

Registered Number: 00740767

Zimmer Limited  
Annual report  
for the year ended 31 December 2007

TUESDAY



A20 \*A0T513YA\* 65  
14/10/2008  
COMPANIES HOUSE

# **Zimmer Limited**

## **Annual report for the year ended 31 December 2007**

	<b>Page(s)</b>
Officers and professional advisers	1
Directors' report	2
Independent auditors' report	6
Profit and loss account	8
Statement of total recognised gains and losses	8
Balance sheet	9
Notes to the financial statements	10

**Officers and professional advisers**

**Directors**

M Humphris  
B Melzi  
C V Ridgwell  
A Massarella  
J Cresser-Brown  
C Jeffers

**Company secretary**

C Jeffers

**Registered office**

The Courtyard  
Lancaster Place  
South Marston Park  
Swindon  
Wiltshire  
SN3 4FP

**Auditor**

PricewaterhouseCoopers LLP  
Chartered Accountants  
& Registered Auditors  
9 Greyfriars Road  
Reading  
Berkshire  
RG1 1JG

## **Directors' report for the year ended 31 December 2007**

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2007

### **Principal activities**

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

### **Review of the business and future developments**

The company is a Limited Risk Distributor responsible for the sale of orthopaedic products acquired from a group undertaking. The company has entered into an Advance Pricing Agreement with HM Revenue and Customs to obtain a greater level of assurance over the transfer pricing model.

The external commercial environment is expected to remain competitive in 2008 and beyond. However, the directors expect continuing growth in the UK business in the future resulting in a continued strengthening of the company's balance sheet.

### **Results and dividends**

The results for the company show turnover of £64,566,000 (2006 £58,993,000) and a pre-tax profit of £5,053,000 (2006 £4,617,000). UK sales increased by 11% to £64,340,000 (2006 £58,198,000).

The results for the financial year are shown in the profit and loss account on page 8.

The balance sheet for the company shows net assets including pension liability of £45,050,000 (2006 £41,284,000).

No interim dividend (2006 22.7p per ordinary share) was paid during the year (2006 £28,727,227). The directors do not recommend the payment of a final dividend (2006 £nil).

### **Post balance sheet event**

In order to reduce the pension deficit the company made a payment of £392,000 to the Zimmer Pension Plan in January 2008. This was in addition to the normal monthly contributions.

### **Key performance indicators**

Financial key performance indicators for the Zimmer group, which includes Zimmer Limited, are shown within the Zimmer Holdings Inc Annual Report on page 6.

### **Principal risks and uncertainties**

The company's success depends upon the Zimmer group's ability to effectively develop its products and the company's ability to market those products against those of our company's competitors.

Further information on risks and uncertainties for the Zimmer group are shown within the Zimmer Holdings Inc Annual Report on page 14.

## **Directors' report for the year ended 31 December 2007 (continued)**

### **Research and development**

Research and development expenditure relates to ongoing clinical trials and regulatory projects

Research and development during the year was £986,000 (2006 £1,112,000)

### **Directors**

The directors who held office during the year and up to the date of signing the financial statements are given below

M Humphris  
B Melzi  
C V Ridgwell  
C Jefferis (Company secretary)  
A Massarella  
J Cresser-Brown

The directors have the benefit of qualifying third party indemnity provisions for the purpose of sections 309A to 309C of the Companies Act 1985

### **Financial risk management**

The company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange risk, interest risk, credit risk and liquidity risk. However the company has limited exposure to commodity price risk. The board of directors sets the financial risk management policies and monitors them.

#### ***Foreign exchange risk***

The company is exposed to movements in foreign exchange rates as a result of transactions with a number of foreign suppliers and customers. The company's ultimate parent undertaking, Zimmer Holdings Inc, manages the foreign exchange rate risk associated with the whole group, as disclosed in the financial statements of that company, which are available as disclosed in note 22.

#### ***Credit risk***

The company has no significant concentrations of exposure to credit risk. The company has implemented policies that require appropriate credit checks on potential new customers before sales commence and the amount of any individual counterparty is subject to a limit which is reassessed regularly by the company's management.

#### ***Liquidity risk***

The company manages a liquidity position with the objective of maintaining the ability to fund commitments and repay liabilities in accordance with their required terms. The financing of operations is primarily achieved through retained earnings and cash balances.

#### ***Interest rate risk***

The company pays and receives interest on intercompany borrowings and lending respectively at a rate of interest determined by the group (one loan being at fixed rate) and its bank deposits and overdraft facilities are at variable rates. No financial instruments were used by the company during the year to manage interest rate costs, and therefore no hedge accounting has been applied.

## **Directors' report for the year ended 31 December 2007 (continued)**

### **Charitable donations**

The company has made charitable donations during the year of £4,755 (2006 £3,858)

### **Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

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 2007 was 36 days (2006 37 days).

### **Disclosure of information to auditors**

So far as each director is aware at the date of approval of this report

- there is no relevant audit information of which the Company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

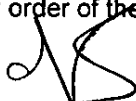
This confirmation is given and should be interpreted in accordance with the provisions of Section 234 ZA of the Companies Act 1985.

**Directors' report for the year ended 31 December 2007  
(continued)**

**Independent auditors**

The auditors, PricewaterhouseCoopers LLP, 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

A handwritten signature in black ink, appearing to be 'C. Jeffers', written over a horizontal line.

**C Jeffers  
Director**

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

We have audited the financial statements of Zimmer Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gain and Losses, the Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,



**Independent auditors' report to the members of  
Zimmer Limited (continued)**

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

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

9 October 2008

**Profit and loss account for the year ended 31 December 2007**

	Note	2007 £'000	2006 £'000
<b>Turnover</b>	2	<b>64,566</b>	58,993
Cost of sales		(49,391)	(40,506)
<b>Gross profit</b>		<b>15,175</b>	18,487
Distribution costs		(10,609)	(14,203)
Administrative expenses		(1,983)	(2,218)
Other operating income		204	-
<b>Operating profit</b>	3	<b>2,787</b>	2,066
Interest receivable and similar income	6	3,103	3,837
Interest payable and similar charges	7	(838)	(1,179)
Other finance income / (expense)	19	1	(107)
<b>Profit on ordinary activities before taxation</b>		<b>5,053</b>	4,617
Tax on profit on ordinary activities	8	(1,837)	(1,421)
<b>Profit for the financial year</b>	17, 18	<b>3,216</b>	3,196

All results derive 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


**Statement of total recognised gains and losses for the year ended 31 December 2007**

	Note	2007 £'000	2006 £'000
Profit for the financial year		3,216	3,196
Actuarial gain on pension scheme	19	488	676
Movement on deferred tax relating to pension scheme	15, 18	(147)	(203)
<b>Total recognised gains relating to the year</b>		<b>3,557</b>	3,669

## Balance sheet as at 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Tangible assets	10	527	615
Investments	11	4,347	4,347
		<b>4,874</b>	4,962
<b>Current assets</b>			
Debtors	12	55,221	57,485
Cash at bank and in hand		19,216	26,386
		<b>74,437</b>	83,871
<b>Creditors – amounts falling due within one year</b>	13	<b>(32,708)</b>	(44,294)
<b>Net current assets</b>		<b>41,729</b>	39,577
<b>Total assets less current liabilities</b>		<b>46,603</b>	44,539
<b>Provision for liabilities and charges</b>	14	<b>(1,223)</b>	(1,644)
<b>Net assets excluding pension liability</b>		<b>45,380</b>	42,895
<b>Pension liability</b>	19	<b>(330)</b>	(1,611)
<b>Net assets including pension liability</b>		<b>45,050</b>	41,284
<b>Capital and reserves</b>			
Called up share capital	16	31,628	31,628
Share premium account	17	89	89
Profit and loss account	17	12,125	8,568
Other reserves	17	1,208	999
<b>Total shareholders' funds</b>	18	<b>45,050</b>	41,284

The financial statements on pages 8 to 28 were approved by the board of directors on 8-10-2008 and were signed on its behalf by

  
C Jeffers  
Director

## **Notes to the financial statements for the year ended 31 December 2007**

### **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 in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

#### **Consolidation**

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under s 228A of the Companies Act 1985 from the requirement to prepare and deliver consolidated financial statements as it and its subsidiary undertakings are included in the audited consolidated financial statements of Zimmer Holdings Inc. Zimmer Holdings Inc is the parent undertaking of the smallest and largest group to consolidate these financial statements at 31 December 2007.

Copies of the consolidated financial statements of Zimmer Holdings Inc can be obtained from

The Company Secretary  
Zimmer Holdings Inc  
345 East Main Street  
Warsaw  
Indiana 46580-0708  
United States of America

#### **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 recognised upon the placement of inventory into consignment as the Zimmer Group retains title and maintains the inventory on its consolidated balance sheet. Upon use, the company issues an invoice and revenue is recognised.

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.

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 1 Accounting policies (continued)

#### Turnover (continued)

Revenue is recognised on sales to stocking distributors and healthcare dealers when title to product passes to the distributor or healthcare dealer, generally upon shipment. Products are generally sold to distributors on secured credit terms at fixed prices for specified periods. A distributor may return the 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

Fixed assets are stated in the balance sheet at cost less accumulated depreciation.

The cost of fixed assets is their historic 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%

#### Operating leases

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

#### Research and development

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

#### Foreign currency

Transactions denominated in foreign currencies are translated to sterling at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate 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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

**Notes to the financial statements for the year ended 31 December 2007 (continued)****1 Accounting policies (continued)****Deferred taxation (continued)**

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

**Retirement benefits**

The company operates both a defined benefit and defined contribution scheme on behalf of the company's employees. Details of the pension schemes for the company are set out in note 18 to the financial statements.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

**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.

**Dilapidation provision**

Where the terms of a property lease require that at the end of the lease the building shall be returned to its original condition, a provision is made over the life of the lease for the estimated dilapidations expenditure.

**Investments**

Investments in subsidiaries are stated in the balance sheet of the company at cost, less amounts written off where there has been a permanent impairment in value. Impairment reviews are conducted on an annual basis.

**Trade debtors**

Trade debtors are carried at fair value. As a Limited Risk Distributor the credit risk for Trade debtors is borne by a fellow Group company and therefore no bad debt provision is maintained by the company.

**Other Income**

The company earns Management Services Fees on the provision of certain services to a group undertaking. This income is recognised when it is earned i.e. when the services are performed.

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 1 Accounting policies (continued)

#### Share-based payment

The ultimate parent company, Zimmer Holdings Inc, operates an equity-settled, share-based compensation plan. Certain employees of the company are awarded options over the shares in the ultimate parent. The fair value of the employee services received in exchange for these grants of options is recognised as an expense over the vesting period, with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to other reserves.

Upon exercise, Zimmer Holdings Inc makes a recharge to the company in respect of share options granted to the company's employees. When incurred, these intercompany charges are offset in other reserves. If the amount of the intercompany charge exceeds the original charge, that excess is treated as a distribution from the company to its parent.

#### Cash flow statement

The company is a wholly-owned subsidiary of Zimmer Holdings 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).

#### Related party disclosure

The company is 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 as it is a wholly owned subsidiary of the group.

### 2 Turnover

The geographical analysis of turnover by destination is as follows

	2007	2006
	£'000	£'000
United Kingdom	64,340	58,198
Rest of Europe	226	795
	<b>64,566</b>	<b>58,993</b>

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

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 3 Operating profit

	2007 £'000	2006 £'000
<b>Operating profit is stated after charging/(crediting)</b>		
Wages and salaries	6,031	5,773
Social security costs	595	671
Pension costs (note 19)	613	517
Share based payment – fair value of employee services (note 21)	585	702
<b>Staff costs</b>	<b>7,824</b>	<b>7,663</b>
Depreciation of owned tangible fixed assets	224	403
Loss on disposal of tangible fixed assets	35	-
Operating lease charges		
- other than plant and machinery	553	775
Loss / (gain) on foreign currency movements	148	(71)

Included in social security costs is a (credit) / charge of £(116,000) (2006 £5,000) in relation to the movement on the provision for National Insurance payable on share options. See note 13 for further details.

	2007 £'000	2006 £'000
<b>Services provided by the company's auditor and network firms</b>		
Fees payable to company auditors for the audit	94	93
<b>Fees payable to company auditors and its associates for other services:</b>		
Other assurance services pursuant to legislation	7	60

### 4 Employee information

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

	2007 Number	2006 Number
<b>By activity</b>		
Research and development	8	9
Selling and marketing	78	70
Administration	31	43
	<b>117</b>	<b>122</b>



## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 5 Directors' emoluments

	2007	2006
	£'000	£'000
Aggregate emoluments	712	718

In addition to the above amounts one (2006 one) director is employed by an Italian subsidiary of Zimmer Holdings Inc. This director was remunerated by the Italian company for his services to the Zimmer Holdings Inc worldwide group, which included certain responsibilities relating to Zimmer Limited. However, the exact value of these services cannot be determined and therefore not included in the financial statements.

Two directors (2006 three) exercised options over the shares in the parent company Zimmer Holdings Inc, during the year. Retirement benefits are accruing to five (2006 five) directors under a defined benefit scheme and no (2006 none) directors under a money purchase scheme.

The emoluments of the highest paid director were as follows:

	2007	2006
	£'000	£'000
Aggregate emoluments	160	159
Defined benefit pension scheme		
Accrued pension at end of year	19	46

The highest paid director exercised options over the shares in the parent company Zimmer Holdings Inc, during the year (2006 exercised).

### 6 Interest receivable and similar income

	2007	2006
	£'000	£'000
Interest receivable on loans to group undertakings	2,255	2,628
Third party interest receivable	848	1,209
Total interest receivable and similar income	3,103	3,837

### 7 Interest payable and similar charges

	2007	2006
	£'000	£'000
Interest payable on loans from group undertakings	789	1,179
Third party interest payable	49	-
Total interest payable and similar charges	838	1,179

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 8 Tax on the profit on ordinary activities

	2007 £'000	2006 £'000
<b>Current tax</b>		
UK corporation tax on profits for the year	1,113	1,683
Adjustment to tax charge in respect of previous periods	90	341
Amount transferred to STRGL	-	112
<b>Total current tax</b>	<b>1,203</b>	<b>2,136</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	634	(715)
<b>Total deferred tax (note 15)</b>	<b>634</b>	<b>(715)</b>
<b>Tax on profit on ordinary activities</b>	<b>1,837</b>	<b>1,421</b>

The tax assessed for the year is lower (2006 higher) than the standard rate of corporation tax in the UK (30%) (2006 30%). The differences are explained below

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	5,053	4,617
Profit on ordinary activities multiplied by standard rate in the UK 30% (2006 30%)	1,516	1,385
Effects of		
Expenses not deductible for tax purposes	148	79
Other timing differences	(379)	-
Depreciation in excess of capital allowances	(172)	219
Adjustments to tax charge in respect of previous periods	90	341
Amounts transferred to STRGL	-	112
<b>Current tax charge for the year</b>	<b>1,203</b>	<b>2,136</b>

The standard rate of Corporation Tax in the UK changes to 28% with effect from 1 April 2008

### 9 Dividends

	2007 £'000	2006 £'000
<b>Equity – Ordinary</b>		
Interim paid £nil (2006 £0 227) per £0 25 share	-	28,727

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 10 Tangible assets

	Short term leasehold improvements £'000	Motor vehicles, fixtures and fittings £'000	Total £'000
<b>Cost</b>			
At 1 January 2007	681	839	1,520
Additions	-	186	186
Disposals	(33)	(117)	(150)
<b>At 31 December 2007</b>	<b>648</b>	<b>908</b>	<b>1,556</b>
<b>Accumulated depreciation</b>			
At 1 January 2007	460	445	905
Charge for the year	67	157	224
Disposals	(13)	(87)	(100)
<b>At 31 December 2007</b>	<b>514</b>	<b>515</b>	<b>1,029</b>
<b>Net book amount</b>			
<b>At 31 December 2007</b>	<b>134</b>	<b>393</b>	<b>527</b>
At 31 December 2006	221	394	615

### 11 Investments

Shares in group undertakings	2007 £'000	2006 £'000
At 1 January and 31 December	<b>4,347</b>	<b>4,347</b>

Investments are stated at cost which is equal to net book value

At 31 December 2007 the company had the following subsidiary undertakings

Subsidiary undertaking	Country of incorporation	Principal activity	Class and % of nominal value of that class held
Centerpulse (UK) Limited	England	Dormant	Ordinary shares 100%
Zimmer Trustees Limited	England	Dormant	Ordinary shares 100%

The capital and reserves of Zimmer Trustees Limited at 31 December 2007 was £nil (2006 £nil)  
Zimmer Trustees Limited was dormant throughout the whole year

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 11 Investments (continued)

The directors believe that the book value of investments is supported by their underlying net assets

The capital and reserves of Centerpulse (UK) Limited at 31 December 2007 was £4,347,000 (2006 £4,347,000) Centerpulse (UK) Limited was dormant throughout the whole year

### 12 Debtors

	2007 £'000	2006 £'000
Trade debtors	10,549	10,032
Amounts owed by group undertakings	40,956	43,432
Corporation tax recoverable	12	-
Other debtors	1,672	2,039
Deferred tax (note 15)	1,025	1,245
Prepayments and accrued income	1,007	737
<b>Total</b>	<b>55,221</b>	<b>57,485</b>
<b>Less: Amounts falling due in more than one year</b>		
<b>Amounts falling due in more than one year and owed by group undertakings</b>	<b>37,216</b>	<b>37,216</b>
<b>Amounts falling due within one year</b>	<b>18,005</b>	<b>20,269</b>

The amounts falling due in more than one year owed to group undertakings is owed by Zimmer Investment Luxembourg SCA. Under the terms of this loan agreement the loan will continue until no later than 31 July 2016 and is unsecured. 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 GBP LIBOR plus 25 basis points. Interest accruing is payable by 2 instalments due in January and July.

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

An amount of £1,631,000 (2006 £1,512,000) is included within other debtors which relates to the recoverability of the payment made in relation to the provision for legal dispute and related professional fees (see note 14 for further details).

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 13 Creditors – Amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	281	193
Amounts due to group undertakings	29,669	40,357
Corporation tax payable	-	1,185
Other taxation and social security	494	265
Accruals and deferred income	2,264	2,294
	<b>32,708</b>	<b>44,294</b>

Included in amounts due to group undertakings is an amount of £3,200,000 (2006 £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.

### 14 Provisions for liabilities and charges

	Provision for legal and related professional fees £'000	Share Options – National Insurance £'000	Onerous lease £'000	Dilapidation £'000	Total £'000
1 January 2006	150	225	492	777	1,644
Credit to profit and loss	(150)	(116)	(3)	-	(269)
Charge to profit and loss	39	-	-	13	52
Utilised during the year	-	-	(156)	(48)	(204)
<b>31 December 2007</b>	<b>39</b>	<b>109</b>	<b>333</b>	<b>742</b>	<b>1,223</b>

All provisions are measured on an undiscounted basis.

#### Provision for legal dispute and professional fees

Professional fees brought forward related to a provision for the likely cost of defending proceedings taken against the company in France. The information required by Financial Reporting Standard 12, "Provisions and contingent liabilities" is not disclosed on the grounds that it can be expected to prejudice the outcome of the dispute. During 2005 the company made a payment of £2,024,000 into court in respect of the case. An amount of £1,631,000 (2006 £1,512,000) is held in other debtors relating to the recoverability of part of this amount from a third party. The balance brought forward was credited to the profit and loss account during the year as it was established that the costs of defending proceedings will be borne in full by the third party. The balance carried forward is in respect of an unrelated matter.

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 14 Provisions for liabilities and charges (continued)

#### Share options – National Insurance

The ultimate parent company, Zimmer Holdings Inc, operates an unapproved share-based compensation plan. Under an unapproved share option scheme, the company is required to pay National Insurance on the difference between the grant price and market value at the exercise date of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. The company therefore calculates the provision by applying the latest enacted National Insurance rate to the difference between the market value of the underlying options at the balance sheet date and the option grant prices. A full provision is made upon grant of the option. The amount of the National Insurance actually payable will depend on the number of employees who remain with the company and exercise their options, the market price of the ultimate parent company's shares at the time of exercise and the prevailing National Insurance rates at the time.

#### Onerous lease

Provisions for future lease rentals represent the residual commitments, net of expected rental incomes, in respect of the closed sites in Swindon and Alton and will be utilised over the remaining lease terms of three years.

#### Dilapidation

Dilapidation provision represents the estimated liability for dilapidations costs in respect of the company's leasehold premises.

### 15 Deferred taxation

	2007 £'000	2006 £'000
Accelerated capital allowances	589	804
Other timing differences	436	441
Deferred tax asset excluding that relating to pension liability (note 12)	1,025	1,245
Deferred tax asset on pension liability (note 19)	129	690
<b>Total deferred tax asset</b>	<b>1,154</b>	<b>1,935</b>
<b>1 January</b>	<b>1,935</b>	<b>1,535</b>
Deferred tax credit to profit and loss account (note 8)	(634)	715
Deferred tax charged to the statement of total recognised gains and losses	(147)	(315)
<b>31 December</b>	<b>1,154</b>	<b>1,935</b>

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 15 Deferred taxation (continued)

Deferred tax asset relating to pension deficit	2007 £'000	2006 £'000
<b>1 January</b>	<b>690</b>	<b>1,005</b>
Deferred tax charged to profit and loss account (note 7)	(414)	(112)
Deferred tax charged to the statement of total recognised gains and losses	(147)	(203)
<b>31 December</b>	<b>129</b>	<b>690</b>

The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2008 Finance Act. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The effect of the changes to be enacted in the Finance Act 2008 will have no impact on the deferred tax asset at 31 December 2007

### 16 Called up share capital

	2007 £'000	2006 £'000
<b>Authorised, allotted and fully paid</b>		
126,513,000 (2006 126,513,000) ordinary shares of 25p each	<b>31,628</b>	<b>31,628</b>

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 17 Reserves

	Share premium account £'000	Profit and loss account £'000	Other reserves £'000
<b>At 1 January 2006</b>	89	8,568	999
Profit for the financial year	-	3,216	-
Actuarial gain on pension scheme (note 19)	-	488	-
Movement on deferred tax relating to pension scheme (note 15)	-	(147)	-
Share based payment services provided (note 21)	-	-	585
Share based payment recharge to ultimate parent	-	-	(376)
<b>At 31 December 2007</b>	<b>89</b>	<b>12,125</b>	<b>1,208</b>
<b>Pension deficit</b>	-	<b>(330)</b>	-
<b>Profit and loss reserve excluding pension deficit</b>	-	<b>12,455</b>	-

### 18 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Profit for the financial year	3,216	3,196
Dividends (note 9)	-	(28,727)
Actuarial gain on pension scheme (note 19)	488	676
Movement on deferred tax relating to pension scheme	(147)	(203)
	3,557	(25,058)
Increase in other reserves	209	266
Net addition/(reduction) to shareholders' funds	3,766	(24,792)
<b>Opening shareholders' funds</b>	<b>41,284</b>	<b>66,076</b>
<b>Closing shareholders' funds</b>	<b>45,050</b>	<b>41,284</b>

### 19 Pension costs

#### Defined contribution scheme

The company operates a defined contribution scheme for employees and directors. The scheme assets are held in a separately administered fund. Contributions paid in to the scheme during the year amounted to £118,000 (2006 £116,000). £14,000 was outstanding at the year end (2006 £nil).



## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 19 Pension costs (continued)

#### Defined benefit scheme

Zimmer Limited operates a defined benefit scheme. A full actuarial valuation was carried out as at 31 December 2005 and updated to 31 December 2007 by a qualified independent actuary. The contribution made to the Fund in the accounting year was £1,828,000 (2006: £882,000). The company made a payment of £392,000 to the Zimmer Pension Plan in January 2008. This was in addition to the normal monthly contributions of £44,000 per month.

An actuarial valuation of liabilities was carried out as at 31 December 2007 by a qualified independent actuary at Mercer Human Resource Consulting to take account of the requirements of Financial Reporting Standard 17. Scheme assets are stated at their market value at 31 December 2007.

Valuation method:	2007 Projected unit	2006 Projected unit	2005 Projected unit
Discount rate	5.5%	5.0%	4.7%
Inflation assumption	3.3%	3.0%	2.8%
Increases to deferred benefits during deferment	3.3%	3.0%	2.8%
Expected rate of future pension increases	3.3%	3.0%	2.8%
Rate of increase in salaries	4.8%	4.5%	4.3%

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

	As at 31 December 2007		As at 31 December 2006		As at 31 December 2005	
	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000
Equities	6.0%	6,743	6.0%	5,232	5.6%	4,630
Bonds	5.2%	2,922	4.8%	2,242	4.4%	1,468
Total market value of assets		9,655		7,474		6,098
Present value of scheme liabilities		(10,124)		(9,775)		(9,449)
Deficit in scheme		(459)		(2,301)		(3,351)
Related deferred tax asset (note 15)		129		690		1,005
Net pension liability		(330)		(1,611)		(2,346)

The proportion of the Zimmer Limited scheme's assets to liabilities was 95% (2006: 76%)

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 19 Pension costs (continued)

<b>Analysis of the amount charged to operating profit.</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Current service cost	475	401
<b>Analysis of amount credited/(charged) to other finance income/(expense)</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Expected return on pension scheme assets	505	345
Interest on pension scheme liabilities	(504)	(452)
<b>Other finance income/(expense)</b>	<b>1</b>	<b>(107)</b>
<b>Analysis of amount recognised in statement of total recognised gains and losses</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Actual return less expected return on pension scheme assets	(206)	412
Experience losses arising on the scheme liabilities	-	(30)
Changes in assumptions underlying the present value of the scheme liabilities	694	294
<b>Actuarial gain recognised in STRGL</b>	<b>488</b>	<b>676</b>
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of the year – 1 January	(2,301)	(3,351)
Movement in year		
Current service cost	(475)	(401)
Contributions	1,828	882
Other finance income/(expense)	1	(107)
Actuarial gain	488	676
<b>Deficit in scheme at end of the year – 31 December</b>	<b>(459)</b>	<b>(2,301)</b>

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 19 Pension costs (continued)

History of experience gains/(losses)	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets					
Amount (£'000)	(206)	412	649	(67)	270
Percentage of scheme assets	(2%)	5.5%	11%	(2%)	8%
Experience gain/(loss) on scheme liabilities					
Amount (£'000)	-	(30)	-	(87)	(177)
Percentage of the present value of scheme liabilities	0%	0%	0%	(1%)	(4%)
Total amount recognised in statement of total recognised gains and losses					
Amount (£'000)	488	676	(1,659)	(423)	(352)
Percentage of the present value of scheme liabilities	5%	7%	(18%)	(7%)	(7%)

### 20 Financial commitments

At 31 December 2007 the company had annual commitments under non-cancellable operating leases expiring as follows

	Land and buildings		Other	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Within one year	6	19	70	40
Within two to five years	275	261	117	120
After five years	183	208	-	-
	464	488	187	160

### 21 Share-based payment

Zimmer Holdings Inc. has established equity settled stock option plans which permit employees of Zimmer Limited to acquire shares in Zimmer Holdings Inc. The 2006 Stock Incentive Plan (which replaced the 2001 Stock Incentive Plan) provides for the grant of non-qualified stock options and incentive stock options, long-term performance awards, restricted stock awards, equity share units and stock appreciation rights. The TeamShare Stock Option Plan provides for the grant of non-qualified stock options.

Stock options granted to date generally vest over four years, although in no event in less than one year, and expire ten years from the date of the grant. Stock options are granted with an exercise price equal to the market price of common stock on the date of grant.

A reconciliation of option movements over the year to 31 December 2007 is shown below

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 21 Share based payment (continued)

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at start of the year	205,348	61.94	196,021	56.64
Granted	52,211	81.94	50,828	69.57
Cancelled	(13,662)	74.94	(16,046)	74.85
Exercised	(21,464)	49.67	(25,455)	45.11
Outstanding at end of the year	222,433	66.11	205,348	61.94
Exercisable at end of the year	149,362	60.53	117,150	54.40

The weighted average fair value of options granted during the year was \$1,180,000 (2006 \$3,536,000)

The total charge for the year relating to employee share based payment plans for which fair value accounting is being applied was £585,000 (2006 £702,000), all of which related to equity-settled share based payment transactions. After deferred tax, the total charge was £557,000 (2006 £702,000)

The USD to GBP exchange rate at 31 December 2007 was \$1.9821/£

For options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life are as follows

#### 31 December 2007:

Range of exercise prices.	Number of shares	Options outstanding			Number of shares	Options exercisable	
		Weighted average Remaining expected life (years)	Weighted average remaining contractual life (years)	Weighted average exercise price \$		Weighted average remaining contractual life	Weighted average exercise price \$
\$20.00 - \$40.00	45,137	3.14	3.14	30.80	45,137	3.14	30.80
\$40.01 - \$60.00	5,329	5.60	5.60	50.12	5,329	5.60	50.12
\$60.01 - \$70.00	17,760	7.85	7.85	67.29	7,804	7.30	68.41
\$70.01 - \$80.00	121,482	7.35	7.35	75.01	82,906	6.89	74.36
\$80.01 - \$90.00	32,725	9.11	9.11	83.74	8,186	9.11	83.74

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 21 Share-based payment (continued)

31 December 2006

Range of exercise prices	Number of shares	Options outstanding			Number of shares	Options exercisable	
		Weighted average remaining expected life (years)	Weighted average remaining contractual life (years)	Weighted average exercise price \$		Weighted average remaining contractual life	Weighted average exercise price \$
\$20 00 - \$40 00	51,001	4 09	4 09	30 43	50,001	4 05	30 25
\$40 01 - \$60 00	7,265	6 67	6 67	50 12	4,785	6 67	50 12
\$60 01 - \$70 00	22,807	8 89	8 89	67 25	4,141	7 67	69 98
\$70 01 - \$80 00	124,275	8 16	8 16	74 56	58,223	8 16	74 33

The weighted average share price during the year for options exercised over the year was \$49 67 (2006 \$45 11)

Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per options granted and the assumptions used in the calculation are as follows -

	2007	2006
Vesting period (years)	4	4
Expected volatility	23.8%	25.7%
Option life (years)	10	10
Expected life (years)	5.1	5.1
Risk free rate	4.4%	4.5%
Expected dividend yield	0%	0%
Fair value per option	\$22.60	\$22.32

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For stock options granted in 2007 and 2006 expected volatility was derived from the implied volatility of traded options that were actively traded around the grant date of the stock options.

The expected term assumption has been derived from historical employee exercise behaviour.

The risk free rate of return is determined using the implied yield currently available for zero coupon US government bonds with a remaining term equal to the expected life of the options.

**Notes to the financial statements for the year ended 31  
December 2007 (continued)**

**22 Ultimate parent undertakings and controlling party**

At the year end and at the date of signing the financial statements the immediate parent company was 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 a financial statements 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