following provides only a brief and general guide to the tax and social security consequences of the grant of stock options and does not cover all aspects of state and regional tax laws. It is based on tax law in effect on 06 October 2011, 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.**

(i) Tax and social security treatment upon grant of the stock options

(a) Tax treatment

You will not be taxed upon the grant of the stock options.

(b) Social security treatment

You will not be subject to social security upon the grant of the stock options.

(ii) Tax and social security treatment upon vesting of the stock options

(a) Tax treatment

You will not be taxed upon the vesting of the stock options.

(b) Social security treatment

You will not be subject to social security upon the vesting of the stock options.

(iii) Tax and social security treatment upon exercise of the stock options

(a) Tax treatment

You will be taxed at the moment the shares are debited from the employer's or plan administrator's account to transfer them to you.

The taxable amount is equal to the difference between the actual purchase cost and the then-current fair market value of the shares and will be taxed 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 and EUR 501,462 for a couple filing joint tax returns). 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 the rates may change annually.**

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.

Your employer will withhold income tax, solidarity surcharge and (if applicable) church tax through salary tax withholding from the monthly wage of the participant in addition to the regular tax and social security deductions on such monthly wage. In case the relevant monthly wage is not sufficient to fund any due income tax, solidarity surcharge, church tax (if applicable) and employee social security contributions on the exercise of the stock options the missing amount must be borne by the relevant participant. The wage tax withheld is fully creditable to the income tax, solidarity surcharge and church tax (if applicable) due by the eligible participant. Your employer will also report the cash payment on your annual salary slip.

(b) Social security treatment

The grant of shares is subject to social security contributions, provided you do not already exceed the applicable ceilings with your regular income. If you already exceed the ceiling with your regular income, no further 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). Your employer must withhold the employee social security contributions and pay it on your behalf to the competent social securities insurance institution. The total amount of contributions amounts to approximately 41% of the taxable income, divided by approximately 50% to be borne by you and employer. In 2011, the employer has to bear approximately 19.725% and you between approximately 20.725% and 20.975%, depending on your individual circumstances.

Please note that rates and thresholds may change with effect as of 1 January 2012.

(iv) Tax and social security treatment upon sale of the J&J shares



(a) Tax treatment

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.

(b) Social security treatment

The capital gains realised upon the sale of the J&J shares will not be subject to social security obligations.

## 1.2. Translated tax analysis: LTIP

### 1.2.1 Restricted Stock Units (LTIP)

**Die folgenden Anmerkungen geben nur einen kurzen und allgemeinen Überblick über die steuer- und sozialversicherungsrechtlichen Auswirkungen im Zusammenhang mit der Gewährung von Restricted Stock Units (RSU) und behandeln insofern nicht alle steuerlichen Aspekte. Sie beziehen sich auf den Stand der Steuergesetzgebung am 6. Oktober 2011, deren Änderung jederzeit, möglicherweise rückwirkend, möglich ist. Da Ihre persönlichen Umstände zu einer abweichenden Bewertung führen können, sollten Sie sich an Ihren Steuerberater im Hinblick auf Ihre persönlichen Umstände wenden.**

(i) Steuer- und sozialversicherungsrechtliche Behandlung der Gewährung von RSU

(e) Steuerrechtliche Behandlung

Bei der Gewährung von RSU werden keine Steuern erhoben.

(f) Sozialversicherungsrechtliche Behandlung

Bei der Gewährung von RSU werden keine Sozialversicherungsbeiträge erhoben.

(ii) Steuer- und sozialversicherungsrechtliche Behandlung der Lieferung der Aktien

(g) Steuerrechtliche Behandlung

Die Besteuerung erfolgt bei der Lieferung der gewährten J&J-Aktien. Die J&J-Aktien werden als Einkünfte aus nichtselbständiger Tätigkeit nach den progressiven Einkommensteuersätzen besteuert (diese reichen von 15% bis 42%; der Höchststeuersatz von 45% greift bei jährlichen Einkünften von über EUR 250.731 bei Einzelveranlagung und EUR 501.462 bei der gemeinsamen Veranlagung von Ehegatten). Zusätzlich werden Solidaritätszuschlag (5,5% der geschuldeten Einkommensteuer) und, soweit anwendbar, Kirchensteuer in Höhe von 8% bis 9% erhoben. Bitte beachten Sie, dass diese Steuersätze jährlich Änderungen unterliegen können.

Der zu versteuernde Betrag entspricht dem niedrigsten Börsenpreis der J&J-Aktien an einer deutschen Börse am Tag der Lieferung der Aktien abzüglich, soweit entstanden, damit im Zusammenhang stehender Kosten.

Der Arbeitgeber behält die Einkommensteuer, Solidaritätszuschlag und, soweit anwendbar, Kirchensteuer im Rahmen des Lohnsteuerabzugs vom monatlichen Einkommen des Teilnehmers zusätzlich zu den üblichen steuer- und sozialversicherungsrechtlichen Abzügen ein. Sollte das betreffende monatliche Einkommen zur Deckung der geschuldeten Einkommensteuer, des Solidaritätszuschlags, soweit anwendbar, Kirchensteuer sowie der Arbeitnehmerbeiträge zur Sozialversicherung bei Lieferung der Aktien nicht ausreichen, ist der fehlende Betrag vom betreffenden Teilnehmer zu tragen. Die einbehaltene Lohnsteuer ist voll auf die Einkommensteuer, den Solidaritätszuschlag sowie, soweit anwendbar, die Kirchensteuer, die vom berechtigten Teilnehmer geschuldet wird, anrechenbar. Ihr Arbeitgeber wird den geldwerten Vorteil zudem auf Ihrer jährlichen Gehaltsmitteilung ausweisen.

**Bitte beachten Sie, dass die Steuersätze Änderungen unterliegen können.**

(h) Sozialversicherungsrechtliche Behandlung

Ungefähr 41% des zu versteuernden Betrags sind als Gesamtbetrag der Sozialversicherungsbeiträge zu entrichten, wobei die Beiträge ungefähr hälftig vom Arbeitgeber und hälftig vom Arbeitnehmer gezahlt werden (2011 betrug der Arbeitgeberanteil ungefähr 19,725%, der Arbeitnehmeranteil, abhängig von individuellen Umständen, 20,725% und 20,975%). Überschreiten die Einkünfte eine bestimmte Schwelle (2011 EUR 44.500 pro Jahr oder EUR 3.712,50 pro Monat für die gesetzliche Kranken- und Pflegeversicherung und EUR 66.000 pro Jahr oder EUR 5.500 pro Monat für die gesetzliche Renten- und Arbeitslosenversicherung), werden auf den Überschussbetrag keine weiteren Sozialversicherungsbeiträge erhoben.

Bitte beachten Sie, dass sich die Sätze und Schwellenwerte ab dem 1. Januar 2012 ändern können.

(iii) Steuer- und sozialversicherungsrechtliche Behandlung der Veräußerung von J&J-Aktien

(i) Steuerrechtliche Behandlung

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.

(j) Sozialversicherungsrechtliche Behandlung

Auf bei der Veräußerung von J&J-Aktien erwirtschaftete Kapitalerträge werden im Regelfall keine Sozialversicherungsbeiträge erhoben.

## 1.2.2. Aktienoptionen (LTIP)

Die folgenden Anmerkungen geben nur einen kurzen und allgemeinen Überblick über die steuer- und sozialversicherungsrechtlichen Auswirkungen im Zusammenhang mit der Gewährung von Aktienoptionen und behandeln insofern nicht alle steuerlichen Aspekte. Sie beziehen sich auf den Stand der Steuergesetzgebung am 6. Oktober 2011, deren Änderung jederzeit, möglicherweise rückwirkend, möglich ist. Da Ihre persönlichen Umstände zu einer abweichenden Bewertung führen können, sollten Sie sich im Hinblick auf Ihre persönlichen Umstände an Ihren Steuerberater wenden.

- (i) Steuer- und sozialversicherungsrechtliche Behandlung der Gewährung von Aktienoptionen
  - (k) Steuerrechtliche Behandlung  
Bei der Gewährung von Aktienoptionen werden keine Steuern erhoben.
  - (l) Sozialversicherungsrechtliche Behandlung  
Bei der Gewährung von Aktienoptionen werden keine Sozialversicherungsbeiträge erhoben.
- (ii) Steuer- und sozialversicherungsrechtliche Behandlung der Ausübbarkeit (*vesting*) von Aktienoptionen
  - (m) Steuerrechtliche Behandlung  
Bei der Ausübbarkeit (*vesting*) von Aktienoptionen werden keine Steuern erhoben.
  - (n) Sozialversicherungsrechtliche Behandlung  
Bei der Ausübbarkeit (*vesting*) von Aktienoptionen werden keine Sozialversicherungsbeiträge erhoben.
- (iii) Steuer- und sozialversicherungsrechtliche Behandlung der Ausübung (*exercise*) von Aktienoptionen
  - (o) Steuerrechtliche Behandlung  
Sobald die Aktien aus dem Konto des Arbeitgebers ausgebucht werden, um diese an Sie zu übertragen, unterliegen Sie der Besteuerung.  
  
Der zu versteuernde Betrag entspricht der Differenz zwischen dem aktuellen Kaufpreis und dem damaligen Verkehrswert der Aktien und wird als Einkünfte aus nichtselbständiger Tätigkeit nach den progressiven Einkommensteuersätzen besteuert (diese reichen von 0% bis 42%; der Höchststeuersatz von 45% greift bei jährlichen Einkünften ab EUR 250.731 bei Einzelveranlagung und EUR 501.462 bei der gemeinsamen Veranlagung von Ehegatten). Die Steuerschuld erhöht sich um den Solidaritätszuschlag (5,5% der geschuldeten Einkommensteuer) sowie Kirchensteuer, sofern der Arbeitnehmer Mitglied einer deutschen Glaubensgemeinschaft angehört (8% bis 9% der geschuldeten Einkommensteuer). **Bitte beachten Sie, dass diese Steuersätze jährlich Änderungen unterliegen können.**

Nach dem Einkommensteuergesetz unterliegen bestimmte Leistungen im Rahmen von Mitarbeiterbeteiligungsprogrammen Steuervergünstigungen. Diese Mitarbeiterbeteiligungsprogramme unterliegen komplexen Anforderungen und müssen wenigstens allen Arbeitnehmern, vorausgesetzt, dass diese zum Angebotszeitpunkt ein Jahr oder länger im Unternehmen angestellt waren, angeboten werden. Unter dem begünstigten Programm kann ein Teilnehmer steuer- und sozialversicherungsfreie Zuwendungen von bis zu EUR 360 pro Jahr erhalten.

Der Arbeitgeber behält die Einkommensteuer, Solidaritätszuschlag und, soweit anwendbar, Kirchensteuer im Rahmen des Lohnsteuerabzugs vom monatlichen Einkommen des Teilnehmers zusätzlich zu den üblichen steuer- und sozialversicherungsrechtlichen Abzügen ein. Sollte das betreffende monatliche Einkommen zur Deckung der geschuldeten Einkommensteuer, des Solidaritätszuschlags, soweit anwendbar, Kirchensteuer sowie der Arbeitnehmerbeiträge zur Sozialversicherung bei Lieferung der Aktien nicht ausreichen, ist der fehlende Betrag vom betreffenden Teilnehmer zu tragen. Die einbehaltene Lohnsteuer ist voll auf die Einkommensteuer, den Solidaritätszuschlag sowie, soweit anwendbar, die Kirchensteuer, die vom berechtigten Teilnehmer geschuldet wird, anrechenbar. Ihr Arbeitgeber wird der geldwerte Vorteil zudem auf Ihrer jährlichen Gehaltsmitteilung ausweisen.

(p) Sozialversicherungsrechtliche Behandlung

Sofern Ihr regelmäßiges Einkommen nicht die anwendbaren Schwellenwerte überschreitet, werden bei der Gewährung von Aktien Sozialversicherungsbeiträge erhoben. Sofern Ihr regelmäßiges Einkommen den Schwellenwert überschreitet, werden keine weiteren Sozialversicherungsbeiträge erhoben (der höchste Schwellenwert ist – die Schwellenwerte variieren im Hinblick auf die verschiedenen Kategorien von Renten-, Kranken-, Arbeitslosen- und Pflegeversicherung – Renten-/Arbeitslosenversicherung mit einem Schwellenwert von EUR 66.000 (EUR 55.800 für die fünf Bundesländer auf dem Gebiet der ehemaligen DDR)). Ihr Arbeitgeber behält die Sozialversicherungsbeiträge des Arbeitnehmers ein und führt diese in Ihrem Namen an die zuständigen Sozialversicherungsträger ab. Der Gesamtbetrag der Sozialversicherungsbeiträge beträgt ungefähr 41% des zu versteuernden Einkommens, der ungefähr hälftig von Ihnen und Ihrem Arbeitgeber geleistet wird. 2011 betrug der Arbeitgeberanteil ungefähr 19,725%, der Arbeitnehmeranteil, abhängig von individuellen Umständen, 20,725% und 20,975%.

Bitte beachten Sie, dass sich die Sätze und Schwellenwerte ab dem 1. Januar 2012 ändern können.

(iv) Steuer- und sozialversicherungsrechtliche Behandlung der Veräußerung von J&J-Aktien

(q) Steuerrechtliche Behandlung

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.

(r) Sozialversicherungsrechtliche Behandlung

Auf bei der Veräußerung von J&J-Aktien erwirtschaftete Kapitalerträge werden keine Sozialversicherungsbeiträge erhoben.

## 9.2 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 06 October 2011, 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.

### 9.2.1 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 and EUR 501,462 for a couple filing joint tax returns). 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 contributions amounts to approximately 41% of the taxable income, approximately 50% to be borne by the employee. In 2011, for statutory pension benefit, unemployment insurance and nursing insurance the employer has to bear 12.425% and the employee will have to bear between 12.425% and 12.675%, depending on individual circumstances. For statutory health insurance contributions, the statutory rate is 14.6%, 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 14.6% (plus 0.9% to be borne by the employee), the employer would have to bear 19.725% and the employee would have to bear between 20.725% and 20.975%, depending on individual circumstances.

Please **note that rates and thresholds may change with effect as of 1 January 2012**.

## 9.2.2 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 and EUR 501,462 for a couple filing joint tax returns). 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 less any related costs (if applicable).

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 from the monthly wage of the participant in addition to the regular tax and social security deductions on such monthly wage. In case the relevant monthly wage is not sufficient to fund any due income tax, solidarity surcharge, church tax (if applicable) and employee social security contributions on the attribution of shares, the missing amount must be borne by the relevant participant. 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 41% of the taxable income, divided by approximately 50% to be borne by employee and employer.** In 2011, for statutory pension benefit, unemployment insurance and nursing insurance the employer has to bear 12.425% and the employee will have to bear between 12.425% and 12.675%, depending on individual circumstances. For statutory health insurance contributions, the statutory rate is 14.6%, 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 14.6% (plus 0.9% to be borne by the employee), the employer would have to bear 19.725% and the employee would have to bear between 20.725% and 20.975%, depending on individual circumstances.

**Please note that rates and thresholds may change with effect as of 1 January 2012.**

### 9.2.3 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)

## 9.3 Translated tax analysis: Bonus Plan

### 9.3.1 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 und für Ehegatten, die gemeinsam veranlagt werden, mit einem Einkommen ab EUR 501.462. 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 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 **41 %** seines steuerbaren Einkommens, von denen jeweils rund die Hälfte vom Arbeitnehmer und vom Arbeitgeber zu tragen sind. Im Jahre 2011 hat der Arbeitgeber für gesetzliche Renten-, Arbeitslosen- und Pflegeversicherung 12,425% und der Arbeitnehmer zwischen 12,425% und 12,675% - je nach den persönlichen Umständen (Kinder) – zu tragen. Der Durchschnittsbeitragssatz zur gesetzlichen Krankenversicherung beträgt 14,6%, 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 14,6% (zuzüglich 0,9%, die vom Arbeitnehmer zu tragen sind) hat der Arbeitgeber insgesamt einen Sozialversicherungsbeitrag in Höhe von 19,725% und der Arbeitnehmer – je nach persönlichen Umständen – zwischen 20,725% und 20,775% zu tragen.

**Bitte berücksichtigen Sie, dass sich die Sätze und Beitragsbemessungsgrenzen ab dem 1. Januar 2012 ändern können.**

### 9.3.2 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%). Ein Steuersatz von 45% gilt für einen einzelnen Steuerzahler mit einem Einkommen ab EUR 250.731 und für Ehegatten, die gemeinsam veranlagt werden, mit einem Einkommen ab EUR 501.462. 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 abzüglich damit im Zusammenhang stehender Kosten, soweit solche anfallen.

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 zusätzlich zu den normalen Steuer- und Sozialversicherungsabzügen, die für das jeweilige Monatsgehalt anfallen, von dem Monatsgehalt des Prämienplanteilnehmers ein. Falls das relevante Monatsgehalt nicht ausreicht, um die fällige Einkommensteuer, den Solidaritätszuschlag, die (evtl. geschuldete) Kirchensteuer und den Arbeitnehmeranteil der Sozialversicherungsbeiträge, die durch die zugeteilten Aktien anfallen, zu finanzieren, ist der fehlende Betrag durch den betreffenden Prämienplanteilnehmer zu tragen. 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 **41%** seines steuerbaren Einkommens, von denen jeweils rund die Hälfte vom Arbeitnehmer und vom Arbeitgeber zu tragen sind. Im Jahre 2011 hat der Arbeitgeber für gesetzliche Renten-, Arbeitslosen- und Pflegeversicherung 12,425% und der Arbeitnehmer zwischen 12,425% und 12,675% - je nach den persönlichen Umständen (Kinder) – zu tragen. Der gesetzlich festgelegte Beitragssatz zur gesetzlichen Krankenversicherung beträgt 14,6%, 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 14,6% (zuzüglich 0,9%, die vom Arbeitnehmer zu tragen sind) hat der Arbeitgeber insgesamt einen Sozialversicherungsbeitrag in Höhe von 19,725% und der Arbeitnehmer – je nach persönlichen Umständen – zwischen 20,725% und 20,975% zu tragen.

**Bitte berücksichtigen Sie, dass sich die Sätze und Beitragsbemessungsgrenzen ab dem 1. Januar 2012 ändern können.**

### 9.3.3 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 until 31.12.2011, 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 0,2% will be due on the sale value 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 01.01.2012, any gain arising from their sale by the participant at a price higher than the acquisition price shall be taxed according to the general income tax provisions at the progressive income tax rates up to 45%.

Dividends distributed by foreign corporations shall be subject to 21% withholding tax if received by Greek individual tax residents in 2011 and 25% when received as of 1/1/2012. Such Greek tax obligation arises even in case the respective amount remains abroad. This withholding as previously mentioned, exhausts any further tax liability for Greek residents.

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 (μισθωτές υπηρεσίες) και θα φορολογείται με τις γενικές διατάξεις φορολογίας εισοδήματος (ανάλογα με την ισχύουσα κλίμακα που προβλέπει ανώτερο συντελεστή 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 που παρακρατείται εκπίπτει από το φόρο εισοδήματος που αναλογεί στα εισοδήματα του εργαζομένου 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 συμπεριλάβει επίσης την πληρωμή σε μετρητά στην ετήσια βεβαίωση 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 E101).

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 (μισθωτές υπηρεσίες) και θα φορολογούνται με τις γενικές διατάξεις φορολογίας εισοδήματος (ανάλογα με την ισχύουσα κλίμακα που προβλέπει ανώτερο συντελεστή 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 εκπίπτει από το φόρο εισοδήματος που αναλογεί στα εισοδήματα του εργαζομένου 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 βεβαίωση μισθοδοσίας του εργαζομένου που πληροί τις προϋποθέσεις.

Σε σχέση με μετοχές της J&J που αποκτώνται μέχρι και την 31.12.2011, 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 0,2% επί αξίας πώλησης των μετοχών. Ο καταβλητέος φόρος θα αποδίδεται από τον πωλητή στη Δημόσια Οικονομική Υπηρεσία στην οποία υπάγεται 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 01.01.2012, κάθε κέρδος που προκύπτει από την πώλησή τους από τον συμμετέχοντα εργαζόμενο σε τιμή ανώτερη από την τιμή κτήσης υπόκειται σε φορολογία εισοδήματος σύμφωνα με τις γενικές διατάξεις (ανάλογα με την ισχύουσα κλίμακα με ανώτερο συντελεστή 45%).



Τα μερίσματα (αλλοδαπής προέλευσης) που προκύπτουν από τις μετοχές της J&J και τα οποία διανέμονται εντός του έτους 2011 υπόκεινται σε παρακράτηση φόρου 21% ενώ για τις διανομές που θα πραγματοποιηθούν μετά την 01/01/2012 η παρακράτηση θα γίνεται με συντελεστή 25%. Η υποχρέωση για παρακράτηση φόρου επί των μερισμάτων που θα εισπράξει ο εργαζόμενος υπάρχει και στην περίπτωση που τα μερίσματα παραμένουν κατατεθειμένα στην αλλοδαπή. Η παρακράτηση του φόρου που ενεργείται επί των μερισμάτων εξαντλεί τη φορολογική υποχρέωση του δικαιούχου.

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 100.000 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 flat rate rate of 16%**. Nevertheless, as a result of the applicable super gross-up mechanisms, the effective tax rate will be 20.32%.

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) healthcare tax charge (please refer to point (ii) 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 participants shall be liable to pay quarterly advance income tax by the 12th 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) (Employer) Healthcare tax charge

The cash payment will be subject to 27% (employer) healthcare tax charge which is payable by the participants in absence of a so-called Hungarian “disburser” (i.e. the cash amount is granted directly by J&J or a foreign (non-Hungarian) entity of the J&J group) simultaneously by the payment of the respective advance income tax as detailed under point (i) above. .

The (employer) healthcare tax charge to be paid by the participants with respect to the cash payment, subject to the income tax implications mentioned under point (i) above, could be payed by the local employer on the basis of a written agreement to be concluded with the participants provided that they declare that all respective data required to the fulfilment of the (employer) healthcare tax charge payment obligation were properly provided by them to the local employer.

#### 11.1.2 Income tax and (employer) healthcare tax charge treatment of attribution of shares

(i) Tax treatment

**The J&J Shares granted to the eligible participant will be subject to personal income tax** on the fair market value of the J&J 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 J&J Shares are provided with regard to the Hungarian employment relationship of the participant, the taxable income will be considered as **employment income and accordingly is subject to personal income tax at the flat rate rate of**

**16%**. Nevertheless, as a result of the applicable super gross-up mechanisms, the effective tax rate will be 20.32%.

Since the J&J 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) healthcare tax charge (please refer to point (ii) below) or it is reimbursed to the participants in any other way, the taxable income equals to the fair market value of the J&J Shares at the date of vesting.

As the J&J 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 participants on a quarterly basis. The payment of ‘advance income tax’ should be made by the 12th 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 J&J 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 J&J 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 16%. Since the J&J Shares are listed at the US Stock Exchange the sale of the J&J Shares at this equity market will likely qualify as a Controlled Transaction and will be subject to tax at the rate of 16%.

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 J&J Shares (current year losses and carried forward losses may also qualify within the applicable 2-year loss carry forward period).

However, if the J&J Shares are sold in any other way which will not qualify as a Controlled Transaction, capital gains recognised are taxed at the rate of 16% and an (employee) healthcare 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 16%. Since the J&J Shares are listed at the US Stock Exchange an (employee) healthcare tax charge of 14% (capped at HUF 450,000 approximately EUR 1,700) must be paid by the participant as well.

Our correspondent encourages the eligible participants to seek personal tax advice in the event of the planned sale of the shares.

(ii) (Employer) Healthcare tax charge

The taxable income recognised from the receipt of the J&J Shares will be subject to 27% (employer) healthcare tax charge which is payable by the participants in lack of a so-called Hungarian “disburser” (i.e. the J&J Shares are granted directly by J&J or a foreign (non-Hungarian) entity of the J&J group) simultaneously by the payment of the respective advance income tax as detailed under point (i) above..

The (employer) healthcare tax charge to be paid by the participants with respect to the J&J Shares, subject to the income tax implications mentioned under point (a) above, could be paid by the local employer on the basis of a written agreement to be concluded with the participants provided that they declare that all respective data required to the fulfilment of the (employer) healthcare tax charge payment obligation were properly provided by them to the local employer.

### 11.1.3 Example

(i) Assumptions

- The relevant year is 2011
- Hungarian 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>EUR 6,000</b>	<b>EUR 6,000</b>
78% of the income recognised assuming that participants shall pay the respective (employer) healthcare tax charge (please refer to sections 1.1.1 (ii) és 1.1.2 (ii))	EUR 4,680	EUR 4,680
Less : income tax (16%*)	- EUR 749	- EUR 749
Less: (employer) healthcare tax charge (27%)	- EUR 1,620	- EUR 1,620
<b>Net bonus</b>	<b>EUR 3,631</b>	<b>EUR 3,631</b>

## 11.2 Translated tax analysis: Bonus Plan

### 11.2.1 A készpénzjuttatások adó és társadalombiztosítási jogkövetkezmenyei

#### (i) Adójogi jogkövetkezmenyek

A juttatási programban résztvevő munkavállalók által megszerzett jövedelem tekintetében az adókötelezettség a készpénzjuttatás magánszemély bankszámlájára történő átutalásának napján keletkezik. A készpénzjuttatás útján megszerzett jövedelem **munkaviszonyból származó jövedelemnek minősül és ennek megfelelően 16%-os lineáris adómértékkel adózik**. Mindazonáltal tekintettel az alkalmazandó szuperbruttósítás jogintézményére, a munkaviszonyból származó jövedelemre tekintettel kivetett effektív adókulcs mértéke 20.32%.

Mivel a készpénzjuttatást közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja és nem egy magyar "kifizető", a juttatási programban résztvevő munkavállalók által megszerzett munkaviszonyból származó jövedelem a juttatott készpénz összegének 78%-val egyenlő. Ezzel szemben, ha a helyi magyar munkáltató – a juttatási programban résztvevő munkavállalóval kötött írásbeli megállapodás alapján – a fizetendő (munkáltatói) egészségügyi hozzájárulás összegét a munkavállalótól átvállalja, illetve ezen összeg a munkavállaló részére bármely egyéb módon megtérítésre kerül (lásd. az alábbi (ii) pontot), a juttatási programban résztvevő munkavállalók által megszerzett munkaviszonyból származó jövedelem a juttatott készpénz teljes összegével egyenlő.

Mivel a készpénzjuttatást közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja és nem egy magyar "kifizető", a juttatási programban résztvevő munkavállalók negyedévente kötelesek személyi jövedelemadó előleget bevallani és az adott negyedévet követő hónap 12. napjáig megfizetni, valamint az adófizetési kötelezettség teljes összegét az éves – tárgyévet követő év május 20-ig benyújtandó – adóbevallásokban feltüntetni.

#### (ii) (Munkáltatói) Egészségügyi hozzájárulás fizetési kötelezettség

A készpénzjuttatás 27%-os mértékű (munkáltatói) egészségügyi hozzájárulás fizetési kötelezettség alá esik, amelyet – kifizető hiányában (a készpénzjuttatást közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja) – a juttatásban résztvevő munkavállalóknak a fenti (i) pontban említettek szerint a személyi jövedelemadó előleggel egyidejűleg kell megfizetni.

A juttatásban résztvevő munkavállalók által a készpénzjuttatásra vonatkozóan fizetendő (munkáltatói) egészségügyi hozzájárulás fizetési kötelezettség összegét – tekintettel a fenti (i) pont alatt említett személyi jövedelemadó következményekre – a munkavállalókkal kötött írásbeli megállapodás alapján a helyi munkáltató a munkavállalótól átvállalhatja feltéve, hogy a munkavállaló kijelenti, hogy a (munkáltatói) egészségügyi hozzájárulás fizetési kötelezettség teljesítéséhez szükséges valamennyi információt a helyi munkáltató részére megfelelően rendelkezésre bocsátotta.

### 11.2.2 Részvények juttatása során felmerülő jövedelemadó és (munkáltatói) egészségügyi hozzájárulás jogkövetkezmenyek

#### (i) Adójogi jogkövetkezmenyek

**A munkavállalóknak juttatott J&J részvények – tekintettel arra, hogy mmunkavállalók által történő megszerzésükre ellenérték nélkül kerül sor – jövedelemadó kötelezettség alá esnek,** amelyet a J&J részvények juttatáskori piaci értéke alapján kell megállapítani (adóköteles jövedelem). Ha a juttatásban részesülő munkavállaló a részvények tulajdonjogát nem teljes mértékben szerzi meg, a jövedelmet azon a napon kell megszerzettnek tekinteni, amikor a juttatásban részesülő munkavállaló a részvények tulajdonjoga részjogosítványai közül legalább egyet (pl. osztalékjog) megszerez.

Mivel a J&J részvényeket a juttatásban részesülő munkavállalók számára közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja és nem egy magyar "kifizető", a részvények útján megszerzett jövedelem **munkaviszonyból származó jövedelemnek minősül és ennek megfelelően 16%-os lineáris adómértékkel adózik.** Mindazonáltal tekintettel az alkalmazandó szuperbruttósítás jogintézményére, a munkaviszonyból származó jövedelemre tekintettel kivetett effektív adókulcs mértéke 20.32%.

Mivel a J&J részvényeket a juttatásban részesülő munkavállalók számára közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja és nem egy magyar "kifizető", a juttatási programban résztvevő munkavállalók által megszerzett munkaviszonyból származó jövedelem a juttatott részvény megszerzési piaci értéke 78%-val egyenlő. Ezzel szemben, ha a helyi magyar munkáltató – a juttatási programban résztvevő munkavállalóval kötött írásbeli megállapodás alapján – a fizetendő (munkáltatói) egészségügyi hozzájárulás összegét a munkavállalótól átvállalja, illetve ezen összeg a munkavállaló részére bármely egyéb módon megtérítésre kerül (lásd. az alábbi (ii) pontot), a juttatási programban résztvevő munkavállalók által megszerzett munkaviszonyból származó jövedelem a juttatott részvény megszerzési piaci értékével egyenlő.

Mivel a J&J részvényeket közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja és nem egy magyar "kifizető", a juttatási programban résztvevő munkavállalók negyedévente kötelesek személyi jövedelemadó előleget bevallani, és a részvények juttatásának révén keletkező jövedelem megszerzésének negyedét követő hónap 12. napjáig megfizetni. Az adófizetési kötelezettség teljes összegét az éves – tárgyévet követő év május 20-ig benyújtandó – adóbevallásokban kell feltüntetni. A helyi (magyar) munkáltatónak a részvények juttatása tekintetében bevallási kötelezettsége nincs, és az ily módon a J&J részvények juttatása révén megszerzett jövedelmet a munkáltató a munkavállaló részére kiállítandó éves jövedelem igazolásán sem köteles feltüntetni.

A magyar munkáltató a munkavállaló nevében a munkavállaló éves adóbevallási kötelezettségének a magyar adóhatóság felé történő teljesítésére nem jogosult. Az éves adóbevallási kötelezettséget önadózás útján – a vonatkozó éves jövedelem bevallásával és jövedelemadó egyidejű megfizetésével – a tárgyévet követő év május 20-ig a munkavállaló köteles teljesíteni.

A J&J részvények utólagos elidegenítéséből, átruházásából származó árfolyamnyereség jövedelemadó kötelezettség alá esik. Ha a realizált árfolyamnyereség ún. ellenőrzött tőkepiaci ügyletből („**Ellenőrzött Tőkepiaci Ügylet**”) származik, a jövedelemadó mértéke 16%. Mivel a J&J részvények az ún. „US Stock Exchange”-re vannak bevezetve, a J&J részvények e tőkepiacon történő elidegenítése, átruházása valószínűleg Ellenőrzött Tőkepiaci Ügyletnek minősül, és 16-os adókötelezettség alá esik.

Megjegyezzük, hogy bármely egyéb Ellenőrzött Tőkepiaci Ügyletből származó veszteség a J&J részvények elidegenítéséből, átruházásából származó valamely nyereséggel szembeállítható (az adott adóévben felmerülő és korábban elhatárolt veszteségek adókiegyenlítés céljára 2 éves elhatárolási időszakon belül használhatók fel).

Mindazonáltal, a J&J részvények bármely egyéb – Ellenőrzött Tőkepiaci Ügyleten kívül történő – elidegenítése, átruházása révén a juttatásban részesülő munkavállaló által árfolyamnyereség útján megszerzett jövedelem 16%-os adókötelezettség alá esik, amely után 14%-os (munkavállalói) egészségügyi hozzájárulás is fizetendő (éves 450.000 forintos kb. 1.700 euró összeghatárig).

A J&J részvényekre tekintettel a juttatásban részesülő munkavállaló által megszerzett osztalék 16%-os adókötelezettség alá esik. Mivel a J&J részvények az ún. „US Stock Exchange”-re vannak bevezetve, a juttatásban részesülő munkavállalók által osztalék útján megszerzett jövedelem 16%-os adókötelezettség alá esik, amely után 14%-os (munkavállalói) egészségügyi hozzájárulás is fizetendő (éves 450.000 forintos kb. 1.700 euró összeghatárig).

Javasoljuk a J&J részvények jövőbeni, tervezett elidegenítése, átruházása esetén személyre szabott adójogi tanács beszerzését.

(ii) (Munkáltatói) Egészségügyi hozzájárulás

A J&J részvények juttatása 27%-os mértékű (munkáltatói) egészségügyi hozzájárulás fizetési kötelezettség alá esik, amelyet – „kifizető” hiányában (a J&J részvények juttatását közvetlenül a J&J csoport valamely külföldi (nem magyar) társasága biztosítja) – a juttatásban résztvevő munkavállalóknak a fenti (i) pontban említettek szerint a személyi jövedelemadó előleggel egyidejűleg kell megfizetni.

A juttatásban résztvevő munkavállalók által a J&J részvények juttatására vonatkozóan fizetendő (munkáltatói) egészségügyi hozzájárulás fizetési kötelezettség összegét – tekintettel a fenti (i) pont alatt említett személyi jövedelemadó következményekre – a munkavállalókkal kötött írásbeli megállapodás alapján a helyi munkáltató a munkavállalótól átvállalhatja feltéve, hogy a munkavállaló kijelenti, hogy a (munkáltatói) egészségügyi hozzájárulás fizetési kötelezettség teljesítéséhez szükséges valamennyi információt a helyi munkáltató részére megfelelően rendelkezésre bocsátotta.

### 11.2.3 Példa

(i) Alapvető feltételek

- Releváns adóév: 2011.
- Magyar adóügyi illetőség alapján történő adózás
- 80.000 euró éves jövedelem
- 6.000 euró értékű készpénzjuttatás, illetve 100 darab részvény juttatása 60 eurós részvényenkénti áron

(ii) Számítás eredménye



	<b>Készpénzjuttatás</b>	<b>Részvényjuttatás (100 darab részvény x 60 euró)</b>
<b>Juttatás bruttó értéke</b>	<b>6.000 euró</b>	<b>6.000 euró</b>
A megszerzett jövedelem 78%-a feltéve, hogy a juttatásban részesülő munkavállalók kötelesek a vonatkozó (munkáltatói) egészségügyi hozzájárulás fizetésére (lásd 1.1.1 (ii) és 1.1.2 (ii) pontok)	4.680 euró	4.680 euró
Jövedelemadó levonás (16%*)	- 749 euró	- 749 euró
(Munkáltatói) egészségügyi hozzájárulás levonás (27%)	- 1.620 euró	- 1.620 euró
<b>Juttatás nettó értéke</b>	<b>3,631 euró</b>	<b>3,631 euró</b>

## 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. The employee will be subject to income tax at his/her marginal rate of tax (currently either 20% or 41%). The cash amount will also be liable to the Universal Social Charge (“USC”) at progressive rates depending on the aggregate level of income received during the relevant tax year. The applicable rates of USC for income earned in 2011 are as follows:

Annual Earnings	USC Rate
First € 10,036	2%
€ 10,037 to € 16,016	4%
in excess of € 16,016	7%

The income levy has been abolished with effect from 1 January 2011. 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 USC 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 in excess of €127 per week is subject to employee pay related social insurance (PRSI) contributions at a rate of 4%. The earnings limit of EUR 75,036 for employee PRSI contributions has been abolished with effect from 1 January 2011. The health contribution levy has also been abolished with effect from 1 January 2011. 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. While previously the employee was obliged to account for any tax due in respect of the benefit under the self-assessment system, with effect from 1 January 2011, the tax treatment of shares awarded to employees have been brought into the PAYE collection system. Thus, the tax due on delivery of the shares should be collected at source by the employer as part of the normal payroll withholding tax system. The employee will be subject to

income tax at his/her marginal rate of tax (currently either 20% or 41%) and the USC 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 1.1.1). Details of the income tax and USC collected at source will be included in the employee's P60 for the relevant tax year.

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. In the event that the employee is resident in Ireland, but not Irish domiciled, liability to Irish capital gains tax on a gain realised on the disposal of shares will only arise to the extent that the proceeds of the disposal are remitted to Ireland. This is on the basis that the shares do not constitute Irish property.

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. The employee must also report the benefit of the free shares received in his/her tax return by 31 October in the year following the end of the tax year in which the employee became beneficially entitled to the shares.

Dividends derived from J&J shares are subject to income tax at the eligible participant's marginal rate of tax and the USC 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). Dividend income 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. The income tax and USC is also 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

With effect from 1 January 2011, employee PRSI at a rate of 4% applies to all share based awards. However, employee PRSI will not apply where the share award was

the subject of a written agreement entered into between the employer and the employee before 1 January 2011.<sup>102</sup>

### 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

(i)	(j) Cash bonus	(k) Share award (100 shares x € 60)
<b>(l) Value of bonus / shares</b>	<b>(m) € 6,000</b>	<b>(n) € 6,000</b>
<b>(o) Less: USC (*)</b>	<b>(q) - € 420</b>	<b>(r) - € 420</b>
<b>(p)</b>		
<b>(s) Less: social security</b>	<b>(v) - € 240</b>	<b>(y) - € 240</b>
<b>(t) - PRSI (**)</b>	<b>(w) - € 240</b>	<b>(z) - € 240</b>
<b>(u)</b>	<b>(x)</b>	
<b>(aa) Less: income tax (***)</b>	<b>(bb) - € 2,460</b>	<b>(cc) - € 2,460</b>
<b>(dd) Net bonus</b>	<b>(ee) € 2,880</b>	<b>(ff) € 2,880</b>

(\*) For 2011, the individual will be liable to the USC at a rate of 2% on his first EUR 10,036 of earnings, a rate of 4% is payable on income between €10,036 and €16,016 and the balance will be liable to USC at a rate of 7%. Therefore, a USC of 7% has been applied to the cash bonus and share award on the basis that the individual has regular income in excess of €16,016.

(\*\*) Employee PRSI at a rate of 4% is due. This is on the assumption that the share award was not the subject of a written agreement entered into between the employer and the employee prior to 1 January 2011.

(\*\*\*) Highest tax rate reached (41%)

<sup>102</sup> A charge to employer PRSI on share based remuneration was introduced by the Irish Government in December 2010, with effect from 1 January 2011. However, the Government has since announced its intention to abolish this charge and the Department of Social Protection has confirmed that employer PRSI on share based remuneration should not be collected and paid notwithstanding that the law has yet to be amended in that regard.

## 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%<sup>103</sup>, 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.

A supplementary 3% tax rate will be applicable to the amount of taxable income which exceeds € 300.000 per year. Such supplementary tax will be applicable in 2011, 2012, 2013 and will be deductible for tax purposes.

(ii) Social security treatment

The cash amount received by the eligible participant will be subject to social security contributions, at the time of payment, as employment income. Social security contributions may amount (depending on the sector in which the employing company is classified for social security purposes) approximately from 36% to 46% to be entirely withheld by the employer (approximately 9/10% of which shall be borne by the employee). The employer of the eligible participant will withhold social security contributions on the cash payment, which will be collected through the monthly payroll administration.

#### 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%<sup>104</sup>, to be determined on the basis of the place of residence of the eligible participant.

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<sup>103</sup> Please note that the regional tax may be increased by each Region up to: (i) 0.5% as of 2012 and 2013; (ii) 1.1% as of 2014 and (iii) 2.1% as of 2015.

The municipal tax may also be increased by each Municipal, up to a maximum of 0,8%.

<sup>104</sup> Please note that the regional tax may be increased by each Region up to: (i) 0.5% as of 2012 and 2013; (ii) 1.1% as of 2014 and (iii) 2.1% as of 2015.

The municipal tax may also be increased by each Municipal, up to a maximum of 0,8%.

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.

A supplementary 3% tax rate will be applicable to the amount of of taxable income which exceeds € 300.000 per year. Such supplementary tax will be applicable in 2011, 2012, 2013 and will be deductible for tax purposes.

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 (please note that starting from 1 January 2012 the tax rate will be increased to 20%) 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 (please note that starting from 1 January 2012 the tax rate will be increased to 20%) 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

Pursuant to Legislative Decree No. 112/2008, benefits deriving from the exercise of stock option plans are not subject to social security contributions.

The Italian Social Security Authority has further clarified, in circular letters No. 123/3009 and No. 25602/2010, that the exemption from social security contributions applies also to all non-generalised (i.e. addressed only to selected employees) equity incentive plans that provide for the award of shares, also free of charge, provided that one or more of the following conditions are met: provision of a vesting period, achievement of certain performance objectives or the participant still being an employee at the expiry of the vesting period. If the plan satisfies even just one of the listed conditions, the exemption from social security contributions applies.

### 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	- € N/A
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>€ 3,545.37</b>

(\*) assuming a social security rate of 9.49% is applicable in several sectors

(\*\*) - 43% tax is applicable on earnings above EUR 75,000

- social security is tax deductible

## 13.2 Translated tax analysis: 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%<sup>105</sup>, 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.

Un contributo di solidarietà pari al 3% sarà applicabile sugli ammontari eccedenti € 300.000 di reddito imponibile. Tale contributo sarà applicabile con riferimento agli anni 2011, 2012, 2013 e sarà deducibile ai fini delle imposte.

(ii) Trattamento previdenziale

L'importo in contanti ricevuto dal partecipante sarà soggetto ai contributi previdenziali al momento del pagamento, come **reddito di lavoro dipendente**. I contributi previdenziali possono ammontare (a seconda dal settore in cui il datore di lavoro è classificato ai fini dei contributi previdenziali) da circa il 36% a circa il 46% (dei quali circa il 9/10% sono a carico del lavoratore), e saranno interamente pagati dal datore di lavoro. Il datore di lavoro del partecipante effettuerà una ritenuta sul pagamento, che sarà ordinariamente prelevata dall'ufficio paghe..

### 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%<sup>106</sup>, 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.

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<sup>105</sup> A partire dal 2012, l'addizionale regionale potrà essere innalzata da ciascuna Regione fino a: (i) 0.5% per il 2012 e il 2013; (ii) 1.1% per il 2014 e (iii) 2.1% per il 2015. L'addizionale comunale potrà inoltre essere aumentata da ciascun comune, fino a un massimo dello 0.8%.

<sup>106</sup> A partire dal 2012, l'addizionale regionale potrà essere innalzata da ciascuna Regione fino a: (i) 0.5% per il 2012 e il 2013; (ii) 1.1% per il 2014 e (iii) 2.1% per il 2015. L'addizionale comunale potrà inoltre essere aumentata da ciascun comune, fino a un massimo dello 0.8%.



Un contributo di solidarietà pari al 3% sarà applicabile sugli ammontari eccedenti € 300.000 di reddito imponibile. Tale contributo sarà applicabile con riferimento agli anni 2011, 2012, 2013 e sarà deducibile ai fini delle imposte.

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% (a partire dal 1° gennaio 2012 l'aliquota verrà innalzata al 20%) 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% (a partire dal 1° gennaio 2012 l'aliquota verrà innalzata al 20%) 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**

Il Decreto Legislativo n. 112/2008 ha stabilito che i redditi derivanti dall'esercizio di piani di stock option sono esclusi dalla base imponibile ai fini contributivi. L'Istituto Nazionale della Previdenza Sociale ha inoltre chiarito, con le circolari n. 123/2009 e n. 25602/2010, che il regime di esenzione contributiva possa trovare applicazione anche a tutti i piani azionari non generalizzati (ossia non rivolti alla generalità dei dipendenti) che prevedono un'assegnazione di azioni, anche a titolo gratuito, al ricorrere di una o più condizioni (tra cui la previsione di un termine per l'esercizio dell'opzione, o il raggiungimento di determinati livelli di performance aziendale, o l'essere alle dipendenze della società al momento dell'esercizio dell'opzione ecc.).

Alla luce di quanto sopra, le azioni attribuite gratuitamente al partecipante non saranno soggette 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

	Bonus in contanti	Attribuzione azioni (100 azioni x €60)
<b>Valore del bonus/azione</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Meno: previdenza sociale (*)	- € 569,40	- € N/A
Meno: imposta sul reddito	- € 2.335,16	- € 2.335,16
- imposta statale (**)	- € 119,47	- € 119,47
- imposta regionale e municipale (2,2%)		
<b>Bonus netto</b>	<b>€ 2.975,97</b>	<b>€ 3.545,37</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 25%. 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 12%.

#### **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 25% 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 25%.

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 from capital 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 (*)	- € 720	- € 720 (***)
Less : income tax (**)	- € 1, 320	- € 1,320
<b>Net bonus</b>	<b>€ 3,960</b>	<b>€ 3,960</b>

(\*) social security contributions are made at rate of 12%

(\*\*) flat tax rate of 25%

(\*\*\*) 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, pieņēmām, 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 aplūkots ar iedzīvotāja ienākuma nodokli 25% apmērā. Darbinieks būtu individuāli 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.

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 12% 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 pamatlīkmi 25% 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

	Naudas prēmija	Akciju piešķirums (100 akcijas x € 60)
<b>Prēmijas/akciju vērtība</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Mīnuss : sociālā apdrošināšana (*)	- € 720	- € 720 (***)
Mīnuss : ienākuma nodoklis (**)	- € 1, 320	- € 1,320
<b>Neto prēmija</b>	<b>€ 3,960</b>	<b>€ 3,960</b>

(\*) sociālās apdrošināšanas iemaksas veic pēc likmes 12%

(\*\*) nodokļa pamatlīkme 25% 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 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 366 days and the total J&J share ownership does not exceed 10% (or 20% if the ownership of shares is considered as joint conjugal ownership) during the three-year period prior to the sale of shares, 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 pajamų mokesčiu kaip pajamos, susijusios su darbo santykiais, taikant 15 % tarifą.

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.

Pajamos už parduotas akcijas nėra apmokestinamos pajamų mokesčiu, jeigu akcijos yra parduodamos ne anksčiau negu po 366 dienų nuo jų įsigijimo dienos ir dalyvis 3 metus iki akcijų pardavimo nevaldė daugiau kaip 10 % (arba 20 %, jei akcijos yra bendra jungtinė sutuoktinių nuosavybė) „J&J“ akcijų. Ši lengvata netaikoma 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		

	<b>Premija grynaisiais pinigais (*)</b>	<b>Suteiktos akcijos (100 akcijų x € 60) (*)</b>
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% (2011)<sup>107</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 50,000. 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 2011):

- unemployment contributions: due by the employer only. The employer is obliged to pay 4.20% with a maximum of EUR 2,070 per year plus another percentage, in average 1.9% which differs from branch to branch;
- disability contributions: due by the employer only. The employer has to pay a premium of 5.1% (percentage may slightly differ from branch to branch), with a maximum of EUR 2,514 per employee per year;
- medical care insurance contributions: the employee pays a nominal premium of a fixed amount (approximately EUR 1,200 for 2011). In addition, the employee pays a premium dependent on the income from employment. This premium is capped at EUR 2,591 (based on a maximum premium income of EUR 33,436). 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

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<sup>107</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.

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, 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% (2011)<sup>108</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 of every calendar year. For determination of the value of the shares, the participant can use the listed price of the shares on January 1. 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 20,785 (2011) (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 50,000. 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 (2011):

- unemployment contributions: due by the employer only. The employer is obliged to pay 4.20% with a maximum of EUR 2,070 per year plus another percentage, in average 1.9% which differs from branch to branch;

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<sup>108</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.

- disability contributions: due by the employer only. The employer has to pay a premium of 5.1% (percentage may slightly differ from branch to branch), with a maximum of EUR 2,514 per employee per year;
- medical care insurance contributions: the employee pays a nominal premium of a fixed amount (approximately EUR 1,200 for 2011). In addition, the employee pays a premium dependent on the income from employment. This premium is capped at EUR 2,591 (based on a maximum premium income of EUR 33,436). 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 50,000 has already been reached

(\*\*) highest tax rate reached (52%) as of taxable income of EUR 55,694.

## 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% (2011)<sup>109</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 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 dat ongeveer EUR 50,000. 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 (2011):

- werkloosheidsbijdragen: alleen verschuldigd door de werkgever. De werkgever is verplicht om 4,20% te betalen met een maximum van EUR 2.070 per jaar plus een sector gerelateerd percentage van gemiddeld 1,9%;
- bijdragen arbeidsongeschiktheid: alleen verschuldigd door de werkgever. De werkgever is verplicht om een premie van ongeveer 5,1% te betalen (het percentage verschilt enigszins per sector waarin een werknemer werkzaam is) met een maximum van EUR 2.514 per werknemer per jaar;
- bijdragen voor de zorgverzekering: de werknemer betaalt een nominale premie van een vast bedrag (ongeveer EUR 1.200 voor 2011). Bovendien betaalt de werknemer een premie die afhankelijk is van het inkomen uit arbeid. Deze premie bedraagt maximaal EUR 2.591 (gebaseerd op een maximaal jaarlijks premie inkomen van EUR 33.436). 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

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<sup>109</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.

tarief voor inkomstenbelasting en loonbelasting is progressief met een maximum van 52% (2011)<sup>110</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.

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 jaargave 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 van ieder kalenderjaar. Voor vaststelling van de waarde van uw aandelen kunt u de genoteerde prijs van de aandelen op 1 januari 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 20.785 (2011) (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 50,000. 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 2011):

- werkloosheidsbijdragen: alleen verschuldigd door de werkgever. De werkgever is verplicht om 4,20% te betalen met een maximum van EUR 2.070 per jaar plus een sector gerelateerd percentage van gemiddeld 1,9%;

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<sup>110</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

- bijdragen arbeidsongeschiktheid: alleen verschuldigd door de werkgever. De werkgever is verplicht om een premie van ongeveer 5,1% te betalen (het percentage verschilt enigszins per sector waarin een werknemer werkzaam is) met een maximum van EUR 2.514 per werknemer per jaar;
- bijdragen voor de zorgverzekering: de werknemer betaalt een nominale premie van een vast bedrag (ongeveer EUR 1.200 voor 2011). Bovendien betaalt de werknemer een premie die afhankelijk is van het inkomen uit arbeid. Deze premie bedraagt maximaal EUR 2.591 (gebaseerd op een maximaal jaarlijks premie inkomen van EUR 33.436). 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.

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

	Contante bonus	Toekenning van aandelen (100 aandelen x € 60)
<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 55.694



## 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 471,200 (approximately EUR 60,300) and NOK 765,800 (approximately EUR 97,900), and 12% on any income above NOK 765,800.

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 471,200 (approximately EUR 60,300) and NOK 765,800 (approximately EUR 97,900), and 12% on any income above NOK 765,800.

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 471,200 (ca EUR 60,300) og NOK 765,800 (ca EUR 97,900), og 12 % av all inntekt over NOK 765,800.

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 471,200 (ca EUR 60,300) og NOK 765,800 (ca EUR 97,900), og 12 % av all inntekt over NOK 765,800. 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 11 October 2011, 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.

We are aware of the recent advantageous court rulings postponing the taxable event until the subsequent sale of shares.

However, as there is no unified interpretation of the provisions of the tax law and a limited practice we would recommend to acquire a binding tax ruling in order to confirm the moment of arising of income and whether the advantageous tax law may be applied in the case at hand.

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 up to 3 months in order to obtain it.

#### 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. In certain

situations the preparation and filing of the annual tax return may be arranged by the employer. The 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 100,770 for 2011, 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 should 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. In certain situations the preparation and filing of the annual tax return may be arranged by the employer. 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.

Prior 1 January 2011, the positive difference between market value of shares and the purchase price (if any) was 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 were met:

- (s) shares are newly issued;
- (t) 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;

- (u) the participants must be eligible participants according to the relevant resolution of shareholders of the issuing company.

Please note that the above regulation has changed as of 1 January 2011 and states now that now not only the newly issued shares may be subject to a temporarily exemption (deferral of the taxable event until the subsequent sale) but also the purchase of existing shares. In terms of the restrictions, based on the amended regulation, a participant needs to be entitled to purchase/subscribe for shares according to a company's shareholders resolution and the shares needs to constitute the share capital of the company having its seat in one of the European Union or European Economic Area member states. We would advise to seek a confirmation by means of a binding tax ruling to confirm the application of the advantageous tax treatment as mentioned above.

Moreover, please note that recently the Supreme Administrative Court issued a favourable court ruling stipulating that in certain situations (also with respect to the shares acquired/purchased under the incentive plans prior 1 January 2011) the taxation should be also deferred until the sale of shares.

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 100,770 for 2011 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

	<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 (*)	- € 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.

## 18.2 Translated tax analysis: Bonus Plan

Niniejszy dokument stanowi jedynie skrócony i ogólny opis konsekwencji podatkowych oraz w zakresie składek na rzecz systemu ubezpieczeń społecznych wynikających z Planu Premiowania. Opis nie stanowi wyczerpującego omówienia wszystkich konsekwencji wynikających z przepisów prawa podatkowego. Niniejsze omówienie jest oparte na stanie prawnym obowiązującym na dzień 11 października 2011 r., przepisy te mogą zostać w przyszłości znowelizowane, także ze skutkiem retroaktywnym. Z uwagi na odrębną sytuację każdego podatnika, winni się Państwo uzyskać szczegółową poradę podatkową od własnego doradcy podatkowego, który uwzględni przy jej udzieleniu Państwa indywidualną sytuację prawno-podatkową.

### 18.2.1 Uwagi ogólne

Należy zauważyć, że co do zasady wszystkie płatności otrzymywane na podstawie Planu Premiowania przez uprawnionych pracowników (Uczestników) w związku z umową o pracę będą podlegały opodatkowaniu podatkiem dochodowym od osób fizycznych i obowiązkowi odprowadzenia składek na rzecz systemu ubezpieczeń społecznych.

Także ewentualne koszty ponoszone przez pracodawcę mogą być traktowane jako ponoszone zamiast Uczestnika w związku z jego udziałem w Planie Premiowania, a jeśli takie koszty mogą zostać przypisane do indywidualnego Uczestnika, ich wartość będzie traktowana jako część podlegającego opodatkowaniu dochodu Uczestnika ze stosunku pracy. Taki dochód będzie podlegał opodatkowaniu podatkiem dochodowym od osób fizycznych według skali progresywnej, a także obowiązkowi odprowadzenia składek na rzecz systemu ubezpieczeń społecznych.

Należy zauważyć, że istnieją szczególne przepisy ustawy o podatku dochodowym od osób fizycznych przesuwające moment powstania przychodu w przypadku uczestnictwa w



planach nabycia akcji do czasu przyszłej sprzedaży akcji, ale jedynie w przypadku, gdy spełniane są pewne warunki opisane poniżej.

W tym zakresie pojawiło się niedawno korzystne orzecznictwo sądów administracyjnych.

Jednak, jako że nie istnieje jednolita interpretacja przepisów prawa podatkowego i jedynie ograniczona praktyka w tym zakresie, zalecalibyśmy uzyskanie wiążącej indywidualnej interpretacji przepisów prawa podatkowego, w celu potwierdzenia momentu powstania przychodu w przedmiotowej sprawie oraz w zakresie tego, czy w tym przypadku można zastosować korzystne przepisy prawa podatkowego.

W przypadku, gdyby J&J było zainteresowane uzyskaniem interpretacji, o której mowa powyżej w zakresie korzystnej kwalifikacji podatkowej Planu Premiowania i/lub innych Planów, należy wystąpić do odpowiednich organów skarbowych z wnioskami o wydanie interpretacji przepisów prawa podatkowego w przedmiotowej sprawie. Koszt wydania wskazanej interpretacji wynosi w przybliżeniu 20 EUR za złożenie wniosku plus koszty doradztwa prawno-podatkowego związanego z jej sporządzeniem. Uzyskanie takiej interpretacji zajmuje zwykle maksymalnie do 3 miesięcy.

### **18.2.2 Opodatkowanie płatności środków pieniężnych oraz składki na rzecz systemu ubezpieczeń społecznych**

#### **(i) Konsekwencje podatkowe**

W związku z faktem, że kosztami Planu Premiowania zostanie obciążony pracodawca Uczestnika, kwota środków pieniężnych otrzymana przez uprawnionego Uczestnika będzie uważana za przychód z umowy o pracę i jako taka będzie podlegała opodatkowaniu z chwilą płatności według progresywnych stawek podatku dochodowego od osób fizycznych w wysokości 18% - 32%.

W ciągu roku polski pracodawca uprawnionego Uczestnika odprowadza zaliczki na poczet podatku dochodowego od osób fizycznych od płatności środków pieniężnych. Pracodawca jest również zobowiązany do wykazywania płatności środków pieniężnych w odpowiednich rocznych zeznaniach składanych w urzędzie skarbowym.

Zgodnie z ogólną zasadą osoba fizyczna powinna zadeklarować powyższy dochód w rocznym zeznaniu podatkowym i zapłacić podatek w należnej wysokości do 30 kwietnia następnego roku. W pewnych sytuacjach, roczna deklaracja podatkowa może zostać sporządzona i złożona za pośrednictwem pracodawcy. Roczne zobowiązanie podatkowe powinno zostać obliczone według stawek progresywnych, a następnie obniżone o kwotę zaliczek odprowadzonych przez pracodawcę w ciągu roku podatkowego.

#### **(ii) Składki na rzecz systemu ubezpieczeń społecznych**

Podlegająca opodatkowaniu podatkiem dochodowym od osób fizycznych kwota będzie podlegała obowiązkowi odprowadzenia składki z tytułu ubezpieczenia społecznego w wysokości 11,26% od podlegającego opodatkowaniu dochodu do wysokości 100.770 zł za rok 2011, a ponadto składki na ubezpieczenie chorobowe w wysokości 2,45% i składki ubezpieczenia zdrowotnego w wysokości 9%, z czego 7,75% stanowi kwotę o którą można obniżyć kwotę podatku. Pracodawca odprowadza te składki ubezpieczenia społecznego i zdrowotnego wraz ze swoją częścią składek wynoszącą 18,43 %. W niektórych sytuacjach pracodawca może

być także zobowiązany do zapłaty dodatkowej składki według stawki 1,50% na Funduszu Emerytur Pomostowych.

### 18.2.3 Opodatkowanie przydziału akcji i składki na rzecz systemu ubezpieczeń społecznych

(i) Konsekwencje podatkowe

W związku z faktem, że kosztami Planu Premiowania zostanie obciążony pracodawca Uczestnika, wartość rynkowa akcji przyznanych bezpłatnie Uczestnikowi w ramach Planu Premiowania powinna być traktowana jako przychód ze stosunku pracy i jako taka będzie podlegała opodatkowaniu z chwilą przyznania akcji według progresywnych stawek podatku dochodowego od osób fizycznych w wysokości 18 - 32%.

W ciągu roku polski pracodawca uprawnionego Uczestnika będzie odprowadzał podatek dochodowy od osób fizycznych od wartości rynkowej akcji. Pracodawca będzie także wykazywał kwoty dochodu uzyskanego z tytułu przydziału akcji w odpowiednich rocznych zeznaniach składanych w urządzie skarbowym.

Zgodnie z ogólną zasadą osoba fizyczna powinna zadeklarować powyższy dochód w rocznym zeznaniu podatkowym i zapłacić podatek w należnej wysokości do 30 kwietnia następnego roku. W pewnych sytuacjach, roczna deklaracja podatkowa może zostać sporządzona i złożona za pośrednictwem pracodawcy. Roczne zobowiązanie podatkowe powinno zostać obliczone według stawek progresywnych, a następnie obniżone o kwotę zaliczek odprowadzonych przez pracodawcę w ciągu roku podatkowego.

Podlegająca opodatkowaniu kwota odpowiada wartości rynkowej przyznanych akcji J&J w momencie wydania tych akcji.

W Polsce obowiązują korzystne przepisy podatkowe, które potencjalnie mogą zostać zastosowane w odniesieniu do przydziału akcji w ramach Planu Premiowania.

Przed dniem 1 stycznia 2011 r. dodatnia różnica pomiędzy wartością rynkową akcji a ewentualną ceną kupna nie podlegała opodatkowaniu w momencie wykonywania opcji lub nabycia akcji, ale dopiero w momencie sprzedaży akcji, pod warunkiem, że spełniane były następujące warunki:

- (v) akcje musiały być nowo wyemitowane;
- (w) akcje musiały być obejmowane (a nie kupowane) przez Uczestników lub w razie, gdy były one nabywane przez Uczestników musiały być nabywane od spółki, która wcześniej objęła je wyłącznie w celu dalszego zbycia ich na rzecz Uczestników;
- (x) Uczestnicy musieli być uprawnionymi Uczestnikami zgodnie z odpowiednią uchwałą walnego zgromadzenia emitenta.

Należy zauważyć, że powyższy przepis uległ zmianie z dniem 1 stycznia 2011 r. i obecnie zwolnieniu podlegać mogą nie tylko nowo emitowane akcje (odroczenie zdarzenia podatkowego do czasu przyszłej sprzedaży), ale także akcje istniejące w obrocie i nabywane przez uczestników. Jeśli chodzi o warunki zastosowania przepisu w jego nowym brzmieniu, to zgodnie ze zmienioną regulacją Uczestnik musi być uprawniony do nabycia/objęcia akcji zgodnie z uchwałą walnego

zgromadzenia spółki, a akcje muszą stanowić kapitał zakładowy spółki z siedzibą w państwie członkowskim Unii Europejskiej lub Europejskiego Obszaru Gospodarczego. W naszej ocenie możliwość zastosowanie korzystnych przepisów prawa podatkowego w przedmiotowej sprawie winna być potwierdzona poprzez uzyskanie pozytywnej indywidualnej interpretacji przepisów prawa podatkowego.

Ponadto należy zauważyć, że w tym roku Naczelny Sąd Administracyjny wydał korzystny wyrok w podobnej sprawie a w jego uzasadnieniu podniesiono, że w niektórych sytuacjach także w przypadku akcji nabytych na podstawie planów motywacyjnych przed 1 stycznia 2011 r. opodatkowanie podatkiem dochodowym od osób fizycznych winno być odroczone do czasu sprzedaży akcji.

Dochód osiągnięty ze sprzedaży akcji otrzymanych w ramach Planu Premiowania będzie podlegał opodatkowaniu podatkiem dochodowym od osób fizycznych według stawki 19%. Dochodem tym jest dodatnia różnica pomiędzy ceną ze sprzedaży obniżoną o koszty nabycia/objęcia akcji oraz kwotę podlegającą opodatkowaniu na etapie otrzymania akcji przez Uczestnika.

Co do zasady dywidendy osiągnane w związku z posiadaniem akcji J&J są opodatkowane w Polsce według stawki wynoszącej 19%, a ewentualny podatek dochodowy odprowadzony w państwie źródła, pod pewnymi warunkami, może zostać zaliczony na poczet zobowiązania podatkowego w Polsce.

Sugerujemy uzyskanie przez uprawnionych Uczestników indywidualnej porady podatkowej w razie planowanej sprzedaży akcji, jako że prawo podatkowe w przyszłości może ulec zmianie.

(ii) Składki na rzecz systemu ubezpieczeń społecznych

Kwota podlegająca opodatkowaniu podatkiem dochodowym od osób fizycznych, będzie podlegała obowiązkowi odprowadzenia składki z tytułu ubezpieczenia społecznego w wysokości 11,26% od podlegającego opodatkowaniu dochodu do wysokości 100.770 zł za rok 2011, a ponadto składki na ubezpieczenie chorobowe w wysokości 2,45% i składki ubezpieczenia zdrowotnego w wysokości 9%, z czego 7,75% stanowi kwotę o którą można obniżyć kwotę podatku. Pracodawca odprowadza te składki ubezpieczenia społecznego i zdrowotnego wraz ze swoją częścią składek wynoszącą 18,43 %. W niektórych sytuacjach pracodawca może być także zobowiązany do zapłaty dodatkowej składki według stawki 1,50% na Funduszu Emerytur Pomostowych.

Dochód osiągnięty ze sprzedaży akcji nie podlega składkom na rzecz systemu ubezpieczeń społecznych.

#### 18.2.4 Przykład

(i) Założenia

- Rezydent Polski dla celów podatkowych
- Regularny dochód w wysokości 80.000 EUR
- Wypłata premii w wysokości 6.000 EUR lub przydział 100 akcji o wartości 60 EUR za akcję

(ii) Kalkulacja

	<b>Premia</b>	<b>Przydział akcji (100 akcji x € 60)</b>
<b>Wartość premii / akcji</b>	<b>€ 6.000</b>	<b>€ 6.000</b>
Minus: składka na ubezpieczenie społeczne (*)	- € 147	- € 147
Minus: składka na ubezpieczenie zdrowotne (**)	- € 540	- € 540
Minus: podatek dochodowy (***)	- € 1.407,96	- € 1.407,96
<b>Premia netto</b>	<b>€ 3.905,04</b>	<b>€ 3.905,04</b>

(\*) Stawka składki ubezpieczenia społecznego w wysokości jedynie 2,45%, ponieważ roczny dochód Uczestnika przekracza kwotę maksymalną, powyżej której nie pobiera się składek ubezpieczenia emerytalnego i rentowego.

(\*\*) Składka ubezpieczenia zdrowotnego wynosi 9% dochodu (7,75% stanowi kwotę o którą można obniżyć kwotę podatku)

(\*\*\*) Najwyższa stawka podatkowa osiągnęła (32%), jako że regularny dochód w wysokości 80.000 EUR przekracza próg podatkowy, od którego nalicza się najwyższą stawkę.

## 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 11.50% up to 46.50%, plus a surtax of 3.5% on the taxable income which exceeds the annual minimum salary.

The employer of the eligible participant will withhold salary tax (up to 38%) 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 11.50% up to 46.50%, plus a surtax of 3.5% on the taxable income which exceeds the annual minimum salary.

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 register 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%, plus a surtax of 3.5% on the taxable income which exceeds the annual minimum salary (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 11.50 and 46.50%, plus the above mentioned surtax of 3.5% on the taxable income which exceeds the annual minimum salary). 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. The positive balance up to the annual value of €500 in capital gains and losses on disposal of shares, bonds and other debt securities is exempt from income tax. **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 21.5% 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 11.50 and 46.50%, plus a surtax of 3.5% on the taxable income which exceeds the annual minimum salary, 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

Pursuant to the Social Security legislation which entered into force in the beginning of 2011, discounts granted to the employees referent to the acquisition of employer shares or employer group companies' shares are not subject to any social security contributions.

**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	- € 0
Less : income tax	- between € 1,710 and € 1,830 will be withheld – assuming the relevant withholding tax rates will vary from 28.5 up to 30.5% (applicable)	- There will be no withholding tax liability on the share awards. However, the Personal Income Tax progressive tax rates will include, within the overall

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
	to individuals without any deficiency). These withholding tax rates will depend, in any case, from the individuals personal/familiar 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).	income of the employee, the share awards.
<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 € 3,510</b>	<b>€ 6,000</b>

(\*) Social security rate of 11%

(\*\*) - Highest tax rate reached (46.50%) as of taxable income of EUR 153,300, plus a surtax of 3.5% on the taxable income which exceeds the annual minimum salary.

- 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 11,50% e 46,50%, a que acresce uma sobretaxa de 3,5% sobre parte do rendimento colectável que exceda, por sujeito passivo, o valor anual da retribuição mínima mensal garantida.

O empregador do participante reterá na fonte, por conta do imposto devido a final, uma parte do rendimento pago (retenção que pode chegar aos 38%). 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 a 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 11,50% e 46,50%, a que acresce uma sobretaxa de 3,5% sobre parte do rendimento colectável que exceda, por sujeito passivo, o valor anual da retribuição mínima mensal garantida.

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%, a que acresce uma sobretaxa de 3,5% sobre parte do rendimento colectável que exceda, por sujeito passivo, o valor anual da retribuição mínima mensal garantida (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 11,50 e 46,50%, a que acresce a referida sobretaxa de 3,5% sobre parte do rendimento colectável que exceda, por sujeito passivo, o valor anual da retribuição mínima mensal garantida). 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. Fica isento de IRS, até ao valor anual de €500, o saldo positivo entre as mais-valias e menos-valias resultante da alienação de acções, obrigações e outros títulos de dívida. 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 21,5%, 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 11,50% e 46,50%, a que acrescerá uma sobretaxa de 3,5% sobre parte do rendimento colectável que exceda, por sujeito passivo, o valor anual da retribuição mínima mensal garantida, 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

Em conformidade com o Código dos Regimes Contributivos do Sistema Previdencial de Segurança Social, que entrou em vigor no início de 2011, este tipo de planos não se encontra 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

	Bónus em numerário	Bónus em acções (100 acções x € 60)
Valor do bónus / acções	€ 6 000	€ 6 000
Menos: segurança social	- € 660	- € 0

	<b>Bónus em numerário</b>	<b>Bónus em acções (100 acções x € 60)</b>
Menos: imposto sobre os rendimentos (IRS)	- Entre 1 710 e € 1 830 será retido – assumindo uma retenção na fonte que varia entre os 28,5 e os 30,5% (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 € 3 510</b>	<b>€ 6,000</b>

(\*) Percentagem da contribuição para a segurança social de 11%

(\*\*) - Taxa de IRS mais elevada (46,50%) como resultado de um rendimento tributável que exceda EUR 153 300, a que acresce uma sobretaxa de 3,5% sobre parte do rendimento colectável que exceda, por sujeito passivo, o valor anual da retribuição mínima mensal garantida.

- 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) Optional contribution to voluntary private pension schemes (i.e. Pillar III private pension funds), which is deductible only within the limit of EUR 200 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;
- (VII) Optional contribution to voluntary private pension schemes (i.e. Pillar III private pension funds), which is deductible only within the limit of EUR 200 per year.

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 opțională la fonduri de pensii facultative (Pilonul III), este deductibilă doar în limita a 200 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.

(VIII) Contribuția opțională la fonduri de pensii facultative (Pilonul III), este deductibilă doar în limita a 200 Euro pe an.

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 Romania

### (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 impozitul 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 2,333 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 500 (for 2011) is available.

Dividends deriving from the J&J shares are not subject to taxation. Please note however, that the Slovak parliament has recently adopted a law under which dividends received by Slovak residents are subject to 14% health insurance contributions. The amendment applies to dividends paid from profits generated by the payer after 1 January 2011. Health insurance contributions are payable by the recipients through the so called annual settlement of health insurance ("*ročné zúčtovanie zdravotného poistenia*").

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 2,333 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 2 333 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 500 (pre rok 2011).

**Dividendy vyplácané z akcií spoločnosti J&J nie sú predmetom zdanenia. Je však potrebné upozorniť, že slovenský parlament nedávno prijal novelu zákona, podľa ktorej sa dividendy prijaté slovenskými rezidentmi stávajú predmetom odvodov na zdravotné poistenie vo výške 14%. Novela sa vzťahuje na dividendy vykázané zo ziskov dosiahnutých po 1. januári 2011. Prijemca dividend musí tieto priznať a odvieť v ročnom zúčtovaní zdravotného poistenia za príslušný rok.**

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 € 2 333 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)
Hodnota bonusu / akcií	€ 6,000	€ 6,000
Mínus: sociálne	- € 0	- € 0

	<b>Hotovosť</b>	<b>Pridelenie akcií (100 akcií x € 60)</b>
zabezpečenie (*)		
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)*)<sup>111</sup>. 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.

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<sup>111</sup> The validity of the Act on additional taxation of income of management and supervisory board members in the period of financial and economical crisis expired on December 31, 2010. However, if the legal entity received surety, guarantee or means for appeasement of financial and economical crisis on the basis of measures adopted by the Parliament of the Government of the Republic of Slovenia, the provisions of the respective Act apply (i) until the end of the tax year in which the surety, the guarantee or other measures for appeasement of consequences of the financial and economical crisis expire, or (ii) after the expiry of the tax year in which the surety, the guarantee or other measures for appeasement of consequences of the financial and economical crisis expire, if the income was received in connection to the activities carried out before or in the year the surety, the guarantee or other measures expire.

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)
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
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

Spodnja davčna analiza ne predvideva uporabe Zakona o dodatnem davku od dohodkov članov poslovdstev in nadzornih organov v času finančne in gospodarske krize (ZDDDČPNO)<sup>112</sup>. Določbe tega zakona bi se lahko uporabljale za člane uprave slovenske odvisne družbe J&J, če bi slovenska odvisna družba J&J prejela državno poročstvo oz. jamstvo ali bi bila deležna drugega ukrepa za blaženje posledic finančne in gospodarske krize.

### 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.

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<sup>112</sup> Zakon o dodatnem davku od dohodkov članov poslovdstev in nadzornih organov v času finančne in gospodarske krize (ZDDDČPNO) je prenehal veljati 31. decembra 2010. Vendar pa se v primeru, če je poslovni subjekt na osnovi ukrepov, ki jih je sprejel Državni zbor Republike Slovenije, prejel poročstvo, jamstvo ali drug ukrep za blaženje posledic finančne in gospodarske krize, določila navedenega zakona uporabljajo (i) do konca davčnega leta, v katerem se iztečejo poročstva, jamstva oziroma drugi ukrepi za blažitev posledic finančne in gospodarske krize; oziroma (ii) po izteku davčnega leta, v katerem se iztečejo poročstva, jamstva oziroma drugi ukrepi za blaženje posledic finančne in gospodarske krize, če so bili dohodki prejeti v povezavi z dejavnostmi, ki so se izvajale pred ali med letom, v katerem so se iztekla poročstva, jamstva oziroma drugi ukrepi za blažitev posledic finančne in gospodarske krize.

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)
<b>Vrednost gotovine / delnic</b>	<b>6.000 EUR</b>	<b>6.000 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 45%.

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 38,761.20 for year 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 45%. 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 38,761.20 for year 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

	<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	0	0
Less : income tax	- € 2,700	- € 2,700
<b>Net bonus</b>	<b>€ 3,300</b>	<b>€ 3,300</b>

(\*) No social security contributions due, as normal threshold has already been reached

(\*\*) Highest tax rate reached (45%) as of taxable income of EUR 175,000.20 onwards.

(\*\*\*) 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 45%.

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 2011 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 45%.

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 concesión 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 2011 de hasta 38,761.20EUR**. La entrega de acciones puede dar lugar a la aplicación de determinadas exenciones en material de seguridad social (véase apartado 23.2.1(i)). 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	-2.700 €	-2.700 €
<b>Incentivo neto</b>	<b>3.300 €</b>	<b>3.300 €</b>

(\*) Ninguna aportación a la seguridad social, ya que se ha alcanzado el umbral normal.

(\*\*) Tipo impositivo más elevado (45%) por unos ingresos imposables de 175,000.20 en adelante 53.360 EUR.

(\*\*\*) 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. 29% 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 420,477 (2011)** 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 29% 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.

As an alternative, the “standard rule” (according to which the acquisition cost is equal to 20% of the net sales price) may be applied on the sale of listed shares.

**Dividends derived from listed J&J shares are taxed at a flat rate of 30%.**

Note that any exchange rate gain may be taxed in the hands of the participant if not exchanged into SEK within 30 days.

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 420,477 (2011)** 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

	<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 (*)	- 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 548,300 SEK (approx. EUR 59,930)

## 24.2 Translated tax analysis: Bonus Plan

### 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 29% 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 420 477 SEK (2011). 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 29% 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%.

Notera att eventuella valutakursvinster kan komma att beskattas hos deltagaren om växling till SEK ej sker inom 30 dagar.

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 420 477SEK (2011). 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 548 300 SEK (cirka 59 930 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 10,600 for the 2011/12 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 (*)	- £ 120	- £ 120
Less : income tax	- £ 2,400	- £ 2,400
<b>Net bonus</b>	<b>£ 3,480</b>	<b>£ 3,480</b>

(\*) Social security rate of 2% (assuming 12% cap has already been reached through salary payments)