

# PROSPECTUS



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

(IRS employer identification No: 22-1024240)

## **Common Stock**

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

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Public Offering in Ireland

## **DePuy (Ireland) Employees Share Ownership Plan**

The shares offered hereby are the maximum number of shares of Johnson & Johnson (hereinafter “**Johnson & Johnson**” or the “**Company**” as the context may require) that may be offered by DePuy (Ireland) (the “**Offeror**”) to eligible participants pursuant to the DePuy (Ireland) Employees Share Ownership Plan (the “**Plan**”), as hereinafter described.

The securities to be offered consist of up to 65,000 shares of Johnson & Johnson Common Stock (the “**Common Stock**”), which are available for awards under the Plan.

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

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**The date of this Prospectus is 29 November 2011.**

**Table of Contents**

1. SUMMARY OF THE PROSPECTUS ..... 3

2. REGISTRATION DOCUMENT ..... 14

3. SECURITIES NOTE..... 134

## 1. SUMMARY OF THE PROSPECTUS

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

offered by  
DePuy (Ireland)

PUBLIC OFFERING IN AN EU MEMBER STATE

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

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

### **Approval by the 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 Plan as well as Johnson & Johnson. 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                                  |
| 2 | Securities Note       | Terms and Conditions of the Plan and features of the Common Stock |

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

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

**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 Plan**

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

### **Overview**

The purpose of the Approved Share Participation Scheme (“**ASPS**”) also known as an Employee Share Ownership Plan, is to allow employees to acquire shares in the parent company of their employing company in a tax efficient way. This is done by giving employees the choice to take part or all, of the employing company bonus in shares.

### **Eligibility**

The Plan must be open to all employees (including part-time and temporary employees) who have completed a minimum service period. The minimum period stipulated cannot exceed three years.

### **Share Price**

The shares are purchased and allocated to employees at market value. No discount is available.

### **Bonus**

To be eligible for inclusion in the ASPS, the bonus available for investment must be paid on “similar terms”. In this context similar terms means that the bonus is allocated to all employees on objective criteria such as length of service, level of basic salary, attendance etc. In more recent years, bonuses are often based on corporate or individual performance or a combination of both.

### **Salary Foregoing**

Employees may also apply a percentage of basic gross salary towards the purchase of additional shares. This is known as “salary foregoing”. The amount foregone cannot exceed 7.5% of basic salary or the amount of bonus used to purchase shares, whichever is the lower. The salary foregone option must be voluntary rather than compulsory.

### **Ownership**

Once the shares are allocated to the employee, they are beneficially owned by the employee. The trustees retain the legal ownership until the shares are sold by the employee or transferred into the employee’s name.

### **Income Tax for Employees**

There is no income tax deducted from any monies invested (bonus or salary foregoing) in shares under the ASPS. To retain this tax advantage, the shares must be held in trust for a three year holding period. However, with effect from 1 January 2011, the Universal Social Charge (USC) and employee PRSI (i.e. social security) will now apply on the amount of monies invested (bonus or salary foregoing) in shares under the ASPS. The USC applies at rates of between 2 – 7%, depending on the aggregate annual income level of the employee. Employee PRSI applies at a rate of 4%.

### **Holding Period**

Shares must be held in trust for a minimum period of two years. After two years (but before three years) from the date of purchase, employees may dispose of the shares but they will have to pay income tax (at their marginal rate of tax) on the shares. Shares held for three years or more can be sold free of income tax.

If an employee leaves the Offeror before the three year holding period has passed, the Offeror must allow the employee to leave the shares in trust until the end of the three year period.

At the end of the three year holding period, the trustees will write to each employee and advise them on what their options are in relation to the shares, e.g. sell, hold or transfer.

### **Capital Gains Tax for Employees**

A Capital Gains Tax (“**CGT**”) liability may arise when an employee disposes of the shares and makes a gain on the disposal. CGT is charged on the difference between the sales proceeds received when the shares are sold and the purchase price of the shares.

CGT is charged at a rate of 25%. An annual exemption from CGT of €1,270 is available to all individuals. Therefore, CGT will only apply if the employee realises capital gains, from all sources, in excess of €1,270 per annum.

### **Limits on Investment**

There is an overall limit, currently €12,700, on the total amount that can be used to purchase shares in any one tax year.

### **Trusteeship**

To comply with revenue requirements, independent trustees must be appointed under the trust deed and rules which governs the ASPS, and they must be Irish residents.

The Offeror passes the accumulated bonuses to the trustees. The trustees in turn use this money to purchase shares in the company on the stock exchange for the benefit of the participating employees. The trustees hold the shares for the employees during the holding period.

### **Administration**

The detailed administration of the Plan is carried out by trustees. Their role is to buy, hold and sell shares on behalf of employees and to ensure that the rules of the Plan are strictly observed.

### **Dividends**

If the Johnson & Johnson declares dividends on the shares, the dividends are paid to the trustees while the shares are held in trust. The trustees pay the dividends to employees on an annual basis. The trustees will deduct withholding tax, if applicable, before the dividends are paid to employees. The employees must declare the dividends in their annual tax return.

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

<b>Company</b>	Johnson & Johnson
<b>Form of Securities</b>	Common Stock
<b>Nominal Amount</b>	Par Value US\$1.00 per Share
<b>Listing</b>	New York Stock Exchange, Inc. (Symbol: JNJ)
<b>Subscription period</b>	From 7 February 2012 to 27 February 2012
<b>Applicable law</b>	State of New Jersey



## Information concerning Johnson & Johnson

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

### *Incorporation and purpose*

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

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

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

### *Legal proceedings*

The Company 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>1</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>1</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 2 to the Securities Note of the Prospectus contains a general description of the tax treatment of the Plan in the Member States of residence of the eligible participants in the Plan and deals in particular with the income tax, USC and social security treatment of a participant in the Plan. It does not purport to be a complete analysis of all tax and social security considerations relating to the Plan. Eligible participants should consult their tax advisers as to the consequences under the tax and social security laws of the Member State of which they are resident of receiving, holding and disposing of Common Stock under the Plan and receiving dividends under the Common Stock. The overviews set out in Annex 2 to the Securities Note of the Prospectus are based upon the law as in effect on the date of the Prospectus and is subject to any change in law that may take effect after such date.

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

## **Costs**

The cost and expenses of administering the Plan shall be borne by the Offeror. However all costs associated with the sale or transfer of shares shall be borne by the eligible employees.

## **Documentation and notices**

The Prospectus can be obtained free of charge from the Offeror. Requests should be directed to Human Resources Department of DePuy (Ireland), Loughbeg Industrial Estate, Ringaskiddy, Co. Cork, Ireland. 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>2</sup>

### Table of Contents

1	Persons Responsible .....	15
2	Statutory Auditors .....	15
3	Selected Financial Information of the Company .....	15
4	Risk Factors .....	17
5	Information about Johnson & Johnson .....	20
6	Business Overview .....	21
7	Organizational Structure .....	23
8	Property, plants and equipment .....	24
9	Operating and Financial Review .....	25
10	Liquidity and Capital Resources .....	34
11	Research and development .....	37
12	Trend information .....	38
13	Administrative, management, and supervisory bodies and senior management .....	38
14	Remuneration and benefits .....	44
15	Board practices .....	48
16	Employees .....	51
17	Major shareholders .....	56
18	Related party transactions .....	57
19	Financial information concerning the issuer's assets and liabilities, financial position and profits and losses .....	58
20	Additional information .....	124
21	Material contracts .....	132
22	Third party information and statement by experts and declarations of any interest .....	132
23	Documents on display .....	132
24	Information on holdings .....	132

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<sup>2</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>3</sup>

The management of DePuy (Ireland), a corporation incorporated under the laws of Ireland (hereinafter the “Offeror”), with its principal place of business at Loughbeg Industrial Estate, Ringaskiddy, Co. Cork, Ireland, is responsible for the information given in this Registration Document<sup>4</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>5</sup>.

## 2 Statutory Auditors<sup>6</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>7</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%	-	-
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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>3</sup> Item 1 of Annex I of the Regulation.

<sup>4</sup> Item 1.1 of Annex I of the Regulation.

<sup>5</sup> Item 1.2 of Annex I of the Regulation.

<sup>6</sup> Item 2 of Annex I of the Regulation.

<sup>7</sup> Item 3 of Annex I of the Regulation.

**Balance Sheet of Johnson & Johnson**

**Consolidated Balance Sheets – Johnson & Johnson and Subsidiaries<sup>8</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)

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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>8</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>9</sup>

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

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>9</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>10</sup>**

### **History and development of Johnson & Johnson<sup>11</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>10</sup> Item 5 of Annex I of the Regulation.

<sup>11</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>12</sup>**

### **6.1 Principal activities<sup>13</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> Pantiliners; 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>12</sup> Item 6 of Annex I of the Regulation.

<sup>13</sup> Item 6.1 of Annex I of the Regulation.

immune mediated inflammatory diseases; STELARA<sup>®</sup> (ustekinumab), a treatment for moderate to severe plaque psoriasis; SIMPONI<sup>®</sup> (golimumab), a treatment for adults with moderate to severe rheumatoid arthritis, psoriatic arthritis, and ankylosing spondylitis; VELCADE<sup>®</sup> (bortezomib), a treatment for multiple myeloma; PREZISTA<sup>®</sup> (darunavir) and INTELENCE<sup>®</sup> (etravirine), treatments for HIV/AIDS; NUCYNTA<sup>®</sup> (tapentadol), a treatment for moderate to severe acute pain; INVEGA<sup>®</sup> SUSTENNA<sup>™</sup> (paliperidone palmitate), for the acute and maintenance treatment of schizophrenia in adults; RISPERDAL<sup>®</sup> CONSTA<sup>®</sup> (risperidone), a treatment for the management of Bipolar I Disorder and schizophrenia; PROCRT<sup>®</sup> (Epoetin alfa, sold outside the U.S. as EPREX<sup>®</sup>), to stimulate red blood cell production; LEVAQUIN<sup>®</sup> (levofloxacin) for the treatment of bacterial infections; CONCERTA<sup>®</sup> (methylphenidate HCl), a treatment for attention deficit hyperactivity disorder; ACIPHEX<sup>®</sup>/PARIET<sup>®</sup>, a proton pump inhibitor co-marketed with Eisai Inc.; and DURAGESIC<sup>®</sup>/Fentanyl Transdermal (fentanyl transdermal system, sold outside the U.S. as DUROGESIC<sup>®</sup>), 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>14</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>15</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>14</sup> Item 6.2 of Annex I of the Regulation.

<sup>15</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>16</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>17</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>16</sup> Item 6.3 and 6.4 of Annex I of the Regulation.

<sup>17</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>18</sup>**

### **8.1 Material tangible Fixed Assets<sup>19</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>18</sup> Item 8 of Annex I of the Regulation

<sup>19</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>20</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>21</sup>

### 9.1 Cash Flows<sup>22</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>23</sup>

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<sup>20</sup> Item 8.2 of Annex I of the Regulation.

<sup>21</sup> Item 9 of Annex I of the Regulation.

<sup>22</sup> Item 9.1 of Annex I of the Regulation.

<sup>23</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\*:

(Dollars in Millions)	2010	2009	2008
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>24</sup>**

### **10.1 Cash Flows<sup>25</sup>**

Please refer to Section 9.1 of this Registration Document.

### **10.2 Borrowings<sup>26</sup>**

The components of long-term debt are as follows:

<b>(Dollars in Millions)</b>	<b>Effective</b>		<b>Effective</b>		<b>Effective</b>	
	<b>2010</b>	<b>Rate%</b>	<b>2009</b>	<b>Rate%</b>	<b>2008</b>	<b>Rate%</b>
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>24</sup> Item 10 of Annex I of the Regulation.

<sup>25</sup> Item 10.1 of Annex I of the Regulation.

<sup>26</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>27</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>27</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>28</sup>

Please refer to Section 9.2 of this Registration Document.

## 13 Administrative, management, and supervisory bodies and senior management<sup>29</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>28</sup> Item 12 of Annex I of the Regulation.

<sup>29</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>30</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>30</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 Long-Term Incentive Plan. 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 Long-Term Incentive Plan in the form of shares of restricted Common Stock having a fair market value of \$100,000 on the grant date. Accordingly, each Non-Employee Director was granted 1,650 shares of restricted Common Stock under the Long-Term Incentive Plan 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 Long-Term Incentive Plan in the form of shares of restricted Common Stock having a value of \$100,000 on the grant date. Accordingly, each Non-Employee Director was granted 1,596 shares of restricted Common Stock under the Long-Term Incentive Plan 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>31</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>31</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>32</sup>**

### **16.1 Numbers<sup>33</sup>**

<sup>32</sup> Item 17 of Annex I of the Regulation.

<sup>33</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>34</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>34</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>35</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 Long-Term Incentive Plan, 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.

<sup>35</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 Long-Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 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 Long-Term Incentive Plan 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:

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 Long-Term Incentive Plan 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>36</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>37</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%

<sup>36</sup> Item 18 of Annex I of the Regulation.

<sup>37</sup> Item 18.1 of Annex I of the Regulation.



State Street Corporation	138,223,181 shares	5.0%
State Street Financial Center		
One Lincoln Street		
Boston, Massachusetts 02111		

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

17.2 The Company has no parent company.<sup>38</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>39</sup>

## 18 Related party transactions<sup>40</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.

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<sup>38</sup> Item 18.3 of Annex I of the Regulation.

<sup>39</sup> Item 18.4 of Annex I of the Regulation.

<sup>40</sup> Item 19 of Annex I of the Regulation.

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

- compensation paid by the Company for service as a Director or executive officer of the Company.
- transactions with other companies where the related person's only relationship is as a 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 depository, transfer agent, registrar, trustee, or party performing similar banking services.

## **19 Financial information concerning the issuer's assets and liabilities, financial position and profits and losses<sup>41</sup>**

### **19.1 Historical Financial Information<sup>42</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>43</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)*

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<sup>41</sup> Item 20 of Annex I of the Regulation.

<sup>42</sup> Item 20.1 of Annex I of the Regulation.

<sup>43</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.

	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)	<b>\$7,617</b>	<b>6,318</b>	<b>3,732</b>
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>
<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
	<hr/>	<hr/>	<hr/>
	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
	<hr/>	<hr/>	<hr/>
<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)
	<hr/>	<hr/>	<hr/>
	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
	<hr/>	<hr/>	<hr/>
<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	2,939	2,774	2,832

property and intangibles			
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>	<b>\$19,355</b>	<b>\$15,810</b>	<b>\$10,768</b>
<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)
<b>Net cash paid for acquisitions</b>	<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	
	<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 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:

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

#### Note 8: Income Taxes

The provision for taxes on income consists of:

(Dollars in Millions)	2010	2009	2008
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	356	(436)	22
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:	\$16,947	15,755	16,929
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 – non-current	\$6,087	6,769

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>	Retirement Plans			Other Benefit Plans		
	2010	2009	2008	2010	2009	2008
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>
<b>Amounts Recognized in the Company's Balance Sheet consist of the following:</b>				
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>
<b>Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:</b>				
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>

<b>Accumulated Benefit Obligations – end of year*</b>	<b>\$13,134</b>	<b>11,687</b>		
<b>Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>				
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:

(Dollars in Millions)	Retirement Plans	
	2010	2009
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:

(Dollars in Millions)	2011	2012	2013	2014	2015	2016-2020
<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>	2011	2012	2013	2014	2015	2016-2020
<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</b>							
	<b>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>	\$7	15	15	29	85	151
Realized gains (losses)	-	-	-	3	-	3
Unrealized gains (losses)	2	(2)	(2)	-	(3)	(5)
Purchases, sales, issuances and settlements, net	(4)	2	13	-	-	11
<b>Balance 3 January 2010</b>	<b>5</b>	<b>15</b>	<b>26</b>	<b>32</b>	<b>82</b>	<b>160</b>
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 charges	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 Long-Term Incentive Plan, 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 Long-Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 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 Long-Term Incentive Plan as of 2 January 2011, 3 January 2010 and 28 December 2008 and changes during the years ending on those dates is presented below:

<b>(Shares in Thousands)</b>	<b>Outstanding Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value (Dollars in Millions)</b>
Shares at 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:

<b>(Shares in Thousands)</b>	<b>Outstanding</b>			<b>Exercisable</b>		
	<b>Exercise Price Range</b>	<b>Options</b>	<b>Average Life<sup>(1)</sup></b>	<b>Average Exercise Price</b>	<b>Options</b>	<b>Average Exercise Price</b>
	\$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 Long-Term Incentive Plan 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**

<i>(Dollars in Millions)</i>	<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
<b>Total</b>	<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
<b>Total</b>	<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
<b>Total</b>	<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>	<b>Operating Profit</b>			<b>Identifiable Assets</b>		
	<b>2010<sup>(5)</sup></b>	<b>2009<sup>(6)</sup></b>	<b>2008<sup>(7)</sup></b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
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
<b>Total</b>	<b>17,700</b>	<b>16,582</b>	<b>17,502</b>	<b>66,991</b>	<b>68,984</b>	<b>64,088</b>
Less: Expense not allocated to segments <sup>(3)</sup>	753	827	573			
General corporate <sup>(4)</sup>				35,917	25,698	20,824
<b>Worldwide total</b>	<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, Africa	11,077	9,918	9,483	2,089	1,868	1,898
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:

<i>(Dollars in Millions Except Per Share Data)</i>	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>(1)</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 Divestitures**

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>44</sup>:

<i>(Dollars in Millions)</i>	Severance
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<sup>44</sup> For additional information on the restructuring as it relates to the segments, see Note 18.

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>45</sup>

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

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

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

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 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>47</sup>

The latest financial information included herein is derived from the audited financial information as set out in Annual Report for the fiscal year ended 2 January 2011.

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

In this section, the Notes refer to the notes included in the FORM 10-Q (Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended 2 October 2011) of the Company, which is available on the website of the Company ([www.jnj.com](http://www.jnj.com)).

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

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

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

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

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

**Assets**

	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
<b>Total assets</b>	<b>\$ 111,821</b>	<b>\$ 102,908</b>

**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	5,240	32.7	4,709	31.4

administrative expenses				
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
NET EARNINGS	3,202	20.0%	3,417	22.8%
NET EARNINGS PER SHARE (Note 8)				
Basic	1.17		1.24	
Diluted	1.15		1.23	
CASH DIVIDENDS PER SHARE	0.57		0.54	
AVG. SHARES OUTSTANDING				
Basic	2,737.0		2,751.6	
Diluted	2,778.2		2,786.4	

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

On 9 July 2007, the Company announced that its Board of Directors approved a stock repurchase program authorizing the Company to buy back up to \$10.0 billion of the Company's Common Stock. 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

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



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>50</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, 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 ® , the ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System, the PINNACLE ® Acetabular Cup System, RISPERDAL ® , pelvic meshes, the CYPHER ® Stent and DURAGESIC ® /fentanyl patches. As of October 2, 2011, there were approximately 3,500 claimants who have pending lawsuits regarding injuries allegedly due to LEVAQUIN ® , 3,500 with respect to the ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System, 560 with respect to the PINNACLE ® Acetabular Cup System, 500 with respect to RISPERDAL ® , 350 with respect to pelvic meshes, 90 with respect to the CYPHER ® Stent, and 80 with respect to DURAGESIC ® /fentanyl patches.

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. 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™ Hip recall program.

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

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 ® 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-CYCLLEN® 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-CYCLLEN® 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-CYCLLEN® 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-CYCLLEN® 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-CYCLLEN® 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-CYCLLEN® 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 RISPERDAL ® .

#### 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® Stent	Cordis	Wall	Wall	E.D. TX	Q2/11	11/07
CYPHER® 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®	Centocor/ COBI	Salfeld	Abbott Laboratories	MA	*	05/09
SIMPONI®	Centocor/ COBI	Boyle	Bayer Healthcare	MA	***	08/09
STELARA®	Centocor/ COBI	Salfeld	Abbott GmbH	MA	*	08/09

\* Trial date to be scheduled.

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

\*\*\* 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>51</sup>

### 20.1 Share Capital<sup>52</sup>

Article 4 of the Company's Restated Certificate of Incorporation specifies that "The aggregate number of shares of all classes of stock which the Corporation has authority to issue is Four Billion Three Hundred Twenty Two Million (4,322,000,000), divided into Two Million (2,000,000) shares of Preferred Stock without par value and Four Billion Three Hundred Twenty Million (4,320,000,000) shares of Common Stock of the par value of One Dollar (\$1.00) each. The shares of any class of stock of the Corporation may be issued from time to time in such manner and for such lawful consideration as may from time to time be fixed by the Board of Directors and, in the case of shares of Preferred Stock, the Board of Directors shall have discretion to determine what portion of the consideration received for such shares to allocate to capital surplus".

On 3 October 2010 the Shareholders' equity of the Company was as follows:

- i. Preferred stock – without par value: authorized and unissued: 2,000,000 shares
- ii. Common stock – par value \$1.00 per share: authorized 4,320,000,000 shares; and issued 3,119,843,000 shares

As of 3 October 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>51</sup> Item 21 of Annex I of the Regulation.

<sup>52</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>53</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>53</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, arbitral, 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>54</sup>**

None.

## **22 Third party information and statement by experts and declarations of any interest<sup>55</sup>**

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

## **23 Documents on display<sup>56</sup>**

For the life of this Registration Document the following documents (or copies thereof), may be inspected at the Company's website ([www.jnj.com](http://www.jnj.com)):

- (a) the Restated Certificate of Incorporation of the Company as well as its By Laws;
- (b) the Company's filings with the U.S. Securities and Exchange Commission ("SEC");
- (c) the Company's Annual Reports and Proxy Statements.

The Offeror 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: Human Resources Department of DePuy (Ireland) Limited, Loughbeg Industrial Estate, Ringaskiddy, Co. Cork, Ireland..

## **24 Information on holdings<sup>57</sup>**

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

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<sup>54</sup> Item 22 of Annex I of the Regulation.

<sup>55</sup> Item 23 of Annex I of the Regulation.

<sup>56</sup> Item 24 of Annex I of the Regulation.

<sup>57</sup> Item 25 of Annex I of the Regulation.

### 3. SECURITIES NOTE<sup>58</sup>

#### Table of Contents

1	Persons responsible.....	135
2	Risk factors .....	135
3	Key information .....	137
4	Information concerning the securities to be offered .....	137
5	Terms and conditions of the offer.....	140
6	Admission to trading and dealing arrangements.....	144
7	Selling securities holders .....	144

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<sup>58</sup> This Section is established in accordance with the Schedule set out in Annex III –“*Minimum disclosure requirements for the Share Securities Note (schedule)*” of the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ L 149, 30.4.2004), Corrigendum, Official Journal L 215, 16/06/2004 (the “**Regulation**”). Correspondence with each Item in Annex III is indicated in the footnotes.

## 1 Persons responsible<sup>59</sup>

The management of DePuy (Ireland), a corporation incorporated under the laws of Ireland (hereinafter the “**Offeror**”), with its principal place of business at Loughbeg Industrial Estate, Ringaskiddy, Co. Cork, Ireland, is responsible for the information given in this Securities Note<sup>60</sup>. The Offeror confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Securities Note is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.<sup>61</sup>

## 2 Risk factors<sup>62</sup>

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

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

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

- Economic factors, including inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Competitive factors, including technological advances achieved and patents attained by competitors as well as new products introduced by competitors;
- Challenges to the Company’s patents by competitors or allegations that the Company’s products infringe the patents of third parties, which could potentially affect the Company’s competitive position and ability to sell the products in question and require the payment of past damages and future royalties. In particular, generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company’s key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event that the Company is not successful in defending the resulting lawsuits, generic versions of the product at issue will be introduced, resulting in very substantial market share and revenue losses;

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<sup>59</sup> Item 1 of Annex III of the Regulation.

<sup>60</sup> Item 1.1 of Annex III of the Regulation.

<sup>61</sup> Item 1.2 of Annex III of the Regulation.

<sup>62</sup> Item 2 of Annex III of the Regulation.

- Financial distress and bankruptcies experienced by significant customers and suppliers that could impair their ability, as the case may be, to purchase the Company's products, pay for products previously purchased or meet their obligations to the Company under supply arrangements;
- 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>63</sup>

**3.1** In the Company's opinion, the working capital of the Company is sufficient for the Company's present operational requirements.<sup>64</sup>

**3.2** The capitalization and indebtedness of Johnson & Johnson:

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

**3.3** The purposes of the offer of the DePuy (Ireland) Employees Share Ownership Plan (the "**Plan**") is to enable eligible employees to purchase shares in Johnson & Johnson in a tax-efficient manner and to provide employees with a benefit which is prevalent in the pharmaceutical industry in Ireland.<sup>65</sup>

**3.4** The purpose of the Plan is to align the interests of the participants with those of the shareholders of the Company by allowing the participants to purchase shares of Common Stock in a tax efficient manner.<sup>66</sup>

### 4 Information concerning the securities to be offered<sup>67</sup>

**4.1** The securities offered under the Plan are shares of Common Stock of Johnson & Johnson.

The shares of Common Stock offered have a par value of US\$1.00 per share. The trading symbol on the New York Stock Exchange is "JNJ".<sup>68</sup>

**4.2** The securities have been created in accordance with the laws that govern the Company, i.e. under the Laws of the State of New Jersey, USA.

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 Ireland.<sup>69</sup>

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<sup>63</sup> Item 3 of Annex III of the Regulation.

<sup>64</sup> Item 3.1 of Annex III of the Regulation.

<sup>65</sup> Item 3.3 of Annex III of the Regulation.

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

<sup>67</sup> Item 4 of Annex III of the Regulation.

<sup>68</sup> Item 4.1 of Annex III of the Regulation.



- 4.3** Each share of Common Stock issued or transferred pursuant to the Plan shall be evidenced by an interest in such share registered in the name of the participant on the books and records of the Company or its designee (or by a physical certificate if such a certificate is issued with respect to such share).<sup>70</sup>
- 4.4** The currency of the issue is in principle US \$. However, the obligations of the Company to deliver shares of Common Stock shall be subject to currency and other restrictions imposed by any government<sup>71</sup>.
- 4.5** An eligible employee shall have no rights as a holder of shares of Common Stock with respect to shares hereunder unless and until the shares are appropriated by the trustee 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 Common 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 Common Stock of the Company of any class now or hereinafter authorized, or any part-paid receipts or allotment certificates in respect of any such shares, or any securities convertible into or exchangeable for any such shares, or any warrants or other instruments evidencing rights or options to subscribe for, purchase or otherwise acquire any such shares, whether such shares, receipts, certificates, securities, warrants or other instruments be unissued or issued and thereafter acquired by the Company.

The Company's board of directors shall have the power in its discretion to declare and pay dividends upon the shares of stock of the Company of any class out of any assets of the Company lawfully available for the payment of dividends.<sup>72</sup>

- 4.6** No rights or interests 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>73</sup>
- 4.7** There are no mandatory takeover bids and/or squeeze-out and sell-out rules in relation to the securities.<sup>74</sup>
- 4.8** 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>75</sup>

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<sup>69</sup> Item 4.2 of Annex III of the Regulation.

<sup>70</sup> Item 4.3 of Annex III of the Regulation.

<sup>71</sup> Item 4.4 of Annex III of the Regulation.

<sup>72</sup> Item 4.5 of Annex III of the Regulation.

<sup>73</sup> Item 4.8 of Annex III of the Regulation.

<sup>74</sup> Item 4.9 of Annex III of the Regulation.

**4.9** The Offeror shall have the right to deduct from all bonuses paid in cash any federal, state, local, or foreign taxes required by law to be withheld with respect to such bonuses and, with respect to bonuses 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 Offeror, all such taxes shall be withheld, to the extent permissible and practicable, from the portion of such bonus that is payable in cash before it is withheld or paid from any other source.<sup>76</sup>

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<sup>75</sup> Item 4.10 of Annex III of the Regulation.

<sup>76</sup> Item 4.11 of Annex III of the Regulation.

## 5 Terms and conditions of the offer<sup>77</sup>

### 5.1 Conditions, offer statistics, expected timetable and action required to apply for the offer<sup>78</sup>

5.1.1 This Securities Note concerns the offer of shares of Common Stock of the Company in accordance with the terms and conditions of the Plan. Annex 1 contains the Plan documents.

**Any defined term in this Securities Note refers to the Definitions included in the Plan.**

The granting of a bonus for use in the Plan is subject to the Offeror's discretionary decision. If the Offeror decides to offer a bonus to all employees and offers the opportunity to employees to participate in the Plan, employees must decide whether or not they wish to invest part or all of their bonus in the Plan. Employees must also decide whether or not they wish to salary forego and to what extent.

To participate an employee must complete the Contract of Participation and/or an Application Form. Employees may obtain these forms from the Human Resources Department. A participant only needs to complete the Contract of Participation when they first join the Plan. The Application Form must be completed each time an employee wishes to invest in the Plan. On the Application Form an employee should indicate whether he/she wishes to invest his/her bonus only or his/her bonus plus an amount from salary. When the forms are complete, they should be returned to the Human Resources Department. From 2012, employees shall apply to participate in the Plan via an online enrolment system and there will no longer be a need to complete paper forms.

Further information about the Plan can be found in the Plan documents which are attached as Annex 1 to this Securities Note.

The Plan is governed by Rules designed to meet the requirements of the Irish Revenue Commissioners (such Rules are attached as Annex 1 to this Securities Note). In the event of any discrepancy or inconsistency between the Prospectus and the Rules, the latter will prevail. A copy of the Trust Deed and Rules is available on request from the Human Resources Department and you should refer to the Trust Deed and Rules to determine your rights under the Plan.

Subject to the terms and conditions of the Plan, the Offeror may offer eligible employees the opportunity to invest bonus and salary in shares. If eligible employees choose to invest these monies in shares, these monies shall be passed to the trustee. The trustee shall invest this money on the same date for all eligible employees. Shares shall be purchased on the open market at market value and appropriated to the eligible employees.

The bonus which can be invested in shares is a company bonus and the Irish Revenue Commissioners must approve the bonus. The bonus can be a fixed percentage of

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<sup>77</sup> Item 5 of Annex III of the Regulation.

<sup>78</sup> Item 5.1 of Annex III of the Regulation.

salary or a percentage of salary which fluctuates based on company and/or personal performance.

Any tax year in which employees invest some or all of their bonus in the Plan and the Offeror offers the salary foregoing facility, the employees may increase their share entitlement by also foregoing salary. Foregoing salary means that the employee takes a reduced salary and invests the amount of the salary reduction in the Plan.

Salary foregoing can be deducted from one month's salary or can be deducted over a number of months and is invested in October/November. . An employee may request that any salary foregoing can be repaid at any stage prior to the investment date, in which case the salary foregoing collected will be repaid through payroll with income tax, USC and social security taxes deducted as normal.

There is a Revenue limit on the amount of salary that an employee may forego for investment in the Plan. An employee may only forego the lesser of:

- 7.5% of annual Basic Salary (i.e. the gross basic remuneration of an Eligible Employee for a Year of Assessment which includes paid holidays and sick leave and which may include shift differentials but excluding overtime and any other fluctuating emoluments), or
- the equivalent of the amount of bonus used to purchase shares.

The Revenue Commissioners' current limit on the total amount (bonus plus salary foregone) an employee may use to purchase shares through the Plan is €12,700 each year.

An employee may not carry forward any bonus or salary foregone paid in the current year for the purposes of investment in subsequent years.

#### Example 1

An employee earns €50,000 and is offered a bonus of 6.5% which he can invest in the Plan. He chooses to invest the full €3,250 (6.5% x €50,000) bonus in shares.

Employee also decides to salary forego to the maximum. The limits on salary foregoing are the lower of:

- (a) The amount invested in shares i.e.€3,250, or
- (b) 7.5% of €50,000 = €3,750.

So investment from salary is limited to €3,250 giving a total investment of €6,500

#### Example 2

An employee earns €50,000 and is offered a bonus of 10% which he can invest in the Plan. He chooses to invest the full €5,000 (10% x €50,000) bonus in shares.

Employee also decides to salary forego to the maximum. The limits on salary foregoing are the lower of:

- (a) The amount invested in shares i.e. €5,000, or
- (b) 7.5% of €50,000 = €3,750.

So the investment from salary foregoing is limited to €3,750 giving a total investment of €8,750

The Offeror will transfer sufficient funds to enable the trustees to purchase shares at the same time as the cash bonus is paid out to employees who have elected not to invest in the Plan.

The shares will be purchased and allocated to eligible employees in March and November 2012.

All amounts (bonus and salary) are invested on a pre-tax basis. This tax advantage is retained if the shares are allowed to remain in trust for 3 years.

**5.1.2 The amount of the offer will be up to 65,000 shares of Johnson & Johnson Common Stock.**

The stock price that will be used to convert a portion of the bonus value into shares of Johnson & Johnson Common Stock will be determined as follows:

The stock price is equal to the trading price of the Johnson & Johnson Common Stock on the New York Stock Exchange at the time the stock is purchased.

**5.1.3** The Plan is offered to the eligible employees as from 7 February 2012. The offer shall close on 27 February 2012 (the “**Offer**”).

**5.1.4** The Offeror 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 shares purchased prior to the date of such termination or amendment.

Notwithstanding the foregoing, unless the Offeror’s shareholders have first approved the amendment, no amendment to the Plan shall be effective if shareholder approval of the amendment is required by either applicable law or the rules of the principal securities exchange on which shares of Common Stock are traded.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, combination, exchange of shares or other change in corporate structure affecting any class of Common Stock, the Offeror shall make such adjustments to the class and aggregate number of shares to be delivered under the Plan as the Offeror may determine to be appropriate.

**5.1.5** Eligible employees will have the possibility to subscribe for shares of Common Stock of the Company up to a limit of €12,700 per annum, subject to the terms and conditions of the Plan.

**5.1.6** In the event of a participant's death his/her shares may be transferred to his/her personal representatives, or the shares may be sold and the proceeds paid to his/her representatives. No income tax, USC, social security or capital gains tax will be payable at the time of transfer or sale (regardless of how long the shares have been held in trust).

If a participant leaves the Offeror other than in the specific circumstances mentioned below, his/her shares will continue to be held by the Trustee until the three year anniversary, as if he/she were still employed by the Offeror. Once the three years

have expired he/she will be required to either sell the shares or transfer them into his/her own name or a broker's account in his/her own name.

If a participant reaches the State Pensionable Age (age 66) or leaves the Offeror due to injury, disability or redundancy (within the meaning of the Redundancy Payments Acts 1967 to 2003), he/she may instruct the Trustee to transfer the shares to his/her name or to sell them on his/her behalf at any stage up to the end of the three year holding period. However, due to the potential tax liabilities, the Trustee will continue to hold his/her shares for him/her until three years from the date of allocation unless he/she instructs them to do otherwise. In these particular circumstances, if the participant instructs the sale or transfer of his/her shares within three years of the date they were allocated, the amount liable to income tax is only 50% of the original cost of the shares (or the market value as at the date of the sale or transfer - if lower). If the sale or transfer occurs more than three years from the allocation date, then as previously indicated, no income tax will be payable.

In either case there may be some capital gains tax to pay on a sale.

## **5.2 Plan of distribution and allotment<sup>79</sup>**

**5.2.1** The securities are only offered to the Offeror's eligible employees.

**5.2.2** No major shareholders can subscribe in the offer.

**5.2.3** The managers will notify the employees of their bonus amounts. The employees will be notified of the number of shares by the trustee – the employees will receive a letter to their home address from the trustee.

## **5.3 Pricing<sup>80</sup>**

The number of shares granted shall be stated as a fraction of a share.

The choice an employee has made will be given effect only if he is an eligible employee as defined in the Employee Share Plan.

If an eligible employee does not make a choice, he will receive 100 percent of his bonus in cash.

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

## **5.4 Placing and Underwriting<sup>81</sup>**

Please refer to the Plan.

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<sup>79</sup> Item 5.2 of Annex III of the Regulation.

<sup>80</sup> Item 5.3 of Annex III of the Regulation.

<sup>81</sup> Item 5.4 of Annex III of the Regulation.

## **6 Admission to trading and dealing arrangements<sup>82</sup>**

**6.1** The securities offered are listed on the New York Stock Exchange.<sup>83</sup>

**6.2** There are no other markets 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>84</sup>

## **7 Selling securities holders<sup>85</sup>**

The shares of Common Stock offered under the Plan, are issued or transferred by the Company or purchased on the open market.

Should you have further questions with respect to the Plan, 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 the Offeror to inform themselves about and to observe any such restrictions.

#### ***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.

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<sup>82</sup> Item 6 of Annex III of the Regulation.

<sup>83</sup> Item 6.1 of Annex III of the Regulation.

<sup>84</sup> Item 6.2 of Annex III of the Regulation.

<sup>85</sup> Item 7 of Annex III of the Regulation.

## 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

PROCRIPT/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  
PLAN DOCUMENTS**

Dated 10th December 1997

**JOHNSON & JOHNSON PROFESSIONAL  
(IRELAND) LIMITED**

**-and-**

**IRISH PENSIONS TRUST LIMITED**

**TRUST DEED AND RULES**

**constituting the**

**JOHNSON & JOHNSON PROFESSIONAL  
IRISH EMPLOYEES SHARE OWNERSHIP PLAN**

August 1997 - Final Version

110  
12/11/97  
THIS TRUST DEED is made the <sup>day</sup> of November One thousand nine hundred and ninety seven

**BETWEEN:-**

- (1) **JOHNSON & JOHNSON PROFESSIONAL (IRELAND) LIMITED** (registered in Ireland No. 263572) whose registered office is at Eugene F. Collins, 61 Fitzwilliam Square, Dublin 2 (hereinafter called "the Company") of the one part; and
- (2) **IRISH PENSIONS TRUST LIMITED** (registered in Ireland No. 20990) whose registered office is at 25-28 Adelaide Road, Dublin 2 (hereinafter called "the Trustees" which expression shall include the trustee or trustees for the time being hereof) of the other part.

**WHEREAS:-**

- (A) The Directors have determined to establish the Johnson & Johnson Professional Employees Share Ownership Plan as an employees' share plan for approval by the Revenue Commissioners in accordance with Chapter IX of Part I of the Finance Act 1982 ("the Act") for the purpose of providing for employees' and directors' benefits in the nature of interests in shares.
- (B) The Trustees have agreed to act as the first trustees of the Plan.



**NOW THIS DEED WITNESSETH** and it is hereby agreed as follows:-

**1 General**

- 1.1 IN this Deed unless the context otherwise requires words and expressions defined in the Rules shall bear the same meanings herein and the provisions of the Rules set out in the First Schedule together with the Second and Third Schedules hereto shall be deemed to be incorporated herein.
- 1.2 The Johnson & Johnson Professional Irish Employees Share Ownership Plan is hereby established.

**2 Participating Company Contributions**

- 2.1 EACH Participating Company shall pay to the Trustees the amount due from it pursuant to Rule 3 for the purpose of the acquisition of Shares by the Trustees in accordance with the Plan together with any other amount required to cover any costs, charges and expenses incurred in such acquisition and any other expenses and charges incurred by the Trustees in the operation of the Plan.
- 2.2 Each Participating Company shall provide the Trustees with all information which is necessary for the purposes of the Plan and the Trustees shall be entitled to rely on such information in good faith without further enquiry.

2.3 Subject as hereinafter provided the Trustees hereby covenant with each Participating Company to apply such sums received for that purpose in the acquisition of Shares in accordance with the Rules and to hold the same once appropriated upon trust for the respective Participants entitled thereto subject to the provisions of the Plan.

2.4 The Trustees shall hold:

2.4.1 any unutilised cash balance arising under paragraph 2.3; and

2.4.2 any income therefrom to be applied in accordance with Clause 14.

### 3 Declaration of Trust

THE Trustees shall hold Plan Shares upon trust for the benefit of the Participants to whom Plan Shares have been appropriated in accordance with the Rules provided always that the Trustees:

3.1 shall not dispose of any Plan Shares whether by transfer to a Participant or otherwise before the end of the Period of Retention applicable thereto except in the circumstances mentioned in Section 52(3)(a), (b) or (c) of the Act;

3.2 shall not dispose of any Plan Shares after the end of the Period of Retention (but before the Release Date) applicable thereto except pursuant to Rule 5.1 nor in such a way that such a transaction would involve a breach of that Participant's obligations under Section 52(1) (c) or (d) of the Act; and

3.3 shall deal with any right conferred in respect of Plan Shares to be allotted other shares, securities or rights of any description only in accordance with Rule 6 and as directed by or on behalf of the Participant or any person in whom the beneficial interest in his shares is for the time being vested.

### 4 Distribution of trust fund

SUBJECT to any such direction as is referred to in Section 54(3) of the Act, the Trustees shall pay over to a Participant any money or money's worth received by them in respect of or by reference to any of his Plan Shares other than money consisting of a sum referred to in Section 52(1)(c) of the Act or money's worth consisting of New Shares within the meaning of Section 55 of the Act.

### 5 Appropriation of plan shares

AS soon as practicable after any Plan Shares have been appropriated to a Participant the Trustees shall give him notice in writing of the appropriation:

5.1 specifying the number and description of those Shares; and

5.2 stating their Initial Market Value and their Appropriation Date.

## 6 Maintenance of records

THE Trustees shall prepare and keep all such accounts and records as may be required for the purpose of the Plan and shall once at least in every year submit accounts to the Company and the Company may cause such accounts to be made up and audited by qualified accountants. In particular the Trustees shall:

- 6.1 maintain such records as may be necessary to enable them to carry out their obligations under Chapter IX of Part I to the Act;
- 6.2 inform a Participant who becomes liable to income tax under Schedule E in relation to the operation of the Plan of any facts of which they are aware relevant to the determination of that liability; and
- 6.3 be liable for any liability to tax properly incurred by the Trustees in the course of the operation of the Plan.

## 7 Participating companies

THE Directors may at any time:

- 7.1 direct that any Subsidiary, not being a party to this Deed but otherwise eligible to be a Participating Company, shall, upon entering into a Deed supplemental hereto in such form as the Directors and the Trustees shall require, become bound by the provisions hereof; or
- 7.2 by Deed supplemental hereto declare that any Participating Company shall cease to be bound by the provisions hereof.

## 8 Trustee liability

THE Trustees shall not be liable to satisfy any monetary obligations under the Plan (including but without prejudice to the generality of the foregoing any monetary obligations to Participants) beyond the sums of money (including income) from time to time in their hands or under their control as Trustees of the Plan and properly applicable for that purpose.

## 9 Costs and Expenses

- 9.1 THE costs, charges, expenses and other liabilities of the establishment of the Plan and of the preparation and execution of this Deed shall be borne by the Company.
- 9.2 All costs, charges, expenses and other liabilities of, and incidental to, the administration, operation and determination of the Plan (including any remuneration of the Trustees and any tax or duty for which the Trustees may be accountable to the Revenue Commissioners arising from or in connection with the Plan) shall be borne by the Participating Companies in proportion to the Plan Shares for the time being appropriated to their respective Participants or otherwise as the Directors may determine if and to the extent that the same cannot properly be paid by the Trustees out of funds in their hands available for the purpose.

10 **Participating company's covenants**

- 10.1 EACH Participating Company hereby covenants with the Trustees that it shall at all times hereafter keep the Trustees and their successors and assigns fully indemnified and saved harmless against all claims, losses, demands, actions, proceedings, charges, expenses, costs, damages, taxes, duties and other liabilities that may be suffered or incurred by them or by any of them in connection with the Plan in any manner whatsoever but without prejudice to the provisions of this Deed and so that no Trustee shall be indemnified hereunder or exonerated in respect of any fraud, wilful default or negligence on his part and in addition the Trustees shall have the benefit of all indemnities conferred upon trustees generally by the law.
- 10.2 In the professed operation of the Plan and of these trusts no Trustee shall be liable for any loss arising by reason of any mistake or omission made in good faith by him or it or by reason of any other matter or thing including the fraud, negligence or default of another Trustee, nominee, agent (whether or not the employment of such agent was strictly necessary or expedient), officer or other delegate unless fraudulent, in wilful default or negligent himself.

11 **Trustees' powers and discretions**

THE Trustees shall have the following powers and discretions in addition to those conferred upon them by the general law:

- 11.1 full power and discretion to agree with the Company all matters relating to the operation and administration of the trusts of this Deed and so that no person claiming any interest under such trusts shall be entitled to question the legality and correctness of any arrangement or agreement made between the Company and the Trustees in relation to such operation and administration;
- 11.2 power to arrange for the Company to account to the Revenue Commissioners or other authority concerned for any amounts received by the Trustees pursuant to the Plan and required to be paid to the Revenue Commissioners in respect of income tax or any other payment required by statute; and
- 11.3 power by resolution:
- 11.3.1 to authorise the manner in which cheques and other documents shall be signed on their behalf; and
- 11.3.2 to delegate the signing of such cheques and documents to such persons as they shall think fit.

12 **Directions to trustees**

THE Trustees shall comply with any directions given by the Directors pursuant to this Deed and the Rules and shall not be under any liability in respect thereof to any Participating Company or to any Participant.

13 **Retirement of trustees**

- 13.1 ANY Trustee may retire from the trusts hereby constituted at any time by giving to the Company and the remaining Trustees (if any) not less than three months' written notice and the retiring Trustee shall upon the expiry of such notice cease to be a Trustee and shall not be responsible for any costs occasioned by such retirement and cessation. In the event that any Trustee who wishes to retire is the sole Trustee of the Plan or in the event that upon such resignation taking effect there would be only one Trustee of the Plan and that Trustee is not a body corporate the Company shall appoint a new Trustee on or before the date when such retirement is to take effect.
- 13.2 Where a body corporate is the sole trustee, the Company may by resolution of the Directors, with the prior written approval of the Revenue Commissioners, remove the Trustees or any of them from office and forthwith upon the passing of such resolution such resolution shall be immediately effective. The Company hereby declares and confirms the independence of the Trustees in the exercise of all their functions and obligations under the Plan and undertakes that it shall not seek to influence them in any manner. The Trustees shall at all times administer the Plan impartially and in strict accordance with this Deed and the Rules appended hereto.
- 13.3 Where a body corporate is the sole trustee, the power to appoint additional or new Trustees shall be vested in the Directors.
- 13.4 The minimum number of Trustees shall be three unless a body corporate shall be a Trustee in which case that body corporate may be sole Trustee.
- 13.5 If the Directors shall not appoint a new Trustee or new Trustees with effect from the date of expiry of the notice referred to in paragraph 13.1 the Trustees may exercise such power by executing an instrument in writing signed by them as is necessary to appoint a new Trustee or new Trustees.
- 13.6 The Trustees (and, if more than one, each of them) shall be resident in the Republic of Ireland for the purposes of the Taxes Act.

14 **The residual fund**

THE Trustees shall hold and apply the Residual Fund as follows:-

- 14.1 in paying the costs, charges and expenses incurred in the operation of the Plan as they in their absolute discretion shall determine; and
- 14.2 subject thereto, if so instructed by the Directors, to acquire Shares in accordance with Rule 3 and to hold the same once appropriated in accordance with the provisions of the Plan or in the case of Shares held as part of the Residual Fund, to appropriate them in accordance with Rule 3; and
- 14.3 subject as aforesaid any moneys at any time which are not immediately required to be applied by the Trustees in a particular manner may be placed on deposit (either with or without interest at the discretion of the Trustees) with any bank



or other deposit taking institution in the Republic of Ireland either with or without security as the Trustees may determine; and

- 14.4 upon the determination of the Plan and to the extent that the Residual Fund has not been applied as aforesaid the Trustees shall sell any Shares comprised in the Residual Fund for the best consideration in money reasonably obtainable and shall pay or transfer the proceeds of such sale together with any other moneys then comprised in the Residual Fund to any Participating Companies in proportion to the total moneys provided by each of them to the Trustees.

**15 Trustee remuneration for services**

- 15.1 ANY Trustee being an individual shall be entitled to receive and retain as remuneration for his services hereunder such sum or sums as may from time to time be agreed with the Company.
- 15.2 Any Trustee, being a solicitor, accountant, stockbroker or engaged in any other profession or business, shall be entitled to be paid all reasonable professional or proper charges for services rendered including acts which such Trustee, not being engaged as aforesaid, could have done personally.
- 15.3 Any Trustee, being a body corporate (whether or not a trust corporation), may charge and be paid such reasonable remuneration or charges as shall from time to time be agreed in writing between the Company and such body corporate and any such body corporate (being a bank) shall be entitled (without being liable to account for any profit or advantage so obtained) to act as banker and perform any services in relation to the Plan on the same terms as would be made with a customer in the ordinary course of its business as a banker.

**16 Trustees who are participants**

ANY Trustee, otherwise eligible to be a Participant, may be so and may retain for his absolute benefit all the interest to which he is entitled as a Participant in any Plan Shares acquired or received for him and any other money or money's worth accruing to him as such and exercise all rights to which he is entitled as a Participant.

**17 Trustees who are directors**

ANY Trustee, who shall be or become a director of or holder of any other office or employment in the Company, may retain for his own absolute benefit any fees or remuneration received by him in connection with such office or employment notwithstanding that his appointment to or retention of such office or employment may be directly or indirectly due to the exercise or non-exercise of any votes in respect of any stock, shares or other securities in the Company held by the Trustees or other persons on their behalf under the trusts of the Plan.

**18 Trustees who own shares**

NO Trustee, nor any holding company of a corporate Trustee, nor any subsidiary of such holding company, nor any director or officer of a body corporate acting as Trustee shall be precluded from underwriting, purchasing, holding, dealing in and disposing of any stock, shares or other securities whatsoever of any Participating Company or any subsidiary or

holding company thereof or any subsidiary of any such holding company or from otherwise at any time contracting or entering into any insurance, financial or other transactions with any such company or being interested in any such transaction or accepting and holding the trusteeship of any debenture stock or other securities of any such company neither shall such Trustee, holding company, subsidiary, director or officer be liable to account for any profit made by him thereby or in connection therewith.

**19 Appointment of new trustees**

19.1 IN the event of the appointment of Trustees other than a body corporate as sole Trustee:-

19.1.1 the Trustees (which in this Clause shall include the duly authorised officer of a body corporate which is a Trustee) may at any time but shall at least once in every year meet together for the despatch of business and may adjourn and otherwise regulate their meetings as they think fit and the Trustees may elect one of their number to be chairman of their meeting provided that in the event of equality of votes on the election of a chairman he shall be chosen by lot;

19.1.2 all business brought before a meeting of the Trustees shall be decided by a majority of the votes of the Trustees present and voting thereon and, in the case of equality of votes, the chairman of the meeting shall have a second or casting vote;

19.1.3 a resolution in writing signed by all of the Trustees shall be as effectual as if it had been passed at a meeting of the Trustees and may consist of one or more documents in similar form each signed by one or more of the Trustees; and

19.1.4 two Trustees present at a meeting of the Trustees of which notice has been given to all Trustees shall form a quorum.

19.2 The Trustees shall cause proper minutes to be kept and entered in a book provided for the purpose of all their resolutions and proceedings and any such minutes shall be signed by the chairman of the next succeeding meeting.

**20 Dealing with trust monies**

THE Trustees may, without prejudice to their obligations under Section 57 of the Act, in any particular case or cases, decide not to commence or pursue proceedings for the recovery of any moneys due to them from any Participant and shall not be responsible for any loss incurred by their so doing.

20.1 Valid and effectual receipts and discharges for any moneys or other property payable, transferable, or deliverable to the Trustees or any of them may be given by a Trustee who is a body corporate or by any one Trustee to whom such duty may have been delegated pursuant to paragraph 20.4 below or by any person from time to time nominated by the Company and authorised in writing for the purpose by all the Trustees.

- 20.2 The Trustees may from time to time appoint for the proper administration and management of the Plan such secretarial or executive officers or staff or other persons as they consider desirable and as the Directors shall approve on such terms as they think fit and a Trustee hereof being a body corporate (whether or not a trust corporation) may act by its proper officers and may by its proper officers have and exercise all powers, trusts and discretions invested in it hereunder.
- 20.3 The Trustees may from time to time in writing delegate any business and the exercise of any of the duties imposed on them by the Plan to any one or more of their number.
- 20.4 The Trustees may employ and pay for the services of such registrars, solicitors, accountants, bankers or other professional or business advisers as they consider desirable to advise on any business to be done in connection with the Plan or for the proper administration and management of the Plan or otherwise in connection therewith.
- 20.5 The Trustees may at any time cause any part of the trust property to be deposited for safekeeping with any one or more of the Trustees or any other persons (including any company or corporation) on behalf of the Trustees and may pay any expenses in connection therewith.
- 20.6 No Trustee shall be liable or responsible for any loss to the trust property which may be occasioned as a result of the exercise of the foregoing powers except to the extent that such loss arises as a result of any fraud, wilful default or negligence on the part of such Trustee.

**21 Amendment of trust deed**

- 21.1 THE Company with the prior written consent of the Trustees such consent not to be unreasonably withheld may at any time and from time to time modify, alter, amend or extend the Trust Deed by deed supplemental hereto and the Company may at any time and from time to time amend the Rules of the Plan by written resolution of the Directors in any respect (such modification, alteration, amendment or extension being referred to in this Clause as an "amendment") provided that:
- 21.1.1 no amendment shall alter to the disadvantage of a Participant his rights in respect of any Plan Shares appropriated before the date of such amendment without his consent;
- 21.1.2 no amendment shall be made which would or might infringe any rule against perpetuities or which could result in the Plan ceasing to be an employees' share plan;
- 21.1.3 no amendment shall take effect unless the written approval of the Revenue Commissioners to the Plan as amended thereby shall first have been obtained in accordance with paragraph 3(2) of the Third Schedule to the Act.

21.2 The Directors may, by resolution, subject to sub-paragraph 21.1.2 of this Clause and without otherwise obtaining the prior approval thereto of any other person but after consulting the Trustees, modify or alter or amend the Plan in any way which may be necessary in order to secure the initial approval of the Plan by the Revenue Commissioners under Chapter IX of Part I to the Act or maintain the same.

21.3 Any amendment made in accordance with the provisions of this Clause shall be binding upon all persons from time to time interested in the Plan including any company which from time to time is or becomes bound by this Deed.

**22 Termination of trust**

THE Plan and the trusts hereby created shall be determined on the earlier of the following:-

22.1 the date on which the Directors resolve to terminate the Plan which they shall be entitled to do only on a date on which there are no Plan Shares; and

22.2 the expiry of a period of twenty-one years after the death of the last survivor of the issue living on the date hereof of his Britannic Majesty King George V.

**23 Governing law**

THIS Deed shall be governed by and construed in accordance with the law of the Republic of Ireland.

**IN WITNESS** whereof the Deed has been sealed by each of the parties the day and year first before written.

**THE FIRST SCHEDULE**  
**RULES OF THE**  
**JOHNSON & JOHNSON PROFESSIONAL**  
**IRISH EMPLOYEES SHARE OWNERSHIP PLAN**

**1. Definitions**

In these Rules and in the Trust Deed:-

1.1 the following words and expressions shall have the following meanings:-

"Act"	the Finance Act 1982 (as amended);
"Appropriate Percentage"	the meaning given to that expression by Section 52(8) of the Act;
"Appropriation Date"	in respect of any Plan Share not being a New Share, the date on which it is appropriated to an Eligible Employee pursuant to Rule 3.6, and in respect of any New Share the date on which it is deemed to have been appropriated pursuant to Rule 6.3;
"Approved Plan"	a scheme approved by the Revenue Commissioners for the purposes of Chapter IX of Part I to the Act and the Third Schedule thereto;
"Capital Receipt"	the meaning given to that expression by Section 54 of the Act;
"Company"	Johnson & Johnson Professional (Ireland) Limited;
"Directors"	the Board of Directors for the time being of the Company or a duly authorised committee appointed by them for the purpose of administering the Plan;
"Eligible Employee"	at any Invitation Date any person who:  (i) (A) is an employee of a Participating Company including a director who has a contract of employment with such a

Participating Company;  
and

(B) is chargeable to tax under  
Schedule E in respect of  
that employment; and

(C) at any Appropriation  
Date will have been such  
an employee of the  
Participating Company  
continuously for a period  
of six months ending on  
the Appropriation Date  
and for this purpose  
service with a Subsidiary  
which is a Participating  
Company shall be treated  
as service with the  
Participating Company;  
or

(ii) is any other employee of a  
Participating Company including  
a director who has a contract of  
employment and has been  
nominated by the Directors for  
participation in the Plan

provided that such person is not ineligible  
to become a Participant by virtue of the  
provisions of Part III of The Third  
Schedule to the Act and that the  
Directors may resolve to exclude from  
participation in an appropriation anyone  
who has ceased to be an Eligible  
Employee or who is serving notice of  
termination of his contract of  
employment with the Participating  
Company by the relevant Appropriation  
Date;

"Eligible Salary"

basic remuneration before any agreed  
salary forgoing for shares;

"Entitlement"

the amount of each Eligible Employee's  
entitlement as may be determined in  
accordance with the Third Schedule  
hereto or on such other basis as may,

	from time to time, be agreed in writing with the Revenue Commissioners;
"Initial Market Value"	the market value of a Share (calculated in accordance with Section 49 of the Capital Gains Tax Act 1975) on the last dealing day preceding the Appropriation Date or such earlier date as may from time to time be agreed in writing between the Revenue Commissioners and the Trustees pursuant to Section 51(4)(b) of the Act;
"Invitation Date"	the date on which Eligible Employees are offered participation in the Plan pursuant to Rule 2;
"Invitation Period"	such period following the relevant Invitation Date as the Directors shall prescribe for the purposes of Rule 2 for the completion and return of contracts being not less than 14 days nor more than 28 days;
"Locked-in Value"	the meaning given to that expression by Section 53(2) of the Act;
"New Shares"	the meaning given to that expression by Section 55(3) of the Act;
"Parent Company"	Johnson & Johnson;
"Participant"	any person on whose behalf the Trustees hold a Plan Share including where the context requires any person in whom an interest in Plan Shares or an entitlement thereto is or becomes vested;
"Participating Company"	any company being the Company or a Subsidiary which is for the time being bound by the provisions of the Trust Deed other than in its capacity as Trustee hereof;
"Period of Retention"	the meaning given to that expression by Section 52(5) of the Act;
"Plan"	means the Johnson & Johnson Professional Irish Employees Share Ownership Plan constituted by this Trust Deed and Rules;

"Plan Share"	any Share or other security of the Parent Company which has been appropriated in accordance with Rule 3.6 or has been deemed to have been appropriated in accordance with Rule 6.3 and is for the time being held by the Trustees on behalf of a Participant;
"Release Date"	the meaning given to that expression by Section 52(7) of the Act;
"Residual Fund"	means all moneys directed to be held as part of the Residual Fund or for which no specific provision is made (other than under Clause 14 of the Trust Deed) and the income (if any) arising therefrom all of which shall be held in accordance with Clause 14 of the Trust Deed together with any Shares for the time being held by the Trustees which are not Plan Shares;
"Rules"	these rules with, and subject to, any modifications, alterations, amendments or extensions hereto for the time being in force;
"Share"	a fully paid share of common stock of the Parent Company;
"Subsidiary"	any subsidiary of the Company which is controlled by the Company control being construed in accordance with Section 102 of the Corporation Tax Act 1976;
"Taxable Amount"	<ul style="list-style-type: none"> <li>(i) on a disposal of Plan Shares pursuant to a direction given by a Participant under Rule 5.1.1, the Appropriate Percentage of whichever is the lesser of the Locked-in Value of the Plan Shares so disposed of and an amount equal to the proceeds of disposal;</li> <li>(ii) on a transfer of Plan Shares pursuant to a direction given by a Participant under Rule 5.1.2, the appropriate percentage of the</li> </ul>



Locked-in Value of the Plan  
Shares so transferred;

(iii) in the case of a Capital Receipt,  
the amount chargeable to income  
tax in accordance with the  
provisions of Section 54 of the  
Act;

"Taxes Act"

the Income Tax Act 1967;

"Trust Deed"

the trust deed constituting the Plan with  
any modifications and variations thereto  
for the time being in force;

"Trustees"

the trustee or trustees for the time being  
of the Plan;

"Year of Assessment"

the meaning given to that expression by  
Section 1 of the Taxes Act;

1.2 words importing the singular shall include the plural and vice versa and words  
importing the masculine shall include the feminine;

1.3 any reference to any statute (or a particular Chapter, Part or Section thereof)  
shall mean and include any statutory modification or re-enactment thereof for  
the time being in force and any regulations made thereunder.

## 2. Conditions of Participation

Each Eligible Employee shall, on each Invitation Date, be invited to participate in the Plan. If he shall accept such Invitation he shall be required to complete a form of acceptance and contract of participation ("the contract") in the form set out in Part 1 of the Second Schedule (or such Schedule as amended from time to time with the concurrence of the Trustees and the written approval of the Revenue Commissioners) which will confirm that he wishes to participate in the operation of the Plan in respect of the relevant Appropriation Date.

The contract shall be addressed to the Directors and the Trustees and shall be signed by the Eligible Employee and returned to the Directors not later than the expiry of the Invitation Period. An Eligible Employee shall not be entitled to an appropriation of Plan Shares unless he has completed a contract which is binding in respect of the relevant Appropriation Date.

A signed contract shall bind the Eligible Employee in contract with the Company and the Trustees in accordance with its terms in consideration of any appropriation to him of Shares. On each occasion on which the Directors intend to operate the Plan they may, at their discretion, notify in writing each Eligible Employee of the amount of his Entitlement and allow him to renounce it in whole or part (but, if in part, only to the extent specified by the Directors which shall be determined on the same basis for each Eligible Employee) by completing and returning a form of election in the form set out in Part 2 of the Second Schedule (or such Part 2 as amended from time to time with the concurrence of the Trustees and the written approval

of the Revenue Commissioners). Such form of election will only be valid in respect of the Appropriation Date to which it relates.

### 3. Allocation, Acquisition of Shares and Appropriation

- 3.1 Prior to an Invitation Date, on each occasion on which the Directors intend to operate the Plan the Directors shall determine the amount (if any) of the Entitlements.
- 3.2 Each Participating Company shall as soon as practicable after the expiry of the Invitation Period to which the Entitlement relates pay to the Trustees the aggregate of the amounts due following the completion and return of contracts in accordance with Rule 2 by such Eligible Employees employed by it (who have not to the knowledge of the Trustees terminated or breached the contract) after taking account of any forms of election completed and returned by Eligible Employees in respect of the relevant Appropriation Date in accordance with Rule 2 and less any amount of the Residual Fund which the Directors shall have directed the Trustees to apply in acquiring Shares for appropriation to such Eligible Employees and less the value of any Shares held as part of the Residual Fund which the Directors have directed shall be appropriated to such Eligible Employees. At the same time the Directors shall notify the Trustees of the names and addresses of such Eligible Employees and the extent of their respective participation in respect of the relevant Appropriation Date.

The value of a Share shall for the purposes of this Rule 3.2 be taken as the Initial Market Value of a Share as determined in respect of the relevant Appropriation Date.

- 3.3 As soon as reasonably practicable after the receipt from the Participating Companies of the amounts referred to in paragraph 3.2 above the Trustees will apply the aggregate of such amounts together with any amount held in cash as part of the Residual Fund directed by the Directors to be so applied in accordance with paragraph 3.2 above in the acquisition of Shares for appropriation to such Eligible Employee. The Shares so acquired for appropriation and the Shares held as part of the Residual Fund which the Directors have directed shall be appropriated pursuant to paragraph 3.2 above shall be appropriated to each such Eligible Employee on the basis that the aggregate Initial Market Value of the Shares appropriated to him is as nearly as possible equal to, but not more than, the amount of his Entitlement that has been paid (or would have been paid if no amount of the Residual Fund had been applied in the appropriation of Shares) to the Trustees.
- 3.4 Where the Trustees are unable to purchase sufficient Shares to satisfy in full appropriations pursuant to Rule 3.3, the Trustees shall reduce the appropriation *pro-rata*.
- 3.5 If the basis on which the Shares are appropriated would otherwise give rise to the appropriation of a fraction of a Share the Trustees shall round such appropriation down to the next whole Share. In the event that a portion of

the Shares acquired by the Trustees carries any right not attaching to all such Shares the Trustees shall appropriate those Shares among Eligible Employees as nearly as possible in the same proportions as provided in Rule 3.3 above.

- 3.6 The Trustees shall appropriate the Shares so acquired on one day within thirty days of the expiry of the Invitation Period.
- 3.7 To the extent that the Trustees have not applied the whole of the amount received by them in the acquisition of Shares in accordance with Rule 3.3 above within thirty days of the expiry of the Invitation Period they shall pay the balance thereof promptly to the Participating Companies which provided the same.
- 3.8 The Trustees shall sell any Shares which they do not appropriate on an Appropriation Date under this Rule within eighteen months of the date of acquisition for the best consideration in money reasonably obtainable at the time and retain the net proceeds of sale as part of the Residual Fund.
- 3.9 If at any time following the date on which the Trustees are entered on the Parent Company's register of members Shares have not for the time being been appropriated to any Participant and the Trustees shall in respect of such Shares:-

3.9.1 receive any dividends or other distributions; or

3.9.2 become entitled to any other rights to be allotted securities in the Parent Company (other than an issue of capitalisation shares of the same class as Shares then held by the Trustees pending an appropriation which capitalisation shares shall be retained by the Trustees and shall form part of the Shares to be appropriated)

then the Trustees shall, in the case of Rule 3.9 2 above and of any distribution not consisting of cash use their best endeavours to sell the rights or distributions concerned for the best consideration in money reasonably obtainable at the time and in the case of Rule 3.9.1 and Rule 3.9.2 shall retain the monies concerned in the Residual Fund.

- 3.10 No Shares shall be appropriated to any Eligible Employee after 18 years from the date of death of the last survivor of the issue living on the date of the Trust Deed of his Britannic Majesty King George V.

#### **4. Limitations**

The maximum number of Shares that may be appropriated to any one Participant in any Year of Assessment shall be determined by legislation for the time being in force as stated in the Third Schedule of the Act.

5. **Conditions of Retention and Disposal**

- 5.1 Plan Shares shall subject as hereinafter provided in this Rule be held by the Trustees until the date on which the Participant concerned directs the Trustees:-
- 5.1.1 to sell Plan Shares; or
  - 5.1.2 to transfer the legal ownership of Plan Shares to himself.
- 5.2 A Participant shall not be entitled to give any direction under Rule 5.1 above or to assign or charge or otherwise dispose of his beneficial interest in any Plan Shares before the end of the Period of Retention applicable to such Plan Shares except in the circumstances mentioned in Section 52(3)(a), (b) or (c) of the Act.
- 5.3 Subject to Rule 5.2 above, the Trustees shall disregard any direction given in respect of the disposal or transfer of a Participant's Plan Shares before the end of the Period of Retention and shall not be required or bound to act in accordance therewith if to their knowledge such Participant is or would following implementation of such direction be in breach of his obligations in respect of such Plan Shares under Rule 5.2 above.

6. **Issue or Reorganisation**

- 6.1 In the event of the Parent Company proposing to make a rights issue in respect of any class of its share capital which includes Plan Shares, the Trustees shall, as soon as reasonably practicable following receipt of the offer from the Parent Company, notify each Participant of the proposed rights issue and of the following courses of action which the Participant may take in respect of the Plan Shares held by the Trustees on his behalf:-
- 6.1.1 to instruct the Trustees to exercise the rights in respect of all his Plan Shares provided that such instruction is accompanied by payment in cash of the amount necessary to exercise such rights; or
  - 6.1.2 to instruct the Trustees to exercise the rights in respect of some only of his Plan Shares and to dispose of the rights nil paid in respect of the remainder and either:
    - (A) to pay the Trustees any amount in excess of the amount of the disposal proceeds necessary to exercise such rights; or
    - (B) to instruct the Trustees to pay to him any amount of the disposal proceeds in excess of the amount necessary to exercise such rights;
  - 6.1.3 to instruct the Trustees to dispose of the rights nil paid in respect of all his Plan Shares and pay the proceeds to the Participant.

The Participant shall instruct the Trustees accordingly within any period of time specified by the Trustees and shall, if appropriate, pay to the Trustees in cash (at the same time as he so instructs the Trustees) any amounts necessary in order to carry out such instructions. The Trustees shall subject to receipt of the cash as aforesaid carry out the instructions of the Participants within the period of time allowed by the Parent Company for exercise of the rights. If a Participant shall fail to give any instructions to and shall not otherwise have authorised the Trustees (in either case within the period specified by them as aforesaid), the Trustees shall take no action in respect of the rights associated with the Plan Shares held on behalf of that particular Participant.

- 6.2 In the event of an offer being made or a transaction being proposed in any of the circumstances described in Section 52(3)(a), (b) or (c) of the Act, the Trustees shall forthwith notify each Participant thereof and shall act in accordance with the instructions of the Participant in dealing with his Plan Shares and in the absence of any such instructions shall take no action.
- 6.3 Subject to Rule 6.4 any New Shares allotted to the Trustees pursuant to Rules 6.1 or 6.2 above or on a capitalisation issue shall be deemed to have been appropriated to a Participant on the Appropriation Date of the Plan Shares in respect of which they were allotted. If any such deemed appropriation shall give rise to a fraction of a security the Trustees shall round such appropriation up or down to the next whole security but so that the aggregate number of securities deemed to have been so appropriated shall be equal to his entitlement to securities after the sale of any fractional entitlements pursuant to Rule 6.4. Nothing in this Rule 6.3 shall infringe the principle that a later appropriation of shares or securities to a Participant cannot be considered to have been appropriated to him at the date of the original Share allocation unless it arises from a reconstruction within the meaning of section 55(1) of the Act.
- 6.4 In the event that any Participant shall on the Trustees receiving any securities as provided in this Rule be entitled in respect of his Plan Shares to a fraction of any such security, the Trustees shall use their best efforts to sell such securities as represent the aggregate of the fractions so arising and shall distribute the proceeds of sale (after deducting any expenses of sale and any taxation which may be payable by the Trustees in respect thereof) to the Participants concerned provided that any such entitlement which is less than IR £1 shall be retained by the Trustees and held as part of the Residual Fund.

## **7. Payments and Transfers to Participants**

- 7.1 If any amount falls to be paid to a Participant prior to the Release Date in respect of his Plan Shares being:-
- 7.1.1 the proceeds of a sale of Plan Shares pursuant to a direction given by the Participant under Rule 5.1.1; or
- 7.1.2 a Capital Receipt

the Trustees shall pay such amount to the Participant.

- 7.2 If a Participant directs the Trustees to transfer the ownership of any Plan Shares to himself pursuant to Rule 5.1.2 before their Release Date, he shall pay to the Trustees, before the transfer takes place, a sum equal to income tax at the standard rate on the Taxable Amount at the time of the direction.
- 7.3 If, following a company reconstruction as defined in Section 55 (1) of the Act, the Trustees are allotted any shares or other securities which are not New Shares, they shall forthwith transfer the same to the Participant.
- 7.4 Any stamp duty involved in any transfer of Plan Shares or other shares or securities by the Trustees into the name of the Participant concerned shall be payable in the case of:

7.4.1 a transfer as referred to in Rule 5.1.2;

7.4.2 a transfer following the death of a Participant; or

7.4.3 a transfer as referred to in Rule 7.3

by the Trustees out of the Residual Fund or in the case of a deficiency out of funds made available for the purpose by the Company and, in any other case, shall be payable by the Participant concerned.

## **8. Repurchase by Trustees**

- 8.1 The Trustees may at the time a Participant directs the Trustees to dispose of any Plan Shares offer to purchase the beneficial interest in such Plan Shares from the Participant at the best consideration in money that can reasonably be obtained at the time of the sale and such disposal shall for the purposes of Rule 7 be regarded as a disposal in accordance with Rule 5.1.1;
- 8.2 If, at the time of the proposed purchase of Plan Shares under Rule 8.1, the Trustees do not have sufficient funds to purchase such Plan Shares, they may apply to the Company for such funds. If any funds are so provided by the Company they shall reduce the liability of the Company in respect of the payment to be made pursuant to Rule 3 in respect of the next Appropriation Date.
- 8.3 The Trustees shall hold any Shares purchased pursuant to Rule 8.1 above upon trust for appropriation to Eligible Employees employed by the Company that provided the funds used in the purchase of such Shares but, subject thereto, shall hold such Shares as part of the Residual Fund.

## **9. Payment of Dividends**

Any dividends paid by the Parent Company to the Trustees in respect of Plan Shares shall be forwarded to the Participants on whose behalf the Trustees hold such Plan Shares together with particulars of the related withholding tax.

Dividends which have a value of less than IR £1 will be retained by the Trustees until the Trustees hold dividends to the value of IR £1 or more for a Participant.

## **10. Voting Rights**

Participants have no right to attend or vote at a General Meeting of the Parent Company. The voting rights in respect of Plan Shares shall, on a poll, be exercised only in accordance with any directions in writing by the Participants concerned to the Trustees. In the absence of any such direction, the Trustees shall abstain from voting. The Trustees shall not be obliged to demand or join in demanding a poll.

## **11. Notices**

- 11.1 All notices required to be given to a Participant by the Trustees under the Plan shall be in writing and shall either be delivered to the Participant at his place of work or be sent by post to the address shown on the records of the Trustees. Any notice or document sent by post as aforesaid shall be deemed to have been received on the expiry of 48 hours from the time at which it was posted.
- 11.2 Any notice or document delivered or sent by the Trustees in the manner described in Rule 11.1 shall be deemed for all purposes to have been sufficiently served on the Participant and all persons claiming through or under such Participant and accordingly service in manner aforesaid shall operate to exonerate the Trustees from all or any liability for the non-receipt by a Participant or other person as aforesaid of any such notice or document.
- 11.3 To be valid any direction to the Trustees in respect of a Participant's Plan Shares must be given in writing by or on behalf of such Participant and shall be effective only when it is received by the Trustees.
- 11.4 A direction once duly given and received as mentioned in Rule 11.3 and subject to Rule 5.3 shall be carried out by the Trustees as soon as practicable in accordance with its terms unless prior to their acting in respect thereof the Trustees receive written notice from the Participant revoking the direction. Unless received by the Trustees the Trustees shall incur no liability to a Participant if they act or fail to act upon a direction or revocation which purports to have been duly given as aforesaid.

## **12. Errors and Omissions**

If as a result of an error or omission any Shares to which a Participant is entitled pursuant to these Rules are not appropriated to him within the period contemplated by Rule 3.6, the Company, and the Trustees shall do all such acts and things as may be agreed in writing with the Revenue Commissioners to enable the Trustees to appropriate to the Participant the Shares necessary to put him in a position he would have been in but for such want of appropriation and agree, where relevant, the Initial Market Value attributable to such Shares notwithstanding that such actions may fall outside the time limits contemplated by or otherwise conflict with the other provisions of these Rules provided always that the Trustees shall not be obliged to incur any liability (whether actual or contingent) without being funded or indemnified to their satisfaction.

**THE SECOND SCHEDULE**

**PART 1**

**FORM OF ACCEPTANCE AND CONTRACT OF PARTICIPATION**

**TO: The Directors of Johnson & Johnson Professional (Ireland) Limited  
and  
TO: The Trustees of the Johnson & Johnson Professional Irish Employees Share  
Ownership Plan**

**FROM:** Surname -----  
Forename(s) -----(Mr/Mrs/Miss)---  
Home Address-----  
-----  
Employee Number-----  
RSI Number -----

1. I have received a copy of the explanatory booklet describing the Plan.
2. I accept the offer of participation in the Plan contained in the Company's letter dated [ ] and in consideration thereof and of any appropriation to me of Plan Shares in accordance with the provisions of the Plan I bind myself in contract with the Company and the Trustees and I agree to be bound by the Rules of the Plan (including any amendments or additions made thereto in accordance with the provisions of the Plan) and in particular:
  - (a) to permit Plan Shares appropriated to me to be held by the Trustees throughout the applicable Period of Retention (normally two years after the Appropriation Date);
  - (b) not to assign, charge or otherwise dispose of my beneficial interest in the said Shares during the Period of Retention;
  - (c) not to direct the Trustees to dispose of the said Shares before the applicable Release Date (at present three years after the Appropriation Date) in any other way except by sale for the best consideration in money that can reasonably be obtained at the time of the sale; and
  - (d) if I direct the Trustees of the Plan to transfer the ownership of any of the said Shares into my name before the applicable Release Date, I undertake to pay the Trustees, before the transfer takes place, a sum equal to the income tax (if any) then payable at the standard rate on the Appropriate Percentage of the Locked-in Value of the said Shares at the time of the direction as notified to me by the Trustees.



3. I accept that the dividend tax voucher which I will receive from the Trustees in respect of any of my Plan Shares will be in full satisfaction of any rights I have to a tax deduction certificate from the Trustees.
4. I undertake to notify the Trustees of any change in my address.
5. I understand that this contract is binding in respect of all appropriations of Plan Shares to me at any time.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

**PART 2  
FORM OF ELECTION**

**TO: The Directors of Johnson & Johnson Professional (Ireland) Limited; and  
TO: The Trustees of the Johnson & Johnson Professional Irish Employees Share  
Ownership Plan**

FROM: Surname .....  
Forename(s) .....  
Address .....

I have received notification of the amount of my Entitlement under the Plan as set out in the Company's letter dated [        ]

**SHARE BONUS**

Tick Box A or C or insert sum in Box B

<b>BOX A</b> I wish to receive shares to the value of the whole of my relevant bonus on this occasion.	
<b>BOX B</b> I wish to receive only part of my relevant bonus in shares on this occasion to the value of <i>(insert amount in box opposite but amount should not exceed the relevant bonus)</i> .	£
<b>BOX C</b> I do not wish to accept any of my bonus in shares but instead wish to be paid by bonus through payroll outside the share plan	

**SALARY FORGOING**

Complete Box D if shares required through salary forgoing

<b>BOX D</b>	<b>Insert percentage if you wish to forgo salary</b>
I wish to forgo salary to the value of <i>(insert percentage of between 1% and 7½% of salary before forgoing - do not use fractions other than ½. Shares acquired through salary forgone cannot exceed shares acquired through share bonus entitlement.)</i>	%

Signed \_\_\_\_\_ Date \_\_\_\_\_

**NB: No more than IR £10,000 worth of shares per tax year - any balance will have to be paid through payroll**

**THE THIRD SCHEDULE**

**Basis of calculation of Entitlements**

- (A) The Entitlement of each Eligible Employee under the Plan shall be such amount as the Directors shall determine expressed as:
- (i) a proportion of Eligible Salary; and/or
  - (ii) a proportion of Eligible Salary for each Period of Service; and/or
  - (iii) a fixed amount; and/or
  - (iv) a fixed amount for each Period of Service and for this purpose "Period of Service" shall mean a complete year, or such other complete period as may from time to time be specified, of continuous service as an employee of the Company and/or any Subsidiary which is a Participating Company.

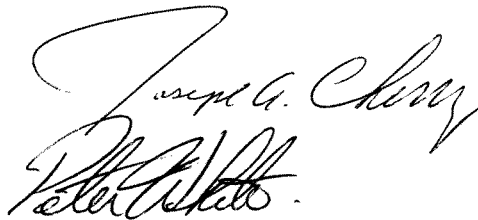
Provided that in any year the basis of calculation of the Entitlement of each Eligible Employee shall be the same.

- (B) For any fiscal year in which an Eligible Employee has an Entitlement under (A) above, and that Entitlement is received in Shares, he shall also have an Entitlement to Shares with an Initial Market Value equivalent to the amount of salary forgone for Shares during that fiscal year provided that the amount forgone was between 1% and 7½% of Eligible Salary with fractional amounts between these limits being restricted to one half, provided that the number of Shares acquired in any tax year through salary forgone shall not exceed the number of Shares acquired through (A) above.

THE COMMON SEAL of )  
JOHNSON & JOHNSON )  
PROFESSIONAL )  
(IRELAND) LIMITED )  
was hereunto affixed in the )  
presence of: )

Director

Secretary



THE COMMON SEAL of )  
IRISH PENSIONS TRUST )  
LIMITED was hereunto )  
affixed in the presence of: )

Director

Secretary



THIS DEED OF AMENDMENT is made the *24* day of *November* *2000* BETWEEN DePuy (Ireland) Limited (formerly known as Johnson & Johnson Professional (Ireland) Limited) (registered in Ireland No. 263572) whose registered office is at Eugene F. Collins, 61 Fitzwilliam Square, Dublin 2 (hereinafter called "the Principal Company") of the one part AND Irish Pensions Trust Limited (registered in Ireland No. 20990) whose registered office is at 25-28 Adelaide Road, Dublin 2 (hereinafter called "the Trustees") of the other part

WHEREAS :

- (a) This Deed is supplemental to
  - (i) a Deed dated the 10th day of November 1997 between the parties hereto (hereinafter called "the Trust Deed") whereby the Principal Company established the Johnson & Johnson Professional Irish Share Ownership Plan (hereinafter called "the Plan") which has been approved by the Revenue Commissioners in accordance with Chapter 1 of Part 17 and Schedule 11 of the Taxes Consolidation Act 1997 (hereinafter called "the Act"), and
  - (ii) a Deed of Amendment dated                      day of
- (b) Clause 21 of the Trust Deed provides that subject to the prior written approval of the Revenue Commissioners under paragraph 5(2) of Part 2 of Schedule 11 of the Act and the limitations specified therein the Principal Company and the Trustee may by a supplemental deed amend the Trust Deed and/or the rules scheduled thereto (hereinafter called "the Rules").
- (c) The parties hereto are desirous of effecting such an amendment.

NOW THIS DEED WITNESSETH as follows:

1. With effect from the date hereof the Plan name shall be amended to the DePuy (Ireland) Limited Employees Share Ownership Plan and the definition of "Plan" and the definition of "Company" in Rule 1 of the Rules shall be deleted and replaced by the following:

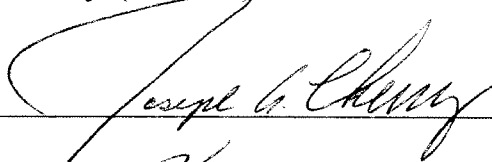
**"Plan"** means the DePuy (Ireland) Limited Employees Share Ownership Plan.

**"Company"** DePuy (Ireland) Limited

2. All references in the Trust Deed and Rules to the Johnson & Johnson Professional Irish Share Ownership Plan shall be deleted and replaced by the DePuy (Ireland) Limited Employees Share Ownership Plan.


IN WITNESS whereof this Deed was duly executed by the parties hereto the day and year first herein WRITTEN.

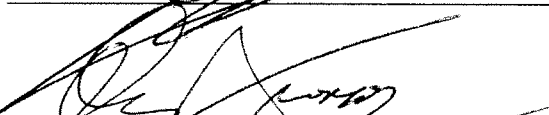
GIVEN under the Common Seal  
of DePuy (Ireland) Limited

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director/Secretary ✓

GIVEN under the Common Seal  
of Irish Pensions Trust Limited

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director/Secretary

Dated the 29 day of November 1992

DePuy (Ireland) Limited

one part

Irish Pensions Trust Limited

other part

**DEED OF AMENDMENT**

**DePuy (Ireland) Limited  
Employees Share Ownership Plan**

**ANNEX 2 TO SECURITIES NOTE**  
**TAX ANALYSIS**

# 1 Ireland

## 1.1 Tax analysis : Bonus Plan

### 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 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.

### 1.1.2 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 1.1.1). 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>1</sup>

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<sup>1</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.

### 1.1.3 Example

(i) Assumptions

- Irish resident taxation
- Regular income of EUR 80,000
- Bonus payment of EUR 6,000 or share grant of 100 shares at value of EUR 60/share

(ii) Result

	<b>Cash bonus</b>	<b>Share award (100 shares x € 60)</b>
<b>Value of bonus / shares</b>	<b>€ 6,000</b>	<b>€ 6,000</b>
Less: USC (*)	- € 420	- € 420
Less: social security - PRSI (**)	- € 240	- € 240
Less: income tax (***)	- € 2,460	- € 2,460
<b>Net bonus</b>	<b>€ 2,880</b>	<b>€ 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%)