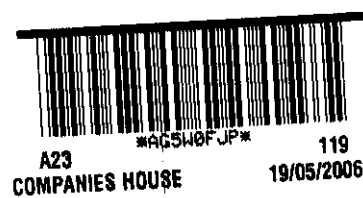


Registered Number: 740767

Zimmer Limited  
Annual report  
for the year ended 31 December 2004



Ldp

# **Zimmer Limited**

## **Annual report for the year ended 31 December 2004**

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## **Directors' report for the year ended 31 December 2004**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2004.

### **Principal activities and review of the business**

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

In 2004 the company continued to trade through branches and commission agents in Belgium, France, Germany, Holland, Spain and other European countries.

The directors expect continuing growth in the retained UK business in future years. The group has announced plans to trade through certain European countries directly from Switzerland. This trade which was being undertaken by the company in 2004 has therefore been transferred during the course of 2005.

In July 2004, as a result of a wider group reorganisation, the company became an effective Limited Risk Distributor responsible for the sale of orthopaedic products acquired from a group undertaking.

The reorganisation was implemented as part of the post merger integration following the acquisition of Centerpulse AG by Zimmer Inc. The company has entered into an Advanced Pricing Agreement with HM Revenue and Customs to obtain a great level of assurance over the newly adopted transfer pricing model.

### **Post balance sheet events**

Subsequent to the year end the group has undertaken a reorganisation of European operations.

As a result on 23 September 2005 the company was acquired by Zimmer U.K. Limited, from Zimmer Investment Luxembourg S.C.A. Furthermore, on 23 September 2005 the company increased the authorised share capital by 18,800,000 shares to 126,513,000 increasing the value of share capital to £31,628,250 (see note 17). On 24 September 2005 the company issued 18,800,000 shares to Zimmer U.K. Limited in consideration for the entire issued share capital and business of Centerpulse (UK) Limited.

### **Results and dividends**

The results for the year are shown in the profit and loss account on page 5.

An interim dividend of 6.5p (2003: 6.5p) per ordinary share amounting to £7,000,000 (2003: £7,000,000) was paid during the year. The directors do not recommend the payment of a final dividend (2003: £nil).

### **Research and development**

Expenditure on research and development during the year was £1,580,214 (2003: £1,654,000).

## **Directors' report for the year ended 31 December 2004 (continued)**

### **Directors and their interests**

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

M Humphris  
B Melzi  
C V Ridgwell  
J Evensen

Subsequent to the year end, on 8 April 2005, J Evensen resigned as a director of the company and P Simonetto and C Jefferis were appointed as directors on 24 June 2005 and 23 September 2005 respectively.

None of the directors have any interest in the shares of the company at any time during the year.

Under statutory instrument 802/1985, the interests of the directors in the share capital of the ultimate holding company or any of its subsidiaries incorporated overseas are not required to be disclosed.

### **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 2004 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.

### **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 2004 was 42 days (2003: 29 days).

### **Charitable donations**

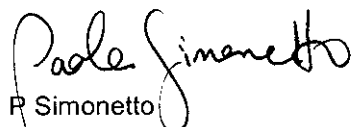
The company has made charitable donations during the year of £4,203 (2003: £2,471).

## Directors' report for the year ended 31 December 2004 (continued)

### Auditors

The auditors, PricewaterhouseCoopersLLP, 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

  
P Simonetto  
Director

8 May 2006

## **Independent auditors' report to the members of Zimmer Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Companies Act 1985. 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.

### **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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Reading

*15 May 2006*

**Profit and loss account for the year ended 31 December 2004**

	Note	2004 £'000	2003 £'000
<b>Turnover</b>	3	<b>123,665</b>	104,521
Cost of sales		<b>(62,033)</b>	(35,632)
<b>Gross profit</b>		<b>61,632</b>	68,889
Distribution costs		<b>(39,838)</b>	(38,165)
Administrative expenses		<b>(4,786)</b>	(5,045)
<b>Operating profit</b>	4	<b>17,008</b>	25,679
Interest receivable and similar income		<b>352</b>	155
Interest payable and similar charges	7	<b>(375)</b>	(235)
<b>Profit on ordinary activities before taxation</b>		<b>16,985</b>	25,599
Tax on profit on ordinary activities	8	<b>(5,852)</b>	(8,070)
<b>Profit on ordinary activities after taxation</b>		<b>11,133</b>	17,529
Dividends	9	<b>(7,000)</b>	(7,000)
<b>Retained profit for the financial year</b>	18	<b>4,133</b>	10,529

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

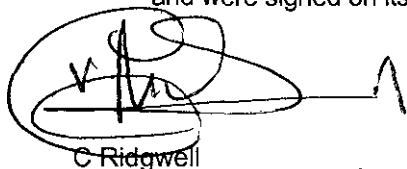
There is no difference between the profits on ordinary activities before taxation and the retained profits for the years stated above, and their historical cost equivalents.

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

## Balance sheet as at 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Tangible assets	10	16,389	13,991
Investments	11	-	-
		<b>16,389</b>	<b>13,991</b>
<b>Current assets</b>			
Stocks	12	31,582	27,483
Debtors	13	59,736	32,633
Cash at bank and in hand		4,653	1,989
		<b>95,971</b>	<b>62,105</b>
<b>Creditors – amounts falling due within one year</b>	14	<b>(49,722)</b>	<b>(20,458)</b>
<b>Net current assets</b>		<b>46,249</b>	<b>41,647</b>
<b>Total assets less current liabilities</b>		<b>61,120</b>	<b>55,638</b>
<b>Provision for liabilities and charges</b>	15	<b>(5,157)</b>	<b>(2,290)</b>
<b>Net assets</b>		<b>57,481</b>	<b>53,348</b>
<b>Capital and reserves</b>			
Called up share capital	17	26,928	26,928
Share premium account	18	89	89
Profit and loss account	18	30,464	26,331
<b>Equity shareholders' funds</b>	19	<b>57,481</b>	<b>53,348</b>

The financial statements on pages 5 to 20 were approved by the board of directors on  
and were signed on its behalf by:



C. Ridgwell  
Director

8 May 2006



## Notes to the financial statements for the year ended 31 December 2004

### 1 Accounting policies

#### Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

#### Turnover

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

The Company sells product through two principal channels, direct to health care institutions and through stocking distributors and healthcare dealers.

Through the direct channel inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. No revenue is recognized upon the placement of inventory into consignment as the Company retains title and maintains the inventory on the Company's balance sheet. Upon use, the Company issues an invoice and revenue is recognized.

Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer health care institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts increase. The Company tracks sales volumes by contract and as contractual volume thresholds are achieved, the higher discounts are applied at an item level on customer invoices. As such, discounts are reflected in revenue as earned. The Company also accrues for anticipated price adjustments, which can occur subsequent to invoicing, based on reasonable estimates derived from past experience.

Revenue is recognized on sales to stocking distributors and healthcare dealers when title to product passes to the distributor or healthcare dealer, generally upon shipment. Product is generally sold to distributors on secured credit terms at fixed prices for specified periods. A distributor may return product in the event that the Company terminates the relationship. Under those circumstances, the Company records an estimated sales return in the period in which notice of termination is given to a distributor.

#### Tangible fixed assets

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

Depreciation is provided to spread the cost, less their estimated residual values, on a straight line basis over their estimated useful economic lives. The principal annual rates used for this purpose are:

Short term leasehold improvements	10%
Motor vehicles, fixtures and fittings	10-33%
Instruments	20%

**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 – undeployed instruments**

Undeployed instruments represent instrument stocks. These stocks are stated at the lower of cost and net realisable value. These items are capitalised to instruments as and when they are included in an instrument kit and amortised over a five year period.

**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 on a full provision basis on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that the tax will arise. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

**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 in accordance with the requirements of SSAP24. The pension cost is assessed in accordance with the advice of qualified actuaries.

**Onerous lease provision**

When leasehold properties become redundant or excess space arises in those properties, the company provides for all costs to the end of the lease or the anticipated date of surrender of the lease, net of anticipated income. Such provisions are then discounted using the risk-free interest rate appropriate to the remaining term of the lease.

**Research and development**

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

### **Share option scheme**

Zimmer Holdings Inc. has established a stock option plan which permits employees of Zimmer Limited to acquire shares in Zimmer Holdings Inc. 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.

## **2 Cash flow statement and related party disclosure**

The company is a wholly-owned subsidiary of Zimmer Inc. and is included in the consolidated financial statements of Zimmer Holdings Inc., 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 Zimmer Holdings Inc. group.

## **3 Turnover**

The geographical analysis of turnover by destination is as follows:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	<b>40,696</b>	31,181
Rest of Europe	<b>76,815</b>	67,334
Rest of World	<b>6,154</b>	6,006
	<b>123,665</b>	104,521

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

## 4 Operating profit

	2004 £'000	2003 £'000
<b>Operating profit is stated after charging/(crediting):</b>		
Wages and salaries	5,063	3,860
Social security costs	678	392
Pension costs (note 20)	511	660
<b>Staff costs</b>	<b>6,252</b>	<b>4,912</b>
Depreciation of owned tangible fixed assets	4,978	4,145
Auditors' remuneration		
Audit services	75	58
Non-audit services	75	7
Operating lease charges		
- other	334	380
Operating lease income	105	105
Research and development expenditure	1,580	1,654
Gain on foreign currency movements	(152)	(1,529)

Included in social security costs is an amount of £108,000 (2003: £155,000) in relation to the national insurance payable on share options. See note 15 for further details.

## 5 Employee information

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

<b>By activity</b>	2004 Number	2003 Number
Production and Research and Development	12	10
Selling	60	49
Administration	44	36
	<b>116</b>	<b>95</b>

## 6 Directors' emoluments

	2004 £'000	2003 £'000
Aggregate emoluments	297	305

In addition to the above amounts one (2003: one) director is employed by an Italian subsidiary of Zimmer Inc. This director was remunerated by the Italian company for his services which included certain responsibilities relating to Zimmer Limited.

## 6 Directors' emoluments (continued)

Three directors exercised options over the shares in the parent company Zimmer Holdings Inc., during the year.

Retirement benefits are accruing to three (2003: three) directors under a defined benefit scheme.

The emoluments of the highest paid director were as follows:

	2004 £'000	2003 £'000
Aggregate emoluments	115	112
Defined benefit pension scheme:		
Accrued pension at end of year	17	33

The highest paid director exercised options over the shares in the parent company Zimmer Holdings Inc., during the year.

## 7 Interest payable and similar charges

	2004 £'000	2003 £'000
Interest payable on loans from group undertakings	375	235

## 8 Tax on the profit for the year

	2004 £'000	2003 £'000
<b>Current tax</b>		
UK corporation tax on profits for the year	5,570	7,822
Adjustment in respect of previous periods	(1)	(206)
<b>Foreign tax</b>		
Adjustment in respect of previous periods	506	-
Total current tax	6,075	7,616
<b>Deferred tax</b>		
Origination and reversal of timing differences	(223)	454
Total deferred tax	(223)	454
Tax on profit on ordinary activities	5,852	8,070

## 8 Taxation on the profit for the year (continued)

The tax assessed for the year is higher (2003: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	16,985	25,764
Profit on ordinary activities multiplied by standard rate in the UK 30% (2003: 30%)	5,096	7,729
Effects of:		
Expenses not deductible for tax purposes	215	317
Other timing differences	416	6
Capital allowances in excess of depreciation	(157)	(230)
Adjustments to tax charge in respect of previous periods	505	(206)
Current tax charge for the year:	6,075	7,616

## 9 Dividends

	2004 £'000	2003 £'000
<b>Equity – Ordinary</b>		
Interim paid: £0.65 (2003: £0.65) per £0.25 share	7,000	7,000

## 10 Tangible assets

	Short term leasehold improvements £'000	Motor vehicles, fixtures and fittings £'000	Instruments £'000	Total £'000
<b>Cost</b>				
At 1 January 2004	650	594	24,962	26,206
Additions	25	25	7,326	7,376
<b>At 31 December 2004</b>	<b>675</b>	<b>619</b>	<b>32,288</b>	<b>33,582</b>
<b>Accumulated depreciation</b>				
At 1 January 2004	258	295	11,662	12,215
Charge for the year	67	55	4,856	4,978
<b>At 31 December 2004</b>	<b>325</b>	<b>350</b>	<b>16,518</b>	<b>17,193</b>
<b>Net book amount</b>				
<b>At 31 December 2004</b>	<b>350</b>	<b>269</b>	<b>15,770</b>	<b>16,389</b>
At 31 December 2003	392	299	13,300	13,991

## 11 Investments

The capital and reserves of Zimmer Trustees Limited at 31 December 2004 was £nil (2003: £nil). Zimmer Trustees Limited was dormant throughout the whole year and as a result it is not necessary to prepare consolidated accounts incorporating the results of Zimmer Trustees Limited.

## 12 Stocks

	2004 £'000	2003 £'000
Finished goods and goods for resale	26,756	23,409
Undeployed instruments	4,826	4,074
	<b>31,582</b>	<b>27,483</b>

## 13 Debtors

	2004 £'000	2003 £'000
Trade debtors	27,531	21,906
Amounts owed by group undertakings	29,500	9,985
Other debtors	1,518	266
Deferred tax (note 16)	682	459
Prepayments and accrued income	505	17
	<b>59,736</b>	<b>32,633</b>

Included in amounts owed by group undertakings is an amount of £24,018,270 (2003: £3,089,417) owed by Zimmer Inc. This is a revolving loan agreement.

The initial terms of this agreement were that it may be taken up in part or up to a total of EUR 5m from 19/9/02 until 19/9/07 but may be terminated by either party following 30 days notice. Interest is calculated on a daily basis on the net daily balance. Interest rate initially applied is determined on the date of the first draw down and thereafter on the first business day of each subsequent calendar year at a rate equivalent to 12 month Euro Dollar LIBOR plus 25 basis points. Interest accruing is payable by 2 instalments due in January and July.

This agreement was replaced on 1 March 2004. The terms of this agreement were that it may be taken up in part or up to a total of EUR 35m from 1/3/2004 until 1/3/2009 but may be terminated by either party following 30 days notice. Interest is calculated on a daily basis on the net daily balance. Interest rate initially applied is determined on the date of the first draw down and thereafter on the first business day of each subsequent calendar year at a rate equivalent to 12 month Euro Dollar LIBOR plus 25 basis points.

*All other amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.*

Other debtors relate to the recoverability of the payment made in relation to the provision for legal dispute and related professional fees (see note 15 for further details).

**14 Creditors – Amounts falling due within one year**

	2004 £'000	2003 £'000
Trade creditors	640	705
Amounts due to group undertakings	40,418	11,014
Corporation tax payable	2,900	4,832
Other taxation and social security	1,847	584
Accruals and deferred income	3,917	3,323
	<b>49,722</b>	<b>20,458</b>

Included in amounts due to group undertakings is an amount of £3,200,000 (2003: £3,200,000) due to Zimmer Inc which bears interest at a fixed annual rate of 6%. The loan is over a 10 year period but may be terminated by either party following 30 days notice. The loan is not secured.

All other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**15 Provisions for liabilities and charges**

	Provision for legal and related professional fees £'000	Share options £'000	Future lease rentals £'000	Other £'000	Total £'000
At 1 January 2004	150	1,368	542	230	2,290
Charge to profit and loss	506	2,143	-	-	2,649
Borne by third party	1,518	-	-	-	1,518
Utilised during the year	-	(1,186)	(119)	-	(1,305)
<b>At 31 December 2004</b>	<b>2,174</b>	<b>2,325</b>	<b>428</b>	<b>230</b>	<b>5,157</b>

**Future lease rentals**

Provisions for future lease rentals represent the present value, using a discount factor of 6% of residual commitments in respect of the closed manufacturing site in Swindon and will be utilised over the remaining lease term of six years.



## **15 Provisions for liabilities and charges (continued)**

### **Share options**

#### **Share option scheme**

Zimmer Holdings Inc. has established a stock option plan which permits employees of Zimmer Limited to acquire shares in Zimmer Holdings Inc.

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.

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 £2,325,00 (2003: £1,213,300) has been calculated based upon a market value at 31 December 2004 of \$80.12 per share (2003: \$70.40).

#### **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 2004 was £264,000 (2003: £155,000).

#### **Other provisions**

Other provisions represent the estimated liability for dilapidations costs in respect of the manufacturing site closure.

#### **Provision for legal dispute and related professional fees**

Provision has been made for the probable exposure and likely costs of defending proceedings taken against the company in France for an amount of approximately £1.8 million. During 2005 a payment of £2,024k was paid into court of which 75% or £1,518k is directly recoverable from a third party (and consequently has been included in other debtors). 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, however, provision has been made for the likely professional costs of resolving the claim, and for the amounts paid to date. Bank guarantees are in place for €3.2m in respect of these proceedings.

## 16 Deferred taxation

	2004
	£'000
<b>The movement on the deferred taxation asset recognised is as follows:</b>	
As at 1 January	459
Recognised for the year (Note 8)	223
<b>As at 31 December</b>	<b>682</b>

## 16 Deferred taxation (continued)

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

	Amount not recognised		Amount recognised	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	(168)	(355)
Short term timing differences	-	-	(514)	(104)
	-	-	(682)	(459)

## 17 Called up share capital

	2004	2003
	£'000	£'000
<b>Authorised, allotted and fully paid</b>		
107,713,000 (2003: 107,713,000) ordinary shares of 25p each	26,928	26,928

### Subsequent events

On 23 September 2005 the authorised share capital of the company was increased from £26,928,250 to £31,628,250 by the creation of a further 18,800,000 ordinary shares of £0.25 each to rank pari passu in all respects with the existing ordinary shares of £0.25 each in the capital of the company.

On 24 September 2005, the company issued 18,800,000 shares of £0.25 each to Zimmer U.K. Limited in consideration for 1,050,000 £1 ordinary shares in Centerpulse (UK) Limited.

## 18 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 2004	89	26,331
Retained profit for the financial year	-	4,133
<b>At 31 December 2004</b>	<b>89</b>	<b>30,464</b>

## 19 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Profit for the year	11,133	17,529
Dividends	(7,000)	(7,000)
Net addition to shareholders' funds	4,133	10,529
Opening shareholders' funds	53,348	42,819
<b>Closing shareholders' funds</b>	<b>57,481</b>	<b>53,348</b>

## 20 Pension costs

### SSAP 24

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using an Adjusted Market approach. The most recent valuation was as at 1 January 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 7% 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.

The pension charge for the year was £511,000 (2003: £606,000). This included no amounts (2003: £nil) in respect of the amortisation of experience surpluses. An amount of £316,000 (2003: £322,423) is included in accruals and deferred income

The most recent actuarial valuation showed that the market value of the scheme's assets was £2,560,000 and that the actuarial value of those assets represented 67% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the company and employees will be 19.6% and 2.5% (increasing to 5% from 1 January 2005) of earnings respectively.

### FRS17

An actuarial valuation of liabilities was carried out as at 31 December 2004 by a qualified independent actuary at Mercer Human Resource Consulting to take account of the requirements of

FRS17. Scheme assets are stated at their market value at 31 December 2004.

	2004	2003	2002
Valuation method:	Projected unit:	Projected unit:	Projected unit:
Discount rate	5.30%	5.40%	5.50%
Inflation assumption	2.70%	2.60%	2.25%
Increases to deferred benefits during deferment	2.70%	2.60%	2.25%
Expected rate of future pension increases	2.70%	2.60%	2.25%
Rate of increase in salaries	4.20%	4.10%	3.75%

The assets in the scheme and the expected rate of return were:

	As at 31 December 2004		As at 31 December 2003		As at 31 December 2002	
	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000
Equities	6.00%	3,045	6.30%	2,506	6.00%	1,731
Bonds	4.90%	1,309	5.10%	1,065	5.00%	797
Other (predominantly cash)	3.00%	-	3.00%	-	3.00%	32
Total market value of assets		4,354		3,571		2,560
Present value of scheme liabilities		(6,447)		(5,232)		(3,873)
Deficit in scheme		(2,093)		(1,661)		(1,313)
Related deferred tax asset		628		498		394
Net pension liability		(1,465)		(1,163)		(919)

Analysis of the amount charged to operating profit:	2004	2003
	£'000	£'000
Current service cost	485	505
Total operating charge	485	505

Analysis of amount credited to other finance income:	2004	2003
	£'000	£'000
Expected return on pension scheme assets	231	161
Interest on pension scheme liabilities	(298)	(227)
Net return	(67)	(66)

<b>Analysis of amount recognised in statement of total recognised gains and losses</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
Actual return less expected return on pension scheme assets	(67)	270
Experience gains and losses arising on the scheme liabilities	(87)	(177)
Changes in assumptions underlying the present value of the scheme liabilities	(269)	(445)
<b>Actuarial loss recognised in STRGL</b>	<b>(423)</b>	<b>(352)</b>

<b>Movement in deficit during the year</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
Deficit in scheme at beginning of the year	(1,661)	(1,313)
Movement in year:		
Current service cost	(485)	(505)
Contributions	543	575
Other finance costs	(67)	(66)
Actuarial loss	(423)	(352)
<b>Deficit in scheme at end of the year</b>	<b>(2,093)</b>	<b>(1,661)</b>

<b>History of experience gains and losses</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	(67)	270
Percentage of scheme assets	(2%)	8%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	(87)	(177)
Percentage of the present value of scheme liabilities	(1%)	(4%)
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	(423)	(352)
Percentage of the present value of scheme liabilities	(7%)	(7%)

## 21 Financial commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		Other	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Within one year	25	173	87	39
Within two to five years	-	27	9	94
After five years	378	210	-	-
	403	410	96	133

## 22 Post balance sheet events

Subsequent to the year end the group has undertaken a reorganisation of European operations.

As a result on 23 September 2005 the company was acquired by Zimmer U.K. Limited, from Zimmer Investment Luxembourg S.C.A. Furthermore, on 23 September 2005 the company increased the authorised share capital by 18,800,000 shares to £31,628,250 (see note 17). On 24 September 2005 the company issued 18,800,000 shares to Zimmer U.K. Limited in consideration for the entire issued share capital and business of Centerpulse (UK) Limited.

## 22 Ultimate and immediate parent companies

At the year end the immediate parent company was Zimmer Inc.. At the date of signing the financial statements the immediate parent company is Zimmer U.K. Limited.

The ultimate parent company and controlling party is Zimmer Holdings Inc., which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Zimmer Holdings Inc. is incorporated in the State of Indiana, United States of America. Consolidated accounts for Zimmer Holdings Inc. can be obtained from The Secretary, Zimmer Holdings Inc., 345 East Main Street, Warsaw, Indiana 46580-0708, United States of America.