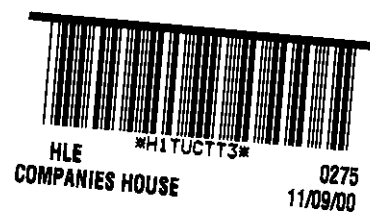


DePuy International Limited  
Annual Report  
for the year ended 31 December 1999

Registered Number 3319712



DePuy International Limited  
Annual Report  
for the year ended 31 December 1999

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# DePuy International Limited

## Directors' report for the year ended 31 December 1999

The directors present their report and the audited financial statements of the company for the year ended 31 December 1999.

### Principal activities

The company's principal activities are the manufacture and supply of orthopaedic and other medical and surgical products.

### Review of business and future developments

The company has performed satisfactorily during the year. The profit and loss account gives further details of the company's performance and activity while the financial position of the company is set out in the balance sheet.

On 6 July 1999, the company was acquired by Ethicon Limited, a fellow group company.

On 7 July 1999, the company acquired the business and assets of J & J Medical Limited's orthopaedic business. On 31 December 1999, the company acquired the business and assets of Acromed UK Limited. The principal activity of Acromed UK Limited was the supply of orthopaedic products.

### Subsequent events

On 1 January 1999, the company acquired the business and assets of Depuy Motech Limited.

On 30 March 2000, the company acquired Cemvac System AB, a company based in Sweden for cash consideration of £1,605,000. Cemvac manufactures a vacuum system for bone cement delivery for the implanting of orthopaedic products.

### Results and dividends

The company's profit for the financial year is £11,400,000 (1998: £6,827,000). It is not proposed to pay a dividend.

### Directors and their interests

The directors who held office during the period were as follows:

G M Franks	(appointed 11 January 1999)
J A Coppack	
J F Lettin	
P J McCullagh	(resigned 17 May 2000)
M J Dormer	
C M Thrush	
G N Fitzpatrick	(appointed 22 October 1999)
D C Jackson	(appointed 11 January 1999, resigned 30 July 1999)

No director had any interest at the beginning or the end of the period in the share capital of the company.

### Policy on payment of creditors

Standard terms of payment are 30 days after date of invoice and the company endeavours to pay within these terms at all times. Terms of payment are agreed at the time of negotiation for supply. If any difference from standard terms is required, it must first be authorised by the financial controller. Trade creditors at the year end represented 30 days of purchases (1998: 30 days).

# DePuy International Limited

## Research and development

During the period the company concentrated its research and development expenditure on new and improved medical products, particularly orthopaedic implants.

## Employees

It is the policy of the company to employ the best qualified personnel and provide equal opportunity in the selection and advancement of employees regardless of race, colour, national origin, religious persuasion, sex or marital status.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of regular Team Briefings and Company President presentations which allow the views and opinions of personnel to be taken into account.

It is also the company's policy to give full and fair consideration to disabled applicants for employment, having regard to their particular aptitudes and abilities, if any employee becomes disabled the objective is the continued provision of suitable employment either in the same or an alternative position with appropriate training if necessary.

It is the policy of the company to enlist the support of all staff in providing the safest and healthiest environment within its premises that are reasonably practical for all its employees and visitors.

## 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 confirm that suitable accounting policies have been used and applied consistently as explained on page 6 under 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 1999 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 United Kingdom 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.

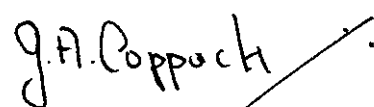
## Year 2000

No year 2000 issues have arisen affecting the company.

## 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



**JA Coppack**  
Secretary

17 August 2000

# DePuy International Limited

## Auditors' report to the members of DePuy International Limited

We have audited the financial statements on pages 4 to 19.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 2, 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 1985. We also report to you if, in our opinion, the directors' 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 at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
Leeds

23 August 2000

# DePuy International Limited

## Profit and loss account for the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
<b>Turnover</b>	3	<b>166,656</b>	112,123
Cost of sales		(112,918)	(75,292)
<b>Gross profit</b>		<b>53,738</b>	36,831
Net operating expenses	4	(51,125)	(27,590)
<b>Operating profit</b>	5	<b>2,613</b>	9,241
Dividend from subsidiary undertaking		8,219	-
Net interest receivable	7	1,997	976
<b>Profit on ordinary activities before taxation</b>	8	<b>12,829</b>	10,217
Tax on profit on ordinary activities	11	(1,429)	(3,390)
<b>Retained profit for the financial year</b>	20	<b>11,400</b>	6,827

## Statement of recognised gains and losses

	1999 £'000	1998 £'000
Profit for the year	11,400	6,827
Exchange gains	-	795
<b>Total recognised gains during the year</b>	<b>11,400</b>	<b>7,622</b>

# DePuy International Limited

## Balance sheet as at 31 December 1999

	Note	1999 £'000	1998 £'000
<b>Fixed assets</b>			
Intangible assets	12	45,333	19,416
Tangible assets	13	22,887	17,813
Investments	14	451	451
		<b>68,671</b>	<b>37,680</b>
<b>Current assets</b>			
Stock	15	45,630	16,189
Debtors	16	58,117	44,512
Cash at bank and in hand		32,913	13,344
		<b>136,660</b>	<b>74,045</b>
<b>Creditors: amounts falling due within one year</b>	17	<b>(126,415)</b>	<b>(46,333)</b>
<b>Net current assets</b>		<b>10,245</b>	<b>27,712</b>
<b>Total assets less current liabilities</b>		<b>78,916</b>	<b>65,392</b>
<b>Creditors: amounts falling due after one year</b>	17	<b>(47)</b>	<b>-</b>
<b>Provisions for liabilities and charges</b>	18	<b>(6,312)</b>	<b>(4,235)</b>
<b>Net assets</b>		<b>72,557</b>	<b>61,157</b>
<b>Capital and reserves</b>			
Called up share capital	19	46,654	46,654
Profit and loss account	20	25,903	14,503
<b>Equity shareholders' funds</b>	21	<b>72,557</b>	<b>61,157</b>

The financial statements on pages 4 to 19 were approved by the board of directors on 17 August 2000 and were signed on its behalf by:



G N Fitzpatrick  
Director

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 1999

### 1 Accounting policies

#### Basis of accounting

The financial statements are prepared in accordance with the historical cost convention and in accordance with applicable United Kingdom accounting standards.

#### Foreign exchange

Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the year end. Exchange differences arising from the retranslation of foreign currency denominated assets and liabilities together with other exchange differences arising in the year are included in the profit and loss account.

#### Intangible assets

Purchased know-how, goodwill and technology transfer are amortised on a straight line basis over their useful lives, estimated at between 11 and 20 years.

#### Depreciation

Depreciation is provided on a straight line basis and is intended to write-off the cost of fixed assets over their expected useful economic lives at the following rates:

Freehold land and buildings	2% on original cost
Plant and machinery	3 - 7 years
Fixtures, fittings and equipment	5 - 8 years

#### Stock

Stock and work in progress is valued at the lower of cost and net realisable value. Cost includes appropriate manufacturing overheads.

#### Deferred taxation

Provision is made for deferred taxation to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

#### Research and development

Expenditure on research and development is written off in the period in which it is incurred.

#### Leasing and hire purchase of fixed assets

Fixed assets acquired under finance leases and hire purchase contracts are included under tangible fixed assets in the balance sheet. The capital element of the future payments is treated as a liability and interest is charged to the profit and loss account on a straight line basis. Operating lease rentals are charged to the profit and loss account in the period in which they are incurred.

#### Pension costs

Independent actuaries prepare valuations of the company pension scheme at least every three years. In accordance with their recommendations, and after adjustment for any changes in the actuarial assumptions or the company's employees, the company makes contributions which are charged to the profit and loss account on a consistent basis over the expected remaining working lives of the employees.

# DePuy International Limited

## 2 Cash flow statement and related party disclosure

The company is a wholly owned subsidiary of Johnson & Johnson Management Limited and is included in the consolidated financial statements 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 Johnson & Johnson Management Limited group.

## 3 Turnover

Turnover represents the total amount receivable, excluding Value Added Tax, in the ordinary course of business for goods sold and services provided.

Turnover, all of which originated in the United Kingdom, relates primarily to the sale of surgical and hospital products. The analysis of turnover by geographical area is as follows:

	1999 £'000	1998 £'000
United Kingdom	45,860	28,518
Export	120,796	83,605
	<b>166,656</b>	<b>112,123</b>

## 4 Net operating expenses

	1999 £'000	1998 £'000
Selling and distribution costs	26,551	11,078
Administrative expenses	24,574	16,512
	<b>51,125</b>	<b>27,590</b>

# DePuy International Limited

## 5 Exceptional items

	1999 £'000	1998 £'000
<b>Recognised in arriving at operating profit:</b>		
Cost of sales:		
Provision for obsolete, slow moving and rationalised products	5,500	6,177
Selling and distribution expenses:		
Write off of instrumentation	5,240	-
Admin expenses:		
Business integration costs	2,494	-
	<b>13,234</b>	<b>6,177</b>

## 6 Acquisition of businesses

On 7 July 1999 DePuy International Ltd acquired the business and assets of the orthopaedic business of J&J Medical Limited a fellow subsidiary undertaking. Details of the assets acquired are set out below;

	£'000
Finished goods	22,027
Other current assets	6,198
	<b>28,225</b>
Discharged by consideration	<b>28,225</b>

The business acquired has been fully absorbed into the DePuy International Ltd from the date of acquisition. As a result of this it is not possible to determine the impact of the acquisition of the result of the business for the year.

On 31 December 1999 the company acquired the business and assets of Acromed UK Limited, a fellow subsidiary undertaking. Acromed UK Limited is engaged in the sale of orthopaedic products. Details of net assets acquired are set out below;

	£'000
Trade debtors	14
Finished goods	1,176
	<b>1,190</b>
Discharged by consideration	<b>1,190</b>

# DePuy International Limited

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	£'000
Trade debtors	14
Finished goods	1,176
	<b>1,190</b>
Discharged by consideration	<b>1,190</b>

# DePuy International Limited

## 7 Net Interest receivable

	1999	1998
	£'000	£'000
Interest receivable	2,032	1,131
Interest payable on bank loans, overdrafts and other loans repayable within 5 years	(33)	(151)
On hire purchase and finance lease contracts	(2)	(4)
	1,997	976

None of the interest receivable shown above relates to amounts due from other group companies (1998: £820,000).

## 8 Profit on ordinary activities before taxation

	1999	1998
	£'000	£'000
Profit before taxation is stated after charging the following:		
Depreciation of tangible fixed assets		
- Owned assets	2,855	2,214
- Leased assets	21	88
Amortisation of intangible assets	3,870	1,226
Operating lease rentals	546	535
Auditors' remuneration		
- Audit services	40	37
- Non - audit services	244	99
Research and development expenditure	8,235	4,056
Provision for share options	931	-

# DePuy International Limited

## 9 Directors emoluments

	1999 £'000	1998 £'000
Aggregate emoluments	978	1,296
Number of directors to whom retirement benefits are accruing under defined benefit schemes	5	6
Highest paid director:		
Aggregate emoluments	248	354
Defined benefit pension scheme:		
Accrued pension at end of year	-	11

Aggregate emoluments include compensation for loss of office of £nil (1998: £210,000) of which £nil (1998: £125,000) relates to the highest paid director.

## 10 Staff numbers and costs

The average number of people (including directors) employed by the company during the year, analysed by category, was as follows:

	1999 Number	1998 Number
Management, administration and sales	303	256
Production	350	314
	653	570

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	20,189	17,784
Social security costs	1,864	1,327
Other pension costs	976	715
	23,029	19,826

# DePuy International Limited

## 11 Tax on profit on ordinary activities

	1999 £'000	1998 £'000
Taxation is based on profit for the year:		
UK corporation tax at 30.25% (1998: 31%)	1,130	3,050
Deferred taxation	1,043	340
Under/(over) provision in respect of prior years		
- current	(847)	-
- deferred	103	-
	1,429	3,390

The charge for taxation on the profit for the year is lower by £2,458,000 due to the receipt of a dividend of £8,219,000 from DePuy Australia Pty Limited. This dividend has no residual UK tax charge due to the availability of double tax relief.

## 12 Intangible Assets

	Know-how £'000	Purchased goodwill £'000	Technology transfer £'000	Total £'000
<b>Cost</b>				
At 1 January 1999	16,412	8,095	-	24,507
Additions	-	-	29,787	29,787
At 31 December 1999	16,412	8,095	29,787	54,294
<b>Amortisation</b>				
At 1 January 1999	3,315	1,776	-	5,091
Charge for the year	821	405	2,644	3,870
At 31 December 1999	4,136	2,181	2,644	8,961
<b>Net book amount</b>				
At 31 December 1999	12,276	5,914	27,143	45,333
At 31 December 1998	13,097	6,319	-	19,416

Technology transfer represents DePuy International Ltd's share of a worldwide license, to manufacture and sell of certain orthopaedic products. The license is being amortised over its useful life of 11 years.

# DePuy International Limited

## 13 Tangible assets

	Freehold land and buildings	Plant and machinery	Fixtures, fittings & equipment	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 1999	8,327	23,712	2,720	34,759
Additions	101	3,179	3,796	7,076
Transfers in	-	2,765	251	3,016
Transfers out	-	(1,021)	-	(1,021)
Disposals	(231)	(2,239)	(989)	(3,459)
<b>At 31 December 1999</b>	<b>8,197</b>	<b>26,396</b>	<b>5,778</b>	<b>40,371</b>
<b>Accumulated depreciation</b>				
At 1 January 1999	1,722	13,153	2,071	16,946
Charge for the year	263	1,646	967	2,876
Transfers	-	(510)	-	(510)
Disposals	(165)	(1,464)	(199)	(1,828)
<b>At 31 December 1999</b>	<b>1,820</b>	<b>12,825</b>	<b>2,839</b>	<b>17,484</b>
<b>Net book amount</b>				
<b>At 31 December 1999</b>	<b>6,377</b>	<b>13,571</b>	<b>2,939</b>	<b>22,887</b>
At 31 December 1998	6,605	10,559	649	17,813

### Assets held under finance leases and capitalised at 31 December 1999

	£'000
Cost	1,564
Accumulated depreciation	1,471
<b>Net book amount</b>	<b>93</b>

# DePuy International Limited

## 14 Investments

Shares in subsidiary  
undertakings  
£'000

At 31 December 1998 and 31 December 1999

451

The company holds shares in the following principal subsidiary undertakings, all of which are concerned with the manufacture and/or supply of surgical and hospital products. The whole of the ordinary share capitals of the subsidiary undertakings are owned by the company. All subsidiaries operate principally within their country of incorporation.

The company is a wholly owned subsidiary of Johnson & Johnson Management Limited, a company registered in England and Wales, and thus under Section 228 of the Companies Act 1985 is exempt from producing group accounts.

### (1) Registered in England and Wales

Shares held  
31 December 1999

BCCO (1992) Limited (non-trading)	8,300
Tweedbank Surgical Engineering Limited (non-trading)	1,000
Depuy Motech Ltd	100

The above holdings are of £1 ordinary shares.

### (2) Incorporated in France

Shares held  
31 December 1999

Chas F Thackray SA	2,500
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The above holding is of 100FF shares.

### (3) Incorporated in Australia

Shares held  
31 December 1999

DePuy Australia Pty Limited	700,000
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The above holdings are part-paid 1 A\$ shares.

# DePuy International Limited

## 14 Investments (continued)

### (4) Incorporated in Italy

Shares held  
31 December 1999

Orthogenesis Srl	25,000,000
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The above holding is of 1 lira shares.

## 15 Stock

	1999 £'000	1998 £'000
Raw materials and consumables	6,103	2,647
Work in progress	928	1,394
Finished goods and goods for resale	38,599	12,148
	<b>45,630</b>	<b>16,189</b>

## 16 Debtors

	1999 £'000	1998 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	17,240	8,378
Amounts owed by subsidiary undertakings	3,852	1,817
Amounts owed by group undertakings	30,725	15,009
Loans due from group undertakings	-	17,446
Corporation tax recoverable	2,452	-
Prepayments and accrued income	3,848	1,862
	<b>58,117</b>	<b>44,512</b>

# DePuy International Limited

## 17 Creditors

<b>Amounts falling due within one year:</b>	<b>1999 £'000</b>	<b>1998 £'000</b>
Trade creditors	1,755	1,290
Amounts owed to group undertakings	92,861	27,821
Amounts owed to subsidiary undertakings	11,994	4,302
Obligations under hire purchase contracts	46	-
Corporation tax	-	3,739
Other taxation and social security payable	1,284	237
Accruals and deferred income	18,475	8,944
	<b>126,415</b>	<b>46,333</b>

<b>Amounts falling due after more than one year:</b>	<b>1999 £'000</b>	<b>1998 £'000</b>
Obligations under hire purchase contracts	47	-

### Finance leases

Future minimum payments under finance leases are as follows:

	<b>1999 £'000</b>	<b>1998 £'000</b>
Within one year	47	-
In more than one year, but not more than five years	53	-
After five years		
Total gross payments	100	-
Less finance charges included above	(7)	-
	<b>93</b>	<b>-</b>

# DePuy International Limited

## 18 Provisions for liabilities and charges

	Provisions for share options £'000	Deferred taxation £'000	Total £'000
At 1 January 1999	-	4,235	4,235
Profit and loss account	931	1,146	2,077
At 31 December 1999	931	5,381	6,312

The provision for share options is calculated based on a valuation of unexercised options linked to the stock market price at the year end.

The amount provided for deferred taxation and the full potential liability calculated using the liability method and a rate of corporation tax of 30% are as follows:

	1999		1998	
	Amount provided £'000	Full potential liability £'000	Amount provided £'000	Full potential liability £'000
Difference between accumulated depreciation and capital allowances	5,395	5,395	4,413	4,413
Short term timing differences	(14)	(14)	(178)	(178)
Capital gains rolled over	-	148	-	148
	5,381	5,529	4,235	4,383

# DePuy International Limited

## 19 Called up share capital

£'000

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At 31 December 1998 and 31 December 1999

Authorised, allotted, called up and fully paid:

46,653,706 £1 ordinary shares

46,654

---

## 20 Reserves

1999

£'000

### Profit and loss account

At 1 January 1999

14,503

Retained profit for the financial year

11,400

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At 31 December 1999

25,903

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## 21 Reconciliation of movements in shareholders' funds

1999

£'000

Profit for the year

11,400

Shareholders' funds as at 1 January

61,157

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Shareholders' funds as at 31 December

72,557

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# DePuy International Limited

## 22 Capital and other commitments

Contracted capital commitments for which no provision has been made in the accounts total £399,621 at 31 December 1999 (1998: £649,988).

At 31 December 1999 the company had annual commitments under non-cancellable operating leases expiring as follows:

	1999 £'000	1998 £'000
Within one year	433	388
Within two to five years	502	112
	935	500

## 23 Contingencies

The company has given unlimited guarantees in respect of certain fellow subsidiaries' liabilities to Royal Bank of Scotland plc.

The company hedges the value of future foreign currency commitments by taking out foreign currency forward contracts with a fellow group subsidiary. At 31 December the value of these contracts amounted to £35,394,000 (1998: £103,903,000).

The company has given other bank guarantees arising in the ordinary course of business amounting to £1,500,000 (1998: £1,500,000).

## 24 Pension costs

The company operates a defined benefit pension scheme, the assets of which are administered by the trustees and kept separate from those of the group.

The last available actuarial valuation of the schemes was undertaken at 5 April 1999 using the projected unit method. At the date of the last actuarial valuation the market value of the Scheme's assets was £25,982,000. The actuarial value of these assets represented 125% of the benefits that had accrued to members after allowing for expected future increases in earnings. The pension cost for the year for this Scheme were £576,000 (1998: £715,000).

Certain employees contribute to the J&J Group Retirement Plan, a defined benefit pension scheme. The pension cost for the year in respect of that scheme was £420,000 (1998: £Nil).

## **DePuy International Limited**

### **25 Ultimate parent undertaking**

The company's immediate holding company is Ethicon Limited. Johnson & Johnson Management Limited, a company registered in England is the parent undertaking of the smallest group to consolidate the accounts of the company. The group accounts are available at Roxborough Way, Foundation Park, Maidenhead, Berkshire, SL6 3UG.

Johnson & Johnson Inc, a US based company is the ultimate parent company and the largest group to consolidate these accounts. The group accounts are available at Johnson & Johnson Plaza, New Brunswick, NJ 08933, USA.