

Registered Number 3319712

DePuy International Limited  
Annual report  
for the year ended 31 December 2002



A05  
COMPANIES HOUSE

\*AU021MC7\*

0443  
04/07/03

# **DePuy International Limited**

## **Annual report for the year ended 31 December 2002**

### **Contents**

Directors' report for the year ended 31 December 2002 .....	1
Independent auditors' report to the members of DePuy International Limited .....	3
Profit and loss account for the year ended 31 December 2002.....	4
Balance sheet as at 31 December 2002.....	5
Accounting policies .....	6
Notes to the financial statements for the year ended 31 December 2002 .....	8

# **DePuy International Limited**

## **Directors' report for the year ended 31 December 2002**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

### **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.

During the year the company's fellow subsidiary undertaking DePuy (Ireland) Limited, a company registered in the Republic of Ireland, established a global supply chain business which aims to generate capital efficient profitable growth, to improve customer service performance, to improve stock management and manufacturing performance, and to centralise risk and quality issues.

On 27 May 2002, the company decided to take advantage of the opportunity to enter into this business model with DePuy (Ireland) Limited. To facilitate this, the company sold stock to DePuy (Ireland) Limited or returned it for credit to the source manufacturing companies in the Johnson & Johnson group. The total consideration received under both types of transactions amounted to £84,000,000.

### **Results and dividends**

The company's profit on ordinary activities after tax for the financial year is £25,692,000 (2001: £33,844,000). An interim dividend of £18,000,000 was paid in the year (2001: £36,000,000). The directors have not proposed a final dividend (2001: £Nil). After taking into account the dividend paid in the year retained earnings have increased by £7,692,000.

### **Directors and their interests**

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

G M Franks  
J A Coppack (Resigned 31 December 2002)  
N J Gifford (Appointed 31 December 2002)  
J F Lettin  
M J Dormer  
G N Fitzpatrick

None of the directors had any beneficial interest in the shares of the company or interest in share capital of other group companies registered in the United Kingdom at either the beginning or the end of the year.

The company's ultimate parent undertaking is incorporated outside the United Kingdom. As permitted by statutory instrument, the register of directors' shareholdings maintained in accordance with Section 325 of the Companies Act 1985, does not include the interests of directors in the shares of the parent undertaking.

### **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 51 days of purchases (2001: 54 days).

# DePuy International Limited

## Directors' report for the year ended 31 December 2002 (continued)

### Research and development

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

### Charitable donations

During the year the company made charitable donations amounting to £2,102,000 (2001: £10,000).

### 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 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.

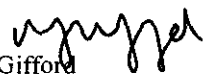
The directors confirm that suitable accounting policies have been used and applied consistently as explained on page 6 under Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 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.

### Auditors

Following the conversion of our auditors, PricewaterhouseCoopers to a Limited Liability Partnership (LLP) on 1 January 2003, PricewaterhouseCoopers resigned on 7 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board

  
N J Gifford  
Secretary

2nd June 2003

# **DePuy International Limited**

## **Independent auditors' report to the members of DePuy International Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the accounting policies 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 in to 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 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 implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

### **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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Leeds

 June 2003

# DePuy International Limited

## Profit and loss account for the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
<b>Turnover</b>	1	<b>255,541</b>	241,434
Cost of sales		(183,106)	(149,326)
<b>Gross profit</b>		<b>72,435</b>	92,108
Net operating expenses	2	(34,925)	(55,553)
<b>Operating profit</b>		<b>37,510</b>	36,555
Profit on sale of subsidiary undertaking		-	9,038
Amounts written off investments	11	(1,036)	-
Net interest receivable	3	3,239	3,998
<b>Profit on ordinary activities before taxation</b>	5	<b>39,713</b>	49,591
Tax on profit on ordinary activities	8	(14,021)	(15,747)
<b>Profit for the financial year</b>		<b>25,692</b>	33,844
Dividends	4	(18,000)	(36,000)
<b>Retained profit/(loss) for the financial year</b>	17	<b>7,692</b>	(2,156)

All activities in the year relate to continuing operations.

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

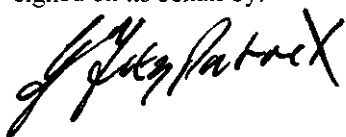
There is no difference between the profit on ordinary activities before taxation and the result for the financial year stated above and their historical cost equivalents.

# DePuy International Limited

## Balance sheet as at 31 December 2002

	Note	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Intangible assets	9	33,481	37,413
Tangible assets	10	40,747	30,938
Investments	11	4,689	5,725
		<b>78,917</b>	<b>74,076</b>
<b>Current assets</b>			
Stock	12	7,394	82,228
Debtors	13	52,028	36,552
Cash at bank and in hand		92,990	36,407
		<b>152,412</b>	<b>155,187</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(126,530)</b>	<b>(129,429)</b>
<b>Net current assets</b>		<b>25,882</b>	<b>25,758</b>
<b>Total assets less current liabilities</b>		<b>104,799</b>	<b>99,834</b>
<b>Provisions for liabilities and charges</b>	15	<b>(16,884)</b>	<b>(19,611)</b>
<b>Net assets</b>		<b>87,915</b>	<b>80,223</b>
<b>Capital and reserves</b>			
Called up share capital	16	46,654	46,654
Profit and loss account	17	41,261	33,569
<b>Equity shareholders' funds</b>	18	<b>87,915</b>	<b>80,223</b>

The financial statements on pages 4 to 22 were approved by the board of directors on 2<sup>nd</sup> June 2003 and were signed on its behalf by:



G N Fitzpatrick  
Director

# DePuy International Limited

## Accounting policies

### Basis of accounting

These financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. The principal accounting policies, which the directors have adopted within that convention, are set out below.

### Change in accounting policy

The company has adopted FRS 19 'Deferred Tax' in the financial statements. The adoption of this new standard represents a change in accounting policy, but has not given rise to any change in comparative figures, therefore no restatement is required.

### Turnover

Turnover represents the total amount receivable, excluding Value Added Tax, in the ordinary course of business for goods sold and services provided. Turnover is recognised once the title of the relevant goods has passed or services have been performed.

### Foreign exchange

Transactions denominated in a foreign currency are translated at an average rate for the year. 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. The directors review the level of intangible assets for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable.

### Product warranty

A product warranty provision is established for all known product issues which have been notified to customers.

### Tangible fixed assets

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

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

Freehold land and buildings	50 years
Leasehold improvements	over the term of the lease
Plant and machinery	3 - 12 years
Fixtures, fittings and equipment	5 - 10 years

Assets in the course of construction are not depreciated and will be reclassified to the appropriate asset category on completion of the assets in question. Depreciation will commence once the assets have been reclassified.

### Stock

Stock and work in progress is valued at the lower of cost and net realisable value. In the case of manufactured products, cost includes attributable manufacturing overheads based on the normal level of activity. Net realisable value is based on estimated selling price less further costs to be incurred to completion and disposal. Provision is made where necessary for obsolete, slow moving and defective stocks.



# **DePuy International Limited**

## **Accounting policies (continued)**

### **Taxation**

The charge for taxation is based on the result for the year. In accordance with FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is recognised in respect of tax losses to the extent that they are regarded as recoverable on the basis that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities recognised have not been discounted.

### **Research and development**

Expenditure on research and development is charged to the profit and loss account 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 and are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets. 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 on a straight line basis over the terms of the lease.

### **Pension costs**

The company participates in the Johnson & Johnson Group pension arrangements. The Group operates a funded defined benefit scheme for UK employees aged over 35 and a defined contribution scheme for new entrants aged under 35. There is also an unfunded unapproved pension arrangement for a small number of employees who are affected by the Inland Revenue earnings cap. The cost of providing future benefits is estimated by independent, qualified actuaries and spread as a substantially level percentage of total pensionable salaries over the expected service lives of current employees in accordance with the provisions of SSAP 24. Variations in pension cost are spread over the expected service lives of current employees.

### **Investments**

Investments in subsidiary undertakings are stated at cost less provisions to reduce the carrying value of an investment to its estimated recoverable amount, that is the higher of net realisable value and value in use, where in the opinion of the directors there has been an impairment.

The value in use is determined from estimated discounted future net cash flows. In assessing the value in use, a discount rate of 8.0% has been used which, in the opinion of the directors, reflects the risk inherent in those cash flows.

### **Cash flow statement and related party disclosures**

The company is a wholly owned subsidiary of Johnson & Johnson 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 FRS 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Johnson & Johnson group.

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002

### 1 Turnover

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:

	2002 £'000	2001 £'000
United Kingdom	83,742	74,923
Europe, Middle East & Africa	96,881	91,119
Asia	66,023	59,352
USA	7,855	14,392
Rest of World	1,040	1,648
	<b>255,541</b>	<b>241,434</b>

Included in the amounts above is £43,000,000 relating to the sale of stock to DePuy (Ireland) Limited under an arrangement entered into on 27 May 2002.

### 2 Net operating expenses

	2002 £'000	2001 £'000
Distribution costs	15,394	28,435
Administrative expenses	19,531	27,118
	<b>34,925</b>	<b>55,553</b>

Net operating expenses are stated after a recharge of £14,798,000 (2001: £Nil) for operating expenses incurred on behalf of DePuy (Ireland) Limited.

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 3 Net interest receivable

	2002	2001
	£'000	£'000
Bank interest receivable	3,485	4,003
On hire purchase and finance lease contracts	(4)	(5)
Bank interest payable	(190)	-
Unwinding of discounts in deferred consideration	(52)	-
	3,239	3,998

### 4 Dividends

	2002	2001
	£'000	£'000
Interim dividend paid	18,000	36,000

An interim dividend of 38.58p per ordinary share has been paid (2001: 77.16p per share).

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 5 Profit on ordinary activities before taxation

	2002	2001
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting) the following:		
Depreciation of tangible fixed assets		
- Owned assets	3,654	3,345
- Leased assets	124	129
Amortisation of intangible assets	3,932	3,924
Operating lease rentals		
- Plant & machinery	771	740
- Other	626	370
Auditors' remuneration		
- Audit services	47	47
- Non - audit services	120	303
Research and development expenditure	11,072	8,003
(Profit) / loss of sale of fixed assets	(3)	22
(Credit)/charge for cost of share options	(1,485)	2,193
(Credit)/charge for national insurance on share options	(41)	71
Group management fee	610	623

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 6 Directors emoluments

	2002 £'000	2001 £'000
Aggregate emoluments	740	685
Number of directors to whom retirement benefits are accruing under defined benefit schemes	4	4
Highest paid director:		
Aggregate emoluments	228	252
Defined benefit pension scheme:		
Accrued pension at end of year	30	29

### 7 Staff numbers and costs

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

	2002 Number	2001 Number
Management, administration and sales	500	473
Production	311	314
	811	787

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	27,942	25,747
Social security costs	2,947	2,180
Other pension costs (Note 21)	1,376	2,043
	32,265	29,970

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 8 Tax on profit on ordinary activities

	2002 £'000	2001 £'000
<b>Current tax:</b>		
UK corporation tax on profits of the year	11,170	11,785
Adjustment in respect of previous years	2,036	2,750
Total current tax charge	13,206	14,535
<b>Deferred tax:</b>		
Origination and reversal of timing differences	815	1,212
Total deferred tax charge	815	1,212
Tax on profit on ordinary activities	14,021	15,747

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

	2002 £'000	2001 £'000
<b>Profit on ordinary activities before tax</b>	<b>39,713</b>	<b>49,591</b>
Profit on ordinary activities multiplied by standard rate in the UK 30% (2002: 30%)	11,914	14,877
Effects of:		
Expenses not deductible for tax purposes	1,543	(1,798)
Accelerated capital allowances and other timing differences	(2,287)	(1,294)
Adjustments to tax charge in respect of previous years	2,036	2,750
Current tax charge for the year	13,206	14,535

## DePuy International Limited

### Notes to the financial statements for the year ended 31 December 2002 (continued)

#### 9 Intangible assets

	Know-how £'000	Purchased goodwill £'000	Technology transfer £'000	Total £'000
<b>Cost</b>				
At 1 January and 31 December 2002	16,412	8,095	29,787	54,294
<b>Accumulated amortisation</b>				
At 1 January 2002	5,776	2,991	8,114	16,881
Charge for the year	820	405	2,707	3,932
At 31 December 2002	6,596	3,396	10,821	20,813
<b>Net book amount</b>				
At 31 December 2002	9,816	4,699	18,966	33,481
At 31 December 2001	10,636	5,104	21,673	37,413

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

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 10 Tangible assets

	Freehold land and buildings	Leasehold improvements	Plant and machinery	Fixtures, fittings & equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>						
At 1 January 2002	7,570	2,259	31,439	8,509	5,287	55,064
Additions	133	2,913	8,534	838	1,169	13,587
Reclassification	-	1,860	3,065	362	(5,287)	-
Disposals	-	-	(46)	-	-	(46)
<b>At 31 December 2002</b>	<b>7,703</b>	<b>7,032</b>	<b>42,992</b>	<b>9,709</b>	<b>1,169</b>	<b>68,605</b>
<b>Accumulated depreciation</b>						
At 1 January 2002	1,832	607	17,145	4,542	-	24,126
Charge for the year	186	307	3,150	135	-	3,778
Reclassification	-	1,736	(1,736)	-	-	-
Disposals	-	-	(46)	-	-	(46)
<b>At 31 December 2002</b>	<b>2,018</b>	<b>2,650</b>	<b>18,513</b>	<b>4,677</b>	<b>-</b>	<b>27,858</b>
<b>Net book amount</b>						
<b>At 31 December 2002</b>	<b>5,685</b>	<b>4,382</b>	<b>24,479</b>	<b>5,032</b>	<b>1,169</b>	<b>40,747</b>
At 31 December 2001	5,738	1,652	14,294	3,967	5,287	30,938

The net book value of assets held under finance leases is £Nil (2001: £124,000).



# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 11 Investments (continued)

(3) Incorporated in Greece	Shares held 31 December 2002
DePuy Medec S.A.	60,000

The above holdings are ordinary 2.93 Euro shares.

The directors are of the opinion that the value of the company's investment in its subsidiaries is not less than the book value. Where this is not the case, an impairment charge has been provided to reduce the book value to its estimated recoverable amount.

### 12 Stock

	2002 £'000	2001 £'000
Raw materials and consumables	2,885	5,736
Work in progress	1,975	1,785
Finished goods and goods for resale	2,534	74,707
	7,394	82,228

### 13 Debtors

	2002 £'000	2001 £'000
Trade debtors	17,003	13,864
Amounts owed by group undertakings	28,796	19,888
Prepayments and accrued income	6,229	2,800
	52,028	36,552

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 14 Creditors: amounts falling due within one year

	2002	2001
	£'000	£'000
Trade creditors	3,332	3,295
Amounts owed to group undertakings	92,943	98,313
Obligations under hire purchase contracts	23	64
Corporation tax	10,999	9,769
Other taxation and social security	830	1,023
Accruals and deferred income	18,403	16,965
	126,530	129,429

#### Finance leases

Future minimum payments under finance leases are as follows:

	2002	2001
	£'000	£'000
Within one year	23	64
In more than one year, but not more than five years	-	-
Total gross payments	23	64
Less finance charges included above	-	-
	23	64

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 15 Provisions for liabilities and charges

	Deferred consideration £'000	Provisions for share options £'000	Product warranty £'000	Deferred taxation £'000	Total £'000
At 1 January 2002	1,466	3,779	7,072	7,294	19,611
Charge /(credited) to the profit and loss account	(112)	(1,526)	-	815	(823)
Utilised during the year	-	(537)	(510)	-	(1,047)
Deferred consideration paid	(857)	-	-	-	(857)
<b>At 31 December 2002</b>	<b>497</b>	<b>1,716</b>	<b>6,562</b>	<b>8,109</b>	<b>16,884</b>

#### Deferred consideration

The deferred consideration remaining at 31 December 2002 relates to the acquisition of Medec S.A during the year ended 31 December 2001 and is repayable in 4 instalments over the period to 20 December 2004.

Deferred consideration has been discounted from the anticipated settlement date at a rate of 8.00% (2001: 8.25%). The difference between this present value and the mandatory repayment amounts will be accrued over the period the liability is outstanding.

#### Provision for share options

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

Share options granted subsequent to 5 April 1999 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on exercise of such options by UK employees. Included in the provision for share options above, is an amount of £30,000 (2001: £71,000) in respect of national insurance, based on the year end share price of \$53.11 (2001: \$59.86) and the elapsed portion of the relevant vesting periods. Based on the year-end share price, there is a further contingent liability of £6,000 (2001: £75,000) arising by the end of the vesting period that has not been provided in these financial statements.

#### Product warranty provision

The product warrant provision represents the potential liability that may arise over the coming five year period relating to the product hazard warning notices issued by the Medical Devices agency in the UK for certain products.

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

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

#### Deferred taxation

Deferred taxation can be analysed as follows:

	2002	2001
	Amount provided £'000	Amount provided £'000
Difference between accumulated depreciation and capital allowances	7,173	7,455
Short term timing differences	936	(161)
	<b>8,109</b>	<b>7,294</b>

### 16 Called up share capital

	£'000
At 31 December 2001 and 31 December 2002	
Authorised, allotted, called up and fully paid:	
46,653,706 £1 ordinary shares	46,654

### 17 Profit and loss account

	2002 £'000
At 1 January 2002	33,569
Retained profit for the financial year	7,692
At 31 December 2002	<b>41,261</b>

# DePuy International Limited

## Notes to the financial statements for the year ended 31 December 2002 (continued)

### 18 Reconciliation of movements in shareholders' funds

	2002	2001
	£'000	£'000
Retained profit/(loss) for the financial year	7,692	(2,156)
Shareholders' funds as at 1 January	80,223	82,379
Shareholders' funds as at 31 December	87,915	80,223

### 19 Capital and other commitments

Contracted capital commitments for which no provision has been made in the financial statements total £4,322,335 at 31 December 2002 (2001: £10,000,611).

At 31 December 2002 the company had annual commitments under non-cancellable operating leases expiring as follows:

	2002 Land and buildings	2002 Other	2001 Land and buildings	2001 Other
	£'000	£'000	£'000	£'000
Within one year	119	167	103	193
Within two to five years	315	501	313	510
Over five years	72	-	66	-
	506	668	482	703

### 20 Contingent liabilities

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 2002 the value of these contracts amounted to £4,292,000 (2001: £314,129,000).

The company has given other bank guarantees arising in the ordinary course of business amounting to £3,000,000 (2001: £3,000,000).

# **DePuy International Limited**

## **Notes to the financial statements for the year ended 31 December 2002 (continued)**

### **21 Pension costs**

The company has continued to account for pensions in accordance with SSAP 24 'Accounting for Pension Costs' and the disclosures given in (a) below are those required by that standard. Additionally the company has set out in (b) below the disclosures required under the transitional arrangements of FRS 17 'Retirement Benefits'.

#### **(a) Accounting for Pension Costs**

The company participates in the Johnson & Johnson Group Pension Arrangements. The Group operates a funded defined benefit pension plan for UK employees and, until 1 September 2002, a small, separate supplementary arrangement for directors which merged with the main plan on this date. There is also an unfunded unapproved pension arrangement for a small number of employees who are affected by the Inland Revenue Earnings Cap. The assets of the funded plan are administered by Trustees and are held in separate funds.

The pension cost and funding arrangements relating to all the UK schemes are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. This method allows for future growth in pensionable earnings. It allows for any surplus or deficit arising to be spread over the expected service lives of current employees.

The latest actuarial valuation of the main plan was as on 1 April 2002. The principal assumptions were that investment returns would be 7.25% per annum, that salary increases (including promotion) would average 4.25% per annum and long term inflation would average 2.75%. Assets were taken at market value. At the valuation date, the market value of assets value was sufficient to cover 118% of the benefits that had accrued to members after allowing for expected future increases in earnings. The market value of the assets for the main plan was £396,309,000 on 1 April 2002.

The pension cost charged across all three arrangements under SSAP24 has been assessed using the same assumptions as outlined above. In these financial statements the total charge for the year amounted to £1,376,000 (2001: £2,043,000).

Following the actuarial valuation at 1 April 2002, market movements resulted in a shortfall being identified and as a result, an additional contribution of £5,700,000 was paid in December 2002 which represented contributions backdated to 1 April 2002 and advance payment of contributions for the period to 1 October 2003.

In respect of all three arrangements the company has made prepayments of £3,302,000 (2001: provision of £1,093,000) this being the excess of the amount funded over the accumulated pension cost, together with the reserve held in respect of the unfunded arrangement.

# **DePuy International Limited**

## **Notes to the financial statements for the year ended 31 December 2002 (continued)**

### **21 Pension costs (continued)**

#### **(b) FRS17 Retirement Benefits**

Although it is possible to separate the SSAP 24 costs of each of the participating employers within the J&J Group Plan it has not been possible to split among the participating employers the various components required by FRS 17. Accordingly, under the provisions of FRS 17 all schemes will be accounted for by the company as if they were defined contribution schemes.

As mentioned above, there is an unfunded unapproved pension arrangement for a small number of employees who are affected by the Inland Earnings Cap. The FRS17 provision in respect of each company under this arrangement can be identified and as at 31 December 2002 the provision in respect of this company was £168,000. Details of the basis of the calculation of this amount and its impact on the company are not provided on the basis of materiality.

### **22 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 financial statements of the company. The group financial statements are available at Roxborough Way, Foundation Park, Maidenhead, Berkshire, SL6 3UG.

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