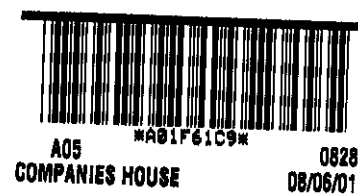


Registered Number: 740767

Zimmer Limited
Annual report
for the year ended 31 December 2000



Zimmer Limited

Annual report for the year ended 31 December 2000

| | Pages |
|-----------------------------------|-------|
| Directors' report | 1 |
| Auditors' report | 3 |
| Profit and loss account | 4 |
| Balance sheet | 5 |
| Notes to the financial statements | 6 |

Directors' report for the year ended 31 December 2000

The directors present their report and the audited financial statements of the company for the year ended 31 December 2000.

Principal activities and review of the business

The principal activity of the company was the marketing of medical devices and other orthopaedic equipment.

The company continues to trade through commission agents in Belgium, France, Germany, Holland and Spain.

On 28 September 2000, Bristol-Myers Squibb Company announced plans to divest Zimmer Inc, into an independent publicly traded entity in the United States of America,

Results and dividends

The results for the year are shown in the profit and loss account on page 4. An interim dividend of £3,159,000 was paid on 18 April 2000, and a further interim dividend of £12,000,000 was paid on 22 December 2000. The directors do not recommend the payment of a final dividend (1999: £nil). The deficit for the year, after dividends, of £7,177,000 (1999: £244,000) has been deducted from reserves.

Research and development

Expenditure on research and development during the year was £797,000 (1999: £521,000).

Directors and interests

The directors who held office during the year are given below:

| | |
|--------------|--------------------------|
| C J Jefferis | |
| D I Johnson | (resigned 15 June 2000) |
| G Restani | (resigned 15 June 2000) |
| M Humphris | (appointed 15 June 2000) |
| B Melzi | (appointed 15 June 2000) |

C J Moore and C V Ridgwell were appointed directors on 4 April 2001.

The company is a wholly owned subsidiary of a company incorporated outside Great Britain and, as permitted by statutory instrument, no disclosure is made of any interest of the directors in the shares or share options of Bristol-Myers Squibb Company.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2000 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employee policies

The company is an equal opportunities employer and gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

Where people become disabled during the course of their employment, every effort is made to retain their services and to provide retraining, if necessary. All employees are eligible for consideration for appropriate training, career development and promotional opportunities; disabled people are not treated differently in this respect.

The company policy is to consult with employees and their representatives and to provide them with information on the company's progress and other matters affecting them. This policy is carried out through line management channels and through regular meetings with representatives of employees.

Creditor payment policy

The company's current policy concerning payments to suppliers of goods and services is to pay in accordance with agreed or customary terms and its practice is to adhere to these terms. The company's average creditor payment period at 31 December 2000 was 40 days (1999: 74 days).

Charitable donations

The company has made charitable donations during the year of £677 (1999: £1,391).

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution, concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



C J Moore
Company Secretary

**Auditors' report to the members of
Zimmer Limited**

We have audited the financial statements on pages 4 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described on page 2, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the director's report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Reading

7th June 2001

Profit and loss account for the year ended 31 December 2000

| | Note | 2000 £'000 | 1999 £'000 |
|--|------|----------------|---------------|
| Turnover | 3 | 58,102 | 53,043 |
| Cost of sales | | (22,062) | (21,246) |
| Gross profit | | 36,040 | 31,797 |
| Distribution costs | | (22,587) | (20,775) |
| Administrative expenses | | (5,173) | (3,392) |
| Operating profit | 4 | 8,280 | 7,630 |
| Cost of fundamental restructuring | 7 | - | (1,094) |
| Interest receivable and similar income | | - | 25 |
| Interest payable and similar charges | 8 | (614) | (467) |
| Profit on ordinary activities before taxation | | 7,666 | 6,094 |
| Tax credit/(charge) on profit on ordinary activities | 9 | 316 | (1,338) |
| Profit on ordinary activities after taxation | | 7,982 | 4,756 |
| Dividends | 10 | (15,159) | (5,000) |
| Transfer from reserves | 19 | (7,177) | (244) |

The company's results for the years above are derived entirely from continuing operations.

The company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profits on ordinary activities before taxation and the amounts transferred from reserves for the years stated above, and their historical cost equivalents.

Balance sheet as at 31 December 2000

| | Note | 2000 £'000 | 1999 restated £'000 |
|---|------|---------------|---------------------------|
| Fixed assets | | | |
| Tangible assets | 11 | 10,562 | 8,772 |
| Current assets | | | |
| Stocks | 12 | 9,630 | 10,275 |
| Debtors | 13 | 20,592 | 17,955 |
| Cash at bank and in hand | | 110 | 99 |
| | | 30,332 | 28,329 |
| Creditors - amounts falling due within one year | 14 | (32,418) | (14,488) |
| Net current (liabilities)/assets | | (2,086) | 13,841 |
| Total assets less current liabilities | | 8,476 | 22,613 |
| Creditors - amounts falling due after more than one year | 15 | - | (8,166) |
| Provision for liabilities and charges | 16 | (3,026) | (1,820) |
| Net assets | | 5,450 | 12,627 |
| Capital and reserves | | | |
| Called up share capital | 18 | 428 | 428 |
| Share premium account | 19 | 89 | 89 |
| Profit and loss account | 19 | 4,933 | 12,110 |
| Equity shareholders' funds | 20 | 5,450 | 12,627 |

The financial statements on pages 4 to 15 were approved by the board of directors on 4/6/01 and were signed on its behalf by:



M Humphris
Director

Notes to the financial statements for the year ended 31 December 2000

1 Accounting policies

Basis of accounting

These financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

Turnover

Turnover represents the value of goods and services provided to customers exclusive of value added tax.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental cost of acquisition.

Depreciation is provided to write off the carrying values of fixed assets over their estimated useful economic lives. The principal annual rates used for this purpose are:

| | |
|---------------------------------------|---------------|
| Short term leasehold improvements | 10 years |
| Motor vehicles, fixtures and fittings | 3 to 10 years |
| Instruments | 3 to 5 years |

Stock - finished goods

Finished goods have been valued at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective stocks.

Stock - deferred charges

Deferred charges represent stocks which have been specifically produced for promotional purposes. These stocks are stated at the lower of cost and net realisable value. The promotional stocks are capitalised to instruments as and when they are included in an instrument kit and amortised over a three or five year period.

They have been reanalysed from debtors to stocks in the current year as this more fairly represents the nature of these items (see note 12).

Operating leases

Operating lease rentals are charged to the profit and loss account, on a straight line basis over the lease term.

Foreign currency

Transactions denominated in foreign currencies are translated at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date. Exchange differences are included in the profit and loss account in the period in which they arise.

Deferred taxation

Deferred taxation is provided or recognised on the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts, only where, in the opinion of the directors, it is expected that the liability or asset will become payable or crystallise within the foreseeable future.

Share option scheme

Bristol-Myers Squibb Company has established a stock option plan which it permits employees of Zimmer Limited to participate in (to acquire shares in Bristol-Myers Squibb Company). Zimmer Limited bears the cost of the difference between the fair value of the stock on the date of exercise and the option price paid by the participants when they exercise options to acquire stock.

Pension costs

The expected cost of pensions in respect of the company's defined benefit schemes are charged to the profit and loss account so as to spread the cost of pensions over the service lives of the employees in the scheme. The pension cost is assessed in accordance with the advice of qualified actuaries.

2 Cash flow statement and related party disclosure

The company is a wholly-owned subsidiary of Bristol-Myers Squibb Holdings Limited and is included in the consolidated financial statements of Bristol-Myers Squibb Holdings Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Bristol-Myers Squibb Holdings Limited group.

3 Turnover

The geographical analysis of turnover by destination is as follows:

| | 2000 | 1999 |
|----------------|--------|--------|
| | £'000 | £'000 |
| United Kingdom | 14,580 | 13,280 |
| Rest of Europe | 38,602 | 36,205 |
| Rest of World | 4,920 | 3,558 |
| | 58,102 | 53,043 |

In the opinion of the directors there is only one class of business.

4 Operating profit

| | 2000 | 1999 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Operating profit is stated after charging | | |
| Wages and salaries | 3,045 | 2,357 |
| Social security costs | 254 | 211 |
| Pension costs | 360 | 243 |
| Staff costs | 3,659 | 2,811 |

Included in social security costs is an amount of £6,000 in relation to the national insurance payable on share options. See note 16 for further details.

| | 2000 | 1999 |
|---|-------|-------|
| | £'000 | £'000 |
| Depreciation of owned tangible fixed assets | 3,260 | 3,172 |
| Research and development expenditure | 797 | 521 |
| Auditors' remuneration | | |
| - audit services | 35 | 35 |
| - non-audit services | 31 | 38 |
| Operating lease charges | | |
| - other | 470 | 526 |
| Loss on foreign currency movements | 615 | 940 |
| Loss on disposal of fixed assets | 323 | - |

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

| | 2000 | 1999 |
|---|-----------|-----------|
| By activity | Number | Number |
| Production and Research and Development | 5 | 3 |
| Selling | 49 | 47 |
| Administration | 20 | 18 |
| | 74 | 68 |

6 Directors' emoluments

| | 2000 | 1999 |
|----------------------|-------|-------|
| | £'000 | £'000 |
| Aggregate emoluments | 313 | 378 |

In addition to the above amounts one director (1999: one) is employed by an Italian subsidiary of Bristol Myers Squibb Company. This director was remunerated by the Italian company for his services which included certain responsibilities relating to Zimmer Limited.

Retirement benefits are accruing to three (1999: three) directors under a defined benefit scheme.

The emoluments of the highest paid director were as follows:

| | 2000 | 1999 |
|----------------------|-------|-------|
| | £'000 | £'000 |
| Aggregate emoluments | 129 | 189 |

Defined benefit scheme:

| | | |
|--------------------------------|---|----|
| Accrued pension at end of year | - | 10 |
|--------------------------------|---|----|

7 Cost of fundamental restructuring

| | 2000 | 1999 |
|---------------------|-------|-------|
| | £'000 | £'000 |
| Charge for the year | - | 1,094 |

The charge in the prior year related to the restructuring of European operations which included the closure of the Swindon manufacturing facility in August 1998. See note 16 for further details of related provisions.

8 Interest payable and similar charges

| | 2000 | 1999 |
|------------------------------------|-------|-------|
| | £'000 | £'000 |
| Interest payable | | |
| - on loans from group undertakings | 613 | 438 |
| - other | 1 | 29 |
| | 614 | 467 |

9 Tax on profit on ordinary activities

| | 2000 | 1999 |
|---|----------------|--------------|
| | £'000 | £'000 |
| UK Corporation tax (credit)/charge at 30% (1999: 30%) | 2,483 | 2,057 |
| Group relief | (2,483) | - |
| Overseas tax | - | 8 |
| Deferred taxation (Note 17) | - | (299) |
| Under/(over) provision in respect of prior years | | |
| - current | (785) | (428) |
| - deferred (Note 17) | 469 | - |
| | (316) | 1,338 |

10 Dividends

| | 2000 | 1999 |
|--|---------------|--------------|
| | £'000 | £'000 |
| Equity – Ordinary | | |
| Interims paid: £8.85 (1999: £2.92) per £0.25 share | 15,159 | 5,000 |

11 Tangible assets

| | Short term leasehold improvements £'000 | Motor vehicles, fixtures and fittings £'000 | Instruments £'000 | Total £'000 |
|---------------------------------|--|--|------------------------------|------------------------|
| Cost | | | | |
| At 1 January 2000 | 746 | 644 | 16,535 | 17,925 |
| Additions | 18 | 46 | 5,623 | 5,687 |
| Disposals | (114) | (121) | (840) | (1,075) |
| At 31 December 2000 | 650 | 569 | 21,318 | 22,537 |
| Accumulated depreciation | | | | |
| At 1 January 2000 | - | 153 | 9,000 | 9,153 |
| Charge for the year | 74 | 128 | 3,058 | 3,260 |
| Disposals | (11) | (76) | (351) | (438) |
| At 31 December 2000 | 63 | 205 | 11,707 | 11,975 |
| Net book amount | | | | |
| At 31 December 2000 | 587 | 364 | 9,611 | 10,562 |
| At 31 December 1999 | 746 | 491 | 7,535 | 8,772 |

12 Stocks

| | 2000 | 1999 restated |
|-------------------------------------|--------------|------------------|
| | £'000 | £'000 |
| Finished goods and goods for resale | 8,065 | 7,770 |
| Deferred charges | 1,565 | 2,505 |
| | 9,630 | 10,275 |

Deferred charges have been reanalysed from debtors to stock as this more fairly presents the nature of these items. The comparatives for 1999 have been restated accordingly.

13 Debtors

| | 2000 | 1999 restated |
|------------------------------------|---------------|------------------|
| | £'000 | £'000 |
| Trade debtors | 13,237 | 11,719 |
| Amounts owed by group undertakings | 5,940 | 4,690 |
| Corporation tax recoverable | 650 | - |
| Other debtors | 665 | 932 |
| Deferred tax (note 17) | 99 | 568 |
| Prepayments and accrued income | 1 | 46 |
| | 20,592 | 17,955 |

For restatement of deferred charges see note 12.

14 Creditors – Amounts falling due within one year

| | 2000 | 1999 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Trade creditors | 684 | 1,199 |
| Amounts owed to group undertakings | 29,135 | 8,495 |
| Corporation tax | - | 1,455 |
| Taxation and social security | 46 | 914 |
| Accruals and deferred income | 2,553 | 2,425 |
| | 32,418 | 14,488 |

Intercompany loans of £19,606,000 are included within amounts owed to group undertakings. These loans carry an interest rate of LIBOR + 0.25% per annum and have no predetermined repayment dates.

15 Creditors – Amounts falling due after more than one year

| | 2000 £'000 | 1999 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | - | 8,166 |

16 Provisions for liabilities and charges

| | Provision for professional fees £'000 | Share options £'000 | Future lease rentals £'000 | Other £'000 | Total £'000 |
|--|--|------------------------|-------------------------------------|----------------|----------------|
| At 1 January 2000 | - | - | 1,590 | 230 | 1,820 |
| Transferred from accruals | - | 326 | - | - | 326 |
| Utilised during the year | - | (124) | (276) | - | (400) |
| Charged to the profit and loss account | 159 | 855 | 146 | 120 | 1,280 |
| At 31 December 2000 | 159 | 1,057 | 1,460 | 350 | 3,026 |

Future lease rentals

Provisions for future lease rentals represent the discounted amount of residual commitments in respect of the closed manufacturing site in Swindon and will be utilised over the remaining lease term of ten years.

Share options**Share option scheme**

Bristol-Myers Squibb Company has established a stock option plan which it permits employees of Zimmer Limited to participate in (to acquire shares in Bristol-Myers Squibb Company).

Zimmer Limited bears the cost of the difference between the fair value of the stock on the date of exercise and the option price paid by the participants when they exercise options to acquire stock.

The company will become unconditionally liable to pay this charge upon exercise of the options and therefore the company makes a provision following the grant of options, as opposed to on vesting or on exercise, to accrue the expected cost over the period expected to benefit which is the period to when the option is first exercisable.

The amount payable will depend on the number of UK employees who remain with the company and exercise their options and the market price of the ordinary shares at the time of exercise.

The provision of £1,051,000 (1999: £326,000) has been calculated based upon a market value at 31 December 2000 of \$74.161 per share.

Employers national insurance on share options

On exercise of share options issued after 5 April 1999 under an unapproved share option scheme, the company is also required to pay National Insurance on the difference between the exercise price and market value at the exercise date of the shares issued. The company therefore makes a provision following the grant of options, in line with the share option provision above. The provision at 31 December 2000 was £6,000.

Other provisions

Other provisions represent the best estimate of expenditure required to settle obligations in respect of the manufacturing site closure.

Provision for professional fees

Professional fees relate to a provision for the likely cost of defending proceedings taken against the company in France for an amount of approximately £1.8 million. The information required by FRS 12, "Provisions and contingent liabilities" is not disclosed on the grounds that it can be expected to prejudice the outcome of the dispute. The directors are of the opinion that the claim can be successfully defended and feel it is commercially desirable to defend the proceedings and therefore provision has been made for the likely professional costs of resolving the claim.

17 Deferred taxation

| | 2000 | 1999 |
|--|-------------|--------------|
| | £'000 | £'000 |
| The movement on the deferred taxation asset recognised is as follows: | | |
| As at 1 January | (568) | (269) |
| Release/(charge) for the year (Note 9) | 469 | (299) |
| As at 31 December | (99) | (568) |

Deferred taxation asset recognised in the financial statements and the amount not recognised of the potential asset are as follows:

| | Amount not recognised | | Amount recognised | |
|--------------------------------|-----------------------|--------------|-------------------|--------------|
| | 2000 | 1999 | 2000 | 1999 |
| | £'000 | £'000 | £'000 | £'000 |
| Accelerated capital allowances | (657) | (825) | - | - |
| Short term timing differences | - | (8) | (99) | (568) |
| | (657) | (833) | (99) | (568) |

18 Called up share capital

| | 2000 | 1999 |
|---------------------------------------|-------|-------|
| | £'000 | £'000 |
| Authorised, allotted and fully paid: | | |
| 1,713,000 ordinary shares of 25p each | 428 | 428 |

19 Reserves

| | Share premium account £'000 | Profit and loss account £'000 |
|-------------------------------|--------------------------------------|--|
| At 1 January 2000 | 89 | 12,110 |
| Profit for the financial year | - | 7,982 |
| Dividends | - | (15,159) |
| At 31 December 2000 | 89 | 4,933 |

20 Reconciliation of movements in shareholders' funds

| | 2000 £'000 | 1999 £'000 |
|---|---------------|---------------|
| Profit for the year | 7,982 | 4,756 |
| Dividends | (15,159) | (5,000) |
| Net reduction in shareholders' funds | (7,177) | (244) |
| Shareholders' funds at 1 January | 12,627 | 12,871 |
| Shareholders' funds at 31 December | 5,450 | 12,627 |

21 Pension costs

The company participates with other UK affiliated companies in defined benefit pension schemes operated by its immediate parent undertaking Bristol-Myers Squibb Holdings Limited. These schemes are financed through a separately administered fund and cover the majority of employees. The assets of the scheme are held separately from those of the company. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees working lives with the company. The levels of funding are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent actuarial valuation dated 1 January 2000 showed that the total market value of the schemes assets was £163.2 million and that the actuarial value of these assets represented 106% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the company and employees for the year are £141,000 (1999 : £300,000).

The pension charge for the year was £360,000 (1999 : £243,000) after crediting £44,000 (1999 : £17,000) in respect of the amortisation of the above surplus. An amount of £214,000 (1999: debtor of £4,000) is included in accruals and deferred income. The SSAP 24 pension costs was calculated using an actuarial basis which valued the schemes' assets using an Adjusted Market approach and adopting the principal assumptions that investment returns would be 7.0% per annum, that salary increases would average 4.5% per annum and that present and future pensions would increase at the rate of 3% per annum in the long term.

22 Financial commitments

At 31 December 2000 the company had annual commitments under non-cancellable operating leases expiring as follows:

| | Land and buildings | | Other operating leases | |
|--------------------------|--------------------|-------|------------------------|-------|
| | 2000 | 1999 | 2000 | 1999 |
| | £'000 | £'000 | £'000 | £'000 |
| Within one year | 23 | 23 | 110 | 49 |
| Within two to five years | 184 | 184 | 100 | 61 |
| After five years | 210 | 210 | - | - |
| | 417 | 417 | 210 | 110 |

23 Ultimate and immediate parent companies

The ultimate parent undertaking is Bristol-Myers Squibb Company, which is incorporated in the State of Delaware, United States of America. Consolidated accounts for Bristol-Myers Squibb Company can be obtained from The Secretary, Bristol-Myers Squibb Company, 345 Park Avenue, New York 10154, United States of America.

The immediate parent undertaking is Bristol-Myers Squibb Holdings Limited, which is registered in England. Consolidated accounts for the Bristol-Myers Squibb Holdings Limited group can be obtained from The Secretary, Bristol-Myers Squibb Holdings Limited, Swakeleys House, Milton Road, Ickenham, Uxbridge, UB10 8NS.