

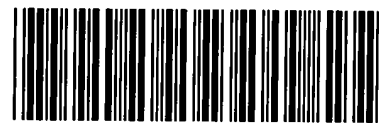
Registered number: 03319712

**DePuy International Limited**

**Annual report and financial statements**

**For the year ended 1 January 2017**

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**DePuy International Limited**

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## DePuy International Limited

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### Company Information

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<b>Directors</b>	SR Sinclair P O'Sullivan D Steane MK Barker (appointed 21 March 2016) AJ Scholes (appointed 6 June 2016)
<b>Company secretary</b>	D Rose
<b>Registered number</b>	03319712
<b>Registered office</b>	St Anthonys Road Beeston Leeds West Yorkshire LS11 8DT
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Central Square 29 Wellington Street Leeds West Yorkshire LS1 4DL
<b>Solicitors</b>	DLA Piper UK LLP Princes Exchange Princes Square Leeds LS1 4BY

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## DePuy International Limited

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### Strategic report For the year ended 1 January 2017

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The directors present their Strategic report on the company for the year ended 1 January 2017.

#### Principal activities

The principal activities of the company are the manufacture and supply of orthopaedic products in the UK and the performance of R&D services on behalf of fellow group companies.

#### Transition to FRS 101

During the year, the company transitioned from UK GAAP to Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and has taken advantage of the disclosure exemptions allowed under this standard. The prior year comparatives are also under the new standards. There were material recognition and measurement differences arising on the adoption of FRS 101. Further information on the transition can be found in Note 27.

#### Business review

Overall the directors are satisfied with the performance of the company during the year and its financial position at the year end.

The key financial and other performance measures were as follows:

	1 January 2017 £000	3 January 2016 £000	Change
Revenue	36,881	27,321	35 %
Operating profit	10,819	4,539	138%
Total equity	69,479	79,559	(13)%
Average number of employees	455	446	2 %

The results and dividend section within the Directors' report and the income statement on page 10 show the full results for the financial year.

Revenue has increased 35% year on year, primarily due to increased recharges, manufacturing service income and royalty income.

Operating profit has increased by 138% year on year, primarily as a result of the revenue increase noted above.

Total equity has decreased by 13% year on year. This decrease is principally due to remeasurements of the net defined benefit obligation at the end of the 2016, which resulted in a £22,322,000 reduction in equity (excluding deferred tax).

The statement of financial position on page 12 of the financial statements shows the company's financial position at the end of the year.

The average number of employees has increased by 2% year on year.

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**DePuy International Limited**

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**Strategic report (continued)**  
**For the year ended 1 January 2017**

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**Future outlook**

The markets in which the company operates are expected to remain competitive in 2017. The development of new and existing products and processes continues to be important to the success of the company in all areas of the business.

The directors remain confident that the company will continue to perform well in the future.

**Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to general industry conditions and competition; economic conditions, such as currency exchange rate fluctuations; technological advances; challenges inherent in new product development; and trends toward health care cost containment. The risks and uncertainties are managed at regular board meetings, and where applicable, actions are taken to mitigate the risks.

This report was approved by the board and signed on its behalf.



P O'Sullivan  
Director

Date: 20/9/2017

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## DePuy International Limited

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### Directors' report For the year ended 1 January 2017

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The directors present their annual report and the audited financial statements for the year ended 1 January 2017.

#### Results and dividends

The income statement for the financial year is set out on page 10.

The company's profit for the financial year amounted to £9,367,000 (2015: £3,757,000). Final dividends of £nil (2015: £2.143) per ordinary share amounting to £nil (2015: £100,000,000) were paid during the financial year. The aggregate dividends on the ordinary shares recognised during the year amounts to £nil (2015: £100,000,000). There are no proposed dividends awaiting approval at 1 January 2017 (2015: £nil).

#### Key performance indicators ("KPIs")

The directors of DePuy International Limited manage the company's operations on a divisional basis. The business is managed using a set of financial performance measures. These measures are reviewed routinely and used in making tactical and strategic decisions affecting the short and long term results of the business.

#### Financial risk management

The policies set by the Group are implemented by the company's finance department. The department has a policy and procedures manual that sets out specific guidelines to manage price risk, credit risk, liquidity risk, interest rate cash flow risk and foreign exchange risk and circumstances where it would be appropriate to use financial instruments to manage these.

##### *Price risk*

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

##### *Credit risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, this is subject to pre-approval by the board of directors and such approval is limited to high-credit-quality financial institutions. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually.

##### *Liquidity risk*

The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

##### *Interest rate cash flow risk*

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances, which earn interest at a fixed rate. The company has a policy of maintaining debt at a fixed rate to ensure certainty of future interest cash flows. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

##### *Foreign exchange risk*

The company makes sales and purchases in foreign currencies. The company manages its foreign exchange risk by hedging its significant exposures through a group hedging scheme.

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## DePuy International Limited

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### Directors' report (continued) For the year ended 1 January 2017

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#### Future outlook

The directors' expectations for the future of the business are set out in the Strategic report included within the annual report and financial statements.

#### Qualifying third party indemnity provisions

At the time the report is approved there are no qualifying third party indemnity provisions in place for the benefit of one or more of the directors.

#### Directors

The directors who served during the year and up to the date of signing the financial statements, unless otherwise stated, are given below:

SR Sinclair  
P O'Sullivan  
D Steane  
MK Barker (appointed 21 March 2016)  
AJ Scholes (appointed 6 June 2016)

#### Employee involvement

The company is committed to the continued development of employee involvement by an effective communications and consultative framework. Consultative committees covering broad business areas, pensions, health and safety, quality and employee services are well established and meet regularly in order to take on the views of the employees in decision-making. Team briefings, which complement other forms of management communication, ensure that all levels in the organisation are kept up-to-date on the performance of the company, thereby increasing employee engagement. In addition, surveys such as the annual Credo Survey are conducted to provide opportunities for employees to feed back to senior management on the health of the business and general working environment.

The current emphasis is on facilitating cross-functional relationships to increase awareness and to build effective teamwork.

The company is committed to the principle of employee share participation and accordingly during the year have continued the Johnson & Johnson Employee Share Incentive Plan. This scheme provides employees with the opportunity to acquire shares in the US parent company of the Johnson & Johnson group on an advantageous basis and it is operated with tax benefits under HM Revenue & Customs approved share scheme arrangements.

The company's policies and practices are regularly reviewed and feedback is received from all staff levels.

#### Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

**Directors' report (continued)**  
**For the year ended 1 January 2017**

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**Modern slavery statement**

The company, as a member of the Johnson & Johnson family of companies, is committed to ensuring that it conducts its business worldwide with respect for human rights and in compliance with all applicable laws and fair labour practices. The company has prepared a statement in accordance with the requirements of The Modern Slavery Act 2015, a copy of which is available on request or on certain of the company's websites.

**Statement of directors' responsibilities**

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

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these audited financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the audited financial statements comply with the Companies Act 2006.

The directors 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.

In the case of each director at the date the Directors' Report is approved:

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Independent Auditors**

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place in accordance with s487 of the Companies Act 2006 for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.



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**DePuy International Limited**

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**Directors' report (continued)**  
**For the year ended 1 January 2017**

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This report was approved by the board and signed on its behalf.



P O'Sullivan  
Director

Date:

20/9/2017

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

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**Report on the financial statements**

**Our opinion**

In our opinion, DePuy International Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 1 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**What we have audited**

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the Statement of financial position as at 1 January 2017;
- the Income statement for the year then ended;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example, in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

**Other matters on which we are required to report by exception**

**Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

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**Other matters on which we are required to report by exception (continued)**

**Directors' remuneration**

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume any 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.

**What an audit of financial statements involves**

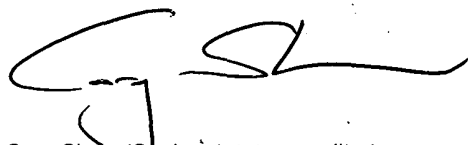
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider it necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report. With respect to the Strategic Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Gary Shaw (Senior statutory auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds

Date: 20 September 2017

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**DePuy International Limited**

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**Income statement**  
**For the year ended 1 January 2017**

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	Note	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Revenue	3	36,881	27,321
Cost of sales		(30,010)	(25,310)
<b>Gross profit</b>		<b>6,871</b>	<b>2,011</b>
Administrative expenses		(45,330)	(33,394)
Other operating income	4	49,278	35,922
<b>Operating profit</b>	5	<b>10,819</b>	<b>4,539</b>
<b>Profit on ordinary activities before interest and tax</b>		<b>10,819</b>	<b>4,539</b>
Income from investments in subsidiaries		112	48
Amounts written off investments		-	(8)
Interest receivable and similar income	9	89	335
Other finance (expense)/ income	10	609	104
<b>Profit on ordinary activities before tax</b>		<b>11,629</b>	<b>5,018</b>
Income tax expense on ordinary activities	11	(2,262)	(1,261)
<b>Profit for the financial year</b>		<b>9,367</b>	<b>3,757</b>

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**DePuy International Limited**

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**Statement of comprehensive income**  
**For the year ended 1 January 2017**

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	<b>Year ended 1 January 2017 £000</b>	<b>Year ended 3 January 2016 £000</b>
Profit for the financial year	<b>9,367</b>	3,757
<b>Other comprehensive (expense)/ income:</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial (loss)/ gain on defined benefit schemes (Note 21)	<b>(22,322)</b>	7,863
Movement of deferred tax relating to pension schemes (Note 19)	<b>3,873</b>	(1,417)
<b>Total other comprehensive (loss)/ income</b>	<b>(18,449)</b>	6,446
<b>Total comprehensive (loss)/ income for the year</b>	<b>(9,082)</b>	10,203

**Statement of financial position**  
**As at 1 January 2017**

	Note	1 January 2017 £000	3 January 2016 £000
<b>Non-current assets</b>			
Property, plant and equipment	13	34,141	32,988
Investments in subsidiaries	14	1,653	1,653
		<u>35,794</u>	<u>34,641</u>
<b>Current assets</b>			
Inventory	15	3,499	4,115
Trade and other receivables	16	145,704	132,308
Cash and cash equivalents		871	59
		<u>150,074</u>	<u>136,482</u>
Current trade and other payables	17	(91,303)	(89,708)
<b>Net current assets</b>		<u>58,771</u>	<u>46,774</u>
<b>Total assets less current liabilities</b>		<u>94,565</u>	<u>81,415</u>
Non-current trade and other payables	18	(4,040)	(4,249)
		<u>90,525</u>	<u>77,166</u>
<b>Provisions for liabilities</b>			
Other provisions	20	(854)	(626)
		<u>(854)</u>	<u>(626)</u>
<b>Net assets excluding pension (liability)/ asset</b>		<u>89,671</u>	<u>76,540</u>
Pension (liability)/ asset	21	(20,192)	3,019
<b>Net assets</b>		<u>69,479</u>	<u>79,559</u>
<b>Equity</b>			
Ordinary shares	22	46,654	46,654
Capital contribution reserve		1	1
Retained earnings		22,824	32,904
<b>Total equity</b>		<u>69,479</u>	<u>79,559</u>

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**DePuy International Limited**  
Registered number:03319712

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**Statement of financial position (continued)**  
**As at 1 January 2017**

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The financial statements were approved and authorised for issue by the board and were signed on its behalf.

  
P O'Sullivan  
Director

Date: 20/9/2017

The notes on pages 15 to 46 form part of these financial statements.

## DePuy International Limited

### Statement of changes in equity For the year ended 1 January 2017

	Ordinary shares £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
<b>At 29 December 2014</b>	<b>46,654</b>	<b>1</b>	<b>123,526</b>	<b>170,181</b>
Profit for the financial year	-	-	3,757	3,757
Actuarial gains on pension scheme (Note 21)	-	-	7,863	7,863
Deferred tax on actuarial pension gains (Note 19)	-	-	(1,417)	(1,417)
<b>Other comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>6,446</b>	<b>6,446</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>10,203</b>	<b>10,203</b>
Dividends paid (Note 12)	-	-	(100,000)	(100,000)
Charge from parent for equity-settled share-based payments	-	-	(1,800)	(1,800)
Credit relating to equity-settled share-based payments	-	-	957	957
Excess current tax credit on share-based payments	-	-	169	169
Deferred tax on share-based payments in excess of fair value at grant (Note 19)	-	-	(151)	(151)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(100,825)</b>	<b>(100,825)</b>
<b>At 3 January 2016</b>	<b>46,654</b>	<b>1</b>	<b>32,904</b>	<b>79,559</b>
Profit for the financial year	-	-	9,367	9,367
Actuarial losses on pension scheme (Note 21)	-	-	(22,322)	(22,322)
Deferred tax on actuarial pension losses (Note 19)	-	-	3,873	3,873
<b>Other comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(18,449)</b>	<b>(18,449)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(9,082)</b>	<b>(9,082)</b>
Charge from parent for equity-settled share-based payments	-	-	(2,786)	(2,786)
Credit relating to equity-settled share-based payments	-	-	1,288	1,288
Excess current tax credit on share-based payments	-	-	295	295
Deferred tax on share-based payments in excess of fair value at grant (Note 19)	-	-	205	205
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>(998)</b>	<b>(998)</b>
<b>At 1 January 2017</b>	<b>46,654</b>	<b>1</b>	<b>22,824</b>	<b>69,479</b>



**Notes to the financial statements  
For the year ended 1 January 2017**

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**1. General information**

DePuy International Limited ('the company') is a private company limited by shares and is incorporated and domiciled in the United Kingdom. Its registered address can be found in the 'Company Information' section on page 1. The company manufactures and supplies orthopaedic products in the UK and performs R&D services on behalf of fellow group companies.

**2. Accounting policies**

**Accounting period**

The accounting period ended 1 January 2017 consists of 52 weeks. For the purposes of these financial statements the year is referred to as 2016. The year ended 3 January 2016 is referred to as 2015.

**Basis of preparation**

The financial statements of DePuy International Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006. The principal accounting policies which have been consistently applied throughout the year are set out below.

As permitted by the Companies Act 2006, the directors have adapted the prescribed format of the income statement in a manner appropriate to the nature of the company's business.

The preparation of financial statements in conformity with FRS 101 requires the use of certain accounting estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The company is a qualifying entity for the purposes of FRS 101. Details of the company's parent and from where its consolidated financial statements prepared in accordance with a Generally Accepted Accounting Practice considered to be an equivalent to IFRS may be obtained are set out in Note 26 to the financial statements.

These are the first financial statements of the company prepared in accordance with FRS 101. The company's date of transition to FRS 101 is 29 December 2014.

The company previously prepared its financial statements in accordance with UK GAAP. FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act. These amendments to the company's previously adopted accounting policies in accordance with UK GAAP had an impact on the shareholders' equity as at the date of transition and as at 3 January 2016 as shown in Note 27.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Basis of preparation (continued)**

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement'
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - Paragraph 79(a) (iv) of IAS 1;
  - Paragraph 73(e) of IAS 16 Property, plant and equipment;
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10 (d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS)
  - 38A (requirement for minimum of two primary statements, including cash flow statements)
  - 38B-D (additional comparative information)
  - 111 (cash flow statement information)
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

**New standard, amendments and IFRIC interpretations**

No new accounting standards or amendments to accounting standards, or IFRIC interpretation that are effective for the year ended 1 January 2017, have had a material impact on the company.

**Changes in accounting policy and disclosures**

The following standards have been adopted by the company for the first time for the financial year ended 1 January 2017 and have a material impact on the company:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for the company to classify items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- The UK Group operates a funded defined benefit pension scheme and defined contribution scheme for all UK employees. The accounting policy for the UK Group defined benefit scheme has been amended as outlined below in relation to IAS 19 'Employee Benefits' (revised 2011).

Since more than one employer participates in the Johnson & Johnson UK Group Retirement Plan and because the assets attributable to each individual company could not previously be identified on a consistent and reasonable basis, each company's share of the deficit was not identified. Under IAS 19, an allocation should be made in accordance with company policy or on the basis of the legally sponsoring employer within the group.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Change in accounting policies and disclosures (continued)**

The change in the company's accounting policy has therefore been to recognise a balance on the statement of financial position in respect of the defined benefit funded pension plan. This is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The unfunded pension balance previously recognised continues to be recognised within the defined benefit obligation. The obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past service costs are recognised immediately in the income statement.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The standard also introduces new disclosure requirements, though FRS 101 allows for exemptions from the disclosure requirements that are listed on page 16.

Note 27 outlines the impact of the changes in accounting policy on the financial statements.

**Consolidation**

The company is a wholly owned subsidiary of Johnson & Johnson Medical Limited and of its ultimate parent, Johnson & Johnson, a company incorporated in the United States of America. It is included in the consolidated financial statements of Johnson & Johnson, which are publicly available. Therefore, the company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

The financial statements are separate statements.

**Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in Pounds Sterling (£) which is also the company's functional currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold land and buildings	- 30 years
Leasehold improvements	- over the term of the lease
Plant and machinery	- 3 - 12 years
Fixtures, fittings and equipment	- 3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the income statement.

**Impairment of non-financial assets**

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Financial instruments**

**Classification**

Management determines the classification of its financial assets in the following categories at initial recognition: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

**Recognition and measurement**

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within interest income or expense in the period in which they arise.

**Impairment of financial assets**

*Assets carried at amortised cost*

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**Derivative financial instruments and hedge accounting**

The company has chosen not to apply hedge accounting and all derivatives are measured at fair value through profit and loss.

**Notes to the financial statements  
For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Investments in subsidiaries**

Investments in subsidiaries are held at cost less accumulated impairment losses.

**Inventory**

Inventory is stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads, based on the normal level of activity. Net realisable value comprises estimated selling price less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective inventory.

**Trade and other receivables**

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised at fair value less provisions for impairments.

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

**Trade and other payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Accruals and deferred income comprise expenses relating to the current year, which will not be invoiced until after the date of the statement of financial position, and income received in advance relating to the following year.

Government grants are treated as deferred income which is credited to the income statement on a basis consistent with their related expenses. The period in which government grants are expected to be credited to the income statement is within the next two to five years.

**Leases**

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**Notes to the financial statements  
For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Pension obligations**

The company participates in the Johnson & Johnson UK Group Retirement Plan. The UK Group operates a funded defined benefit pension scheme and defined contribution scheme for all UK employees. New entrants are eligible to join the funded defined benefit scheme and the defined contribution scheme is closed to new entrants. There is also an unfunded, unapproved defined benefit pension scheme arrangement for a small number of employees who are affected by the Inland Revenue Earnings Cap.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past service costs are recognised immediately in the income statement.

Under the defined contribution plan, the company has no further payment obligations once the contributions have been paid. Contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**Notes to the financial statements  
For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Share-based payments**

The company operates a number of equity-settled, share-based compensation plans, under which the company receives services from employees as consideration for equity instruments (options) of the ultimate parent company, Johnson & Johnson. The awards are granted by Johnson & Johnson, and the company has no obligation to settle the awards. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense using the Black-Scholes option-pricing model, with a corresponding increase in reserves (representing a capital contribution by the ultimate parent). The total amount to be expensed is determined by reference to the fair value of the options granted:

- excluding the impact of any service and non-market vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save). Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the company is recharged the options' original fair value as of the grant date from Johnson & Johnson. These intercompany charges are accounted for as a deduction from equity, and they are offset in other reserves against retained earnings.

**Employer's national insurance on share options**

Under unapproved share option schemes, the company is required to pay National Insurance on the difference between the exercise price and market value at the exercise date of the shares issued. The company 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 date of the statement of the financial position and the option exercise prices. The initial provision calculated upon grant of the option follows the underlying option and the charge to the income statement is therefore spread over the vesting period. At each date of the statement of financial position until the date of exercise the provision is adjusted by using the market value of the options at that date. 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.

**Employee benefits – Certificates of Extra Compensation (CEC's)**

CEC's were granted up until 31 December 2009 by the company if it wished to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement, at the time of termination of employment or death while in such employment.

**Employee benefits – Certificates of Long-Term Performance (CLP's)**

Since 1 January 2010 CLP's may be granted by the company if it wishes to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement. This award represents a deferred compensation instrument with the vested value being paid out at the tenth anniversary of the date of the grant or upon termination or retirement, whichever occurs earlier.



**Notes to the financial statements  
For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Provisions**

Provisions for restructuring costs and legal claims are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**Research and development**

Expenditure on research and development in performing services on behalf of other group companies is expensed in the year in which it is incurred.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied exclusive of discounts, returns and value added tax.

The company recognises revenue when the amount can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when the criteria included in the sales agreements have been met.

**Other operating income**

Other operating income represents income receivable from fellow group companies for services provided. It is recognised when the related expenses are incurred by the company.

**Dividend income**

Dividend income is recognised when the right to receive payment is established.

**Dividend distributions**

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

**Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**2. Accounting policies (continued)**

**Critical accounting estimates and judgements**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(a) Useful economic lives of property, plant and equipment*

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

*(b) Inventory provisioning*

The company regularly reviews the inventory balances and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around saleability of finished goods and future usage of raw materials.

*(c) Defined benefit pension scheme*

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors based on actuarial valuation reports in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends.

**3. Revenue**

An analysis of revenue by class of business is as follows:

	<b>Year ended 1 January 2017 £000</b>	<b>Year ended 3 January 2016 £000</b>
Manufacturing service income	<b>31,856</b>	23,664
Royalty income	<b>5,025</b>	3,657
	<b>36,881</b>	27,321
	<hr/>	<hr/>
	<b>Year ended 1 January 2017 £000</b>	<b>Year ended 3 January 2016 £000</b>
Europe, Middle East & Africa	<b>36,881</b>	27,321
	<b>36,881</b>	27,321
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**DePuy International Limited**

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**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**4. Other operating income**

	<b>Year ended 1 January 2017 £000</b>	<b>Year ended 3 January 2016 £000</b>
Other operating income	<b>49,278</b>	35,922
	<b>49,278</b>	<b>35,922</b>

Other operating income represents income receivable from fellow group companies for services provided and expenses incurred by the company on behalf of DePuy Ireland Unlimited Company.

**5. Operating profit**

The operating profit is stated after charging:

	<b>Year ended 1 January 2017 £000</b>	<b>Year ended 3 January 2016 £000</b>
Research & development charged as an expense	<b>23,018</b>	19,407
Depreciation of property, plant and equipment	<b>3,085</b>	3,188
Loss on disposal of property, plant and equipment	<b>187</b>	455
Operating lease expenses	<b>704</b>	690
Exchange differences	<b>5,022</b>	1,461
Defined contribution pension costs (Note 21)	<b>129</b>	129
Defined benefit pension costs (Note 21)	<b>6,687</b>	7,733

**6. Auditors' remuneration**

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	<b>Year ended 1 January 2017 £000</b>	<b>Year ended 3 January 2016 £000</b>
Fees payable to PricewaterhouseCoopers LLP, the company's auditors, for the statutory audit of the company	<b>53</b>	52
	<b>53</b>	<b>52</b>

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## DePuy International Limited

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### Notes to the financial statements For the year ended 1 January 2017

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#### 7. Employees

Staff costs were as follows:

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Wages and salaries	17,939	16,071
Social security costs	2,663	1,672
Other pension costs (Note 21)	6,725	7,581
Share-based payments (Note 23)	1,288	957
	<u>28,615</u>	<u>26,281</u>

The average monthly number of employees, including the directors, during the year was as follows:

	Year ended 1 January 2017	Year ended 3 January 2016
Management and administration	297	274
Production	158	172
	<u>455</u>	<u>446</u>

#### 8. Directors' emoluments

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Aggregate remuneration for qualifying services	764	567
	<u>764</u>	<u>567</u>

Retirement benefits are accruing to four directors (2015: three directors) under the company's defined benefit pension scheme and to no directors (2015: no directors) under the money purchase scheme.

Three directors (2015: two directors) exercised share options in the ultimate parent company during the year.

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**DePuy International Limited**

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**Notes to the financial statements  
For the year ended 1 January 2017**

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**8. Directors' emoluments (continued)**

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
<b>Highest paid director</b>		
Total amounts of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	266	292
Defined benefit pension scheme:		
- Accrued pension at the end of the year	23	19
	<u>289</u>	<u>311</u>

The highest paid director exercised share options in the year (2015: options exercised).

The emoluments of P O'Sullivan were paid by DePuy Ireland Unlimited Company, which is a fellow subsidiary of the Johnson & Johnson group. The total emoluments of P O'Sullivan are therefore included in the aggregate staff costs of DePuy Ireland Unlimited Company.

**9. Interest receivable and similar income**

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Interest receivable on UK group banking arrangements	89	335
	<u>89</u>	<u>335</u>

**10. Other finance (expense)/ income**

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Net interest income on pension scheme	226	6
(Loss)/ gain on derivative financial instruments	383	98
	<u>609</u>	<u>104</u>

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**DePuy International Limited**

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**Notes to the financial statements  
For the year ended 1 January 2017**

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**11. Income tax**

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
<b>Tax included in the income statement</b>		
Current tax on profits for the year	2,617	1,214
Adjustments in respect of previous periods	(495)	72
<b>Total current tax</b>	<b>2,122</b>	<b>1,286</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	54	(215)
Impact of change in tax rate	86	190
<b>Total deferred tax</b>	<b>140</b>	<b>(25)</b>
<b>Total tax on profit on ordinary activities</b>	<b>2,262</b>	<b>1,261</b>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Profit on ordinary activities before tax	11,629	5,018
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	2,326	1,016
<b>Effects of:</b>		
Expenses not deductible for tax purposes	393	319
Adjustments to tax charge in respect of prior periods	(495)	72
Income not subject to tax	(49)	(33)
Research and development tax credit	-	(304)
Remeasurement of deferred tax due to change in the UK tax rate	87	191
<b>Total tax expense included in the income statement</b>	<b>2,262</b>	<b>1,261</b>

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**11. Income tax (continued)**

**Factors that may affect future tax charges**

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 20.00%.

On 26 October 2015 changes in the UK main Corporation Tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted. As a result, the relevant deferred tax balances have been measured at 19% or 18%, reflective of the rate expected to be in force at the time the underlying timing differences reverse.

Further to these changes in rate it was announced by the Chancellor of the Exchequer that the main rate of Corporation Tax will be revised down further to 17% from 2020. Legislation was introduced in the Finance bill 2016 to that effect.

**Tax (income)/ expense included in other comprehensive income**

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
<b>Current tax</b>		
Current tax on items in other comprehensive income	-	-
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(3,795)	1,416
Impact of changes in tax rate	(78)	1
<b>Total tax (income)/ expense included in other comprehensive income</b>	<b>(3,873)</b>	<b>1,417</b>

**Tax (income)/ expense included in equity**

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
<b>Current tax</b>		
Current tax on items in equity	(295)	(169)
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(230)	90
Impact of change in tax rate	25	61
<b>Total deferred tax included in equity</b>	<b>(205)</b>	<b>151</b>
<b>Total tax (income)/ expense included in equity</b>	<b>(500)</b>	<b>(18)</b>

## DePuy International Limited

### Notes to the financial statements For the year ended 1 January 2017

#### 12. Dividends

	1 January 2017 £000	3 January 2016 £000
Final paid: £nil (2015: £2.143) per ordinary share	-	100,000
	-	100,000

#### 13. Property, plant and equipment

	Freehold land and buildings £000	Leasehold improvements £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Construction in progress £000	Total £000
<b>Cost</b>						
At 4 January 2016	14,818	11,836	38,862	8,632	7,955	82,103
Additions	-	-	-	-	4,425	4,425
Disposals	(35)	(512)	(851)	(371)	-	(1,769)
Transfers between classes	4,353	(126)	1,834	860	(6,921)	-
At 1 January 2017	19,136	11,198	39,845	9,121	5,459	84,759
<b>Accumulated Depreciation</b>						
At 4 January 2016	1,429	9,540	33,302	4,844	-	49,115
Charge for the year	594	688	1,446	357	-	3,085
Disposals	(18)	(513)	(827)	(224)	-	(1,582)
Transfers between classes	25	(25)	(78)	78	-	-
At 1 January 2017	2,030	9,690	33,843	5,055	-	50,618
<b>Net book value</b>						
At 1 January 2017	17,106	1,508	6,002	4,066	5,459	34,141
At 3 January 2016	13,389	2,296	5,560	3,788	7,955	32,988



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**DePuy International Limited**

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**Notes to the financial statements  
For the year ended 1 January 2017**

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**14. Investments in subsidiaries**

	Investments in subsidiary companies £000
<b>Cost or valuation</b>	
At 4 January 2016	5,719
Disposals	(8)
At 1 January 2017	<u>5,711</u>
<b>Impairment</b>	
At 4 January 2016	4,066
Impairment on disposals	(8)
At 1 January 2017	<u>4,058</u>
<b>Net book value</b>	
At 1 January 2017	<u><u>1,653</u></u>
At 3 January 2016	<u><u>1,653</u></u>

Investments comprise interests in group undertakings.

On 17 December 2014 the members of BCCO (1992) Limited and Depuy Motech Limited passed a special resolution and appointed liquidators to wind up the company under a Members Voluntary Agreement. Subsequently on 15 May 2016, the companies were dissolved.

**Subsidiary undertakings**

The following were subsidiary undertakings of the company:

Name	Shares held	Holding	Principal activity
Cemvac Systems AB	5,000 ordinary 100 Krone shares	100 %	Manufacture and sale of surgical and hospital products (inactive)
DePuy Hellas S.A.	60,000 ordinary 2.93 Euro shares	100 %	Manufacture and sale of surgical and hospital products (inactive)

Name	Country of incorporation and registered office
Cemvac Systems AB	Sweden; Staffans Väg 2, 19278, Sollentuna, Sweden
DePuy Hellas S.A.	Greece; Agias Kiriakis 20, 145 61 Kifisia, Athens, Greece

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**15. Inventory**

	<b>1 January 2017 £000</b>	<b>3 January 2016 £000</b>
Raw materials and consumables	<b>1,084</b>	1,686
Work in progress	<b>1,615</b>	1,714
Finished goods and goods for resale	<b>800</b>	715
	<b>3,499</b>	4,115

There is no material difference between the statement of financial position and replacement value of inventory.

The amount of write-downs of inventories recognised as an expense in the year is £482,000 (2015: £nil).

**16. Trade and other receivables**

	<b>1 January 2017 £000</b>	<b>3 January 2016 £000</b>
Trade receivables	<b>156</b>	211
Amounts owed by group undertakings	<b>138,801</b>	126,824
Other receivables	-	1,019
Prepayments and accrued income	<b>1,616</b>	3,452
Deferred tax asset (Note 19)	<b>4,683</b>	745
Derivative financial instruments	<b>448</b>	57
	<b>145,704</b>	132,308

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**DePuy International Limited**

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**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**17. Current trade and other payables**

	1 January 2017 £000	3 January 2016 £000
Trade payables	818	1,281
Amounts owed to group undertakings	80,959	79,055
Corporation tax	489	-
Other taxation and social security	37	14
Accruals and deferred income	9,000	9,358
	<u>91,303</u>	<u>89,708</u>

**Banking arrangements**

Amounts owed by group undertakings includes an amount of £59,715,065 (2015: £56,607,804) invested with the In-House Treasury Cash Pool.

The company, together with other UK based affiliate companies, participates in one or more In-House Treasury Cash Pool arrangements administrated by J.C. General Services CVBA, a company incorporated under Belgian law with registered office at Turnhoutseweg 30, 2340 Beerse, Belgium. The centralised financial management provided in relation to the In-House Treasury Cash Pool is intended to, among other things, enable the Cash Pool participants, by acting collectively, to have access to the broadest range of credit options at arm's length conditions, while optimising the use and investment of the liquidities available within the In-House Treasury Cash Pool.

All investments with J.C. General Services CVBA are made on behalf of the UK group companies by Johnson & Johnson Medical Limited. Transactions between Johnson & Johnson Medical Limited and UK group affiliates to fund these investments are treated as separate arrangements.

**18. Non-current trade and other payables**

	1 January 2017 £000	3 January 2016 £000
Government grants received	4,040	4,249
	<u>4,040</u>	<u>4,249</u>

Government grants were received as part of a Regional Growth Fund initiative to create economic growth and lasting employment.

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**DePuy International Limited**

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**Notes to the financial statements  
For the year ended 1 January 2017**

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**19. Deferred tax asset**

	Accelerated/ decelerated capital allowances £000	Retirement benefits £000	Provisions for liabilities £000	Share-based payments £000	Total £000
<b>29 December 2014</b>	659	466	133	1,030	<b>2,288</b>
(Charge)/ credit to the income statement	(354)	407	(20)	(8)	<b>25</b>
(Charge) to other comprehensive income	-	(1,417)	-	-	<b>(1,417)</b>
(Charge) to equity	-	-	-	(151)	<b>(151)</b>
<b>At 4 January 2016</b>	<b>305</b>	<b>(544)</b>	<b>113</b>	<b>871</b>	<b>745</b>
(Charge)/ credit to the income statement	(323)	104	32	47	<b>(140)</b>
(Charge)/ credit to other comprehensive income	-	3,873	-	-	<b>3,873</b>
(Charge)/ credit to equity	-	-	-	205	<b>205</b>
<b>At 1 January 2017</b>	<b>(18)</b>	<b>3,433</b>	<b>145</b>	<b>1,123</b>	<b>4,683</b>

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**DePuy International Limited**

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**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**19. Deferred tax asset (continued)**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>1 January 2017 £000</b>	<b>3 January 2016 £000</b>
Deferred tax assets	<b>4,701</b>	1,288
Deferred tax liabilities	<b>(18)</b>	(543)
<b>Net deferred tax reported in the statement of financial position</b>	<b>4,683</b>	745

At 1 January 2017, the company has no unused tax losses available for offset against future profits.

**20. Other provisions**

	<b>Share options £000</b>
At 4 January 2016	<b>626</b>
Charged to profit or loss	<b>537</b>
Utilised in the year	<b>(309)</b>
<b>At 1 January 2017</b>	<b>854</b>

The provision represents Employer's National Insurance on unexercised share options (see Note 23). This is expected to be utilised within the next 10 years.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**21. Post-employment benefits**

DePuy International Limited participates in three pension arrangements in conjunction with other companies in the Johnson & Johnson Group. These are a funded, defined benefit plan called the "Johnson & Johnson UK Group Retirement Plan", a defined contribution Plan with some underlying guarantees for employees called the "Johnson & Johnson UK Group Retirement Plan 16" and an unfunded, unapproved defined benefit arrangement.

It also participates in a life assurance arrangement called the "Johnson & Johnson UK Approved Life Assurance Plan".

**Johnson & Johnson UK Group Retirement Plan**

The risks of the plan are as follows:

*(a) Asset volatility*

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. However, the plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term but do provide increased volatility and risk in the short-term.

*(b) Changes in bond yields*

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

*(c) Life expectancy*

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

*(d) Inflation risk*

A significant proportion of the pension obligation is linked to inflation, and higher inflation will lead to higher liabilities.

**Composition of the plan: UK Group Retirement Plan and the unfunded arrangement**

The statutory actuarial valuations of the Group Retirement Plan as at 31 March 2014 were completed in 2015. The valuation results at this date have been updated to 1 January 2017 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	Year ended 1 January 2017	Year ended 3 January 2016
Expected rate of salary increases	4.20%	4.00%
Expected rate of increase of pensions in payment (with RPI capped at 5% per annum)	3.10%	2.95%
Discount rate	2.70%	3.90%
RPI inflation assumption	3.20%	3.00%
CPI inflation assumption	2.20%	2.00%

In addition to the financial assumptions above, it is assumed that male members currently aged 45 will live for 24.6 years from age 65 and those currently aged 65 will live for 22.9 years. It is assumed that female members currently aged 45 will live for 27.1 years from age 65 and those currently aged 65 will live for 24.8 years. It is also assumed that all members commute 80% of the maximum permissible amount of their pension for cash in line with current commutation terms.

**Notes to the financial statements  
For the year ended 1 January 2017**

**21. Post-employment benefits (continued)**

The Johnson & Johnson UK Group Retirement Plan does not have any self-investments.

There is a small unfunded unapproved pension arrangement for a small number of employees who were either affected by the old "Inland Revenue Earnings Cap" – which was abolished from 6 April 2006, or whose benefits are in excess of the Lifetime Allowance. These members' benefits are paid directly by the company. In addition, following the benefit changes that were implemented with effect from 1 April 2012 (and further benefit changes that were implemented with effect from 1 April 2014), more benefits are accrued outside of the registered pension arrangement. These benefits are also provided through this unfunded arrangement.

This unfunded arrangement has been included within the Johnson & Johnson UK Group Retirement Plan in determining the total plan assets and liabilities. The financial assumptions underlying the calculation of the unfunded, unapproved liability are identical to those underlying the calculation of the funded liability.

**Reconciliation of plan assets and liabilities**

	<b>Fair value of plan assets £000</b>	<b>Defined benefit obligation £000</b>	<b>Total £000</b>
At 29 December 2014	183,045	(185,374)	(2,329)
Benefits paid	(4,572)	4,572	-
Employer and other contributions	5,265	(47)	5,218
Current service cost	-	(6,048)	(6,048)
Past service cost	-	(1,404)	(1,404)
Administrative expenses paid from plan	(287)	-	(287)
Interest income/ (expense)	6,872	(6,866)	6
Remeasurement gains/ (losses)	4,551	3,312	7,863
At 3 January 2016	194,874	(191,855)	3,019
Benefits paid	(5,492)	5,492	-
Employer and other contributions	5,851	(53)	5,798
Current service cost	-	(6,596)	(6,596)
Administrative expenses paid from plan	(317)	-	(317)
Interest income/ (expense)	7,601	(7,375)	226
Remeasurement gains/ (losses)	42,810	(65,132)	(22,322)
<b>At 1 January 2017</b>	<b>245,327</b>	<b>(265,519)</b>	<b>(20,192)</b>

The expected contributions to the plan in the year ended 31 December 2017 are £6,047,000.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

**21. Post-employment benefits (continued)**

The sensitivity of the defined benefit obligation at 1 January 2017 to changes in the most significant assumptions is:

	Change in value when discount rate decreased by 0.25%	Change in value when inflation rate increased by 0.25%	Change in value when mortality age reduced by a year
Defined benefit obligation	Obligation is increased by 5.8%	Obligation is increased by 4.2%	Obligation is increased by 2.8%
Total defined benefit cost in the income statement	Increase in total costs of 9.7%	Increase in total costs of 7.6%	Increase in total costs of 3.9%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

The total defined benefit cost recognised as an expense in the income statements is as follows:

	Year ended 1 January 2017 £000	Year ended 3 January 2016 £000
Current service cost	6,596	6,048
Past service cost	-	1,404
Administrative expenses	317	287
Net interest income	(226)	(6)
	<u>6,687</u>	<u>7,733</u>

The fair value of the plan assets was:

	1 January 2017 £000	3 January 2016 £000
Equity instruments	197,742	156,266
Debt instruments	41,612	34,232
Cash and cash equivalents	5,235	3,588
Other	738	788
	<u>245,327</u>	<u>194,874</u>

The return on plan assets excluding interest income was £42,810,000 (2015: £4,551,000).



**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**21. Post-employment benefits (continued)**

**Johnson & Johnson Group Retirement Plan 16**

Plan 16 is a defined contribution plan with some underlying defined benefit guarantees. On the basis of materiality, it has been accounted for on a defined contribution basis.

The total contributions paid by the company to Plan 16 and recognised as a defined contribution expense in the year were £129,000 (2015: £129,000). The best estimate of the company contributions expected in the year from 2 January 2017 to 31 December 2017 to be paid to Johnson & Johnson UK Group Retirement Plan 16 is £129,000.

**22. Ordinary shares**

	<b>1 January 2017 £000</b>	<b>3 January 2016 £000</b>
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
46,653,706 (2015: 46,653,706) Ordinary shares shares of £1 each	<b>46,654</b>	46,654

**Notes to the financial statements**  
**For the year ended 1 January 2017**

**23. Share based payments**

At 1 January 2017 the Company's employees were members of 5 stock-based compensation plans operated by the ultimate parent company. The shares outstanding are for contracts under Johnson & Johnson's 2005 and 2012 UK Approved Stock Option Plans, the 2005 and 2012 UK Unapproved Stock Option Plans, and the 2012 Non-Qualifying Option Plan. All of these arrangements are settled in equity, have a three year vesting period and any unexercised options lapse 10 years from the grant date.

A reconciliation of the movements over the year to 1 January 2017 is shown below:

	1 January 2017		3 January 2016	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at start of year	152	\$79.39	156	\$73.19
Granted	36	\$101.87	34	\$100.06
Forfeited/Cancelled	(7)	\$96.19	(22)	\$80.67
Exercised	(32)	\$66.97	(17)	\$62.61
Transferred	1	-	1	-
Outstanding at end of year	150	\$86.66	152	\$79.39
Exercisable at end of year	53		45	

The weighted average fair value of options granted in the year was \$358,001 (2015: \$358,212). The weighted average share price at the date of exercise for options exercised in the year was \$114.74 (2015: \$100.88).

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

1 January 2017				3 January 2016			
Weighted average exercise price	Number of shares ('000)	Weighted average remaining life:		Weighted average exercise price	Number of shares ('000)	Weighted average remaining life:	
		Expected	Contractual			Expected	Contractual
\$58.34	0	0 yrs	0 yrs	\$58.34	0	0.1 yrs	0.1 yrs
\$65.62	2	0.1 yrs	0.1 yrs	\$65.62	5	1.1 yrs	1.1 yrs
\$61.75	3	1.1 yrs	1.1 yrs	\$61.75	8	2.1 yrs	2.1 yrs
\$58.33	6	2.1 yrs	2.1 yrs	\$58.33	10	3.1 yrs	3.1 yrs
\$62.62	8	3.1 yrs	3.1 yrs	\$62.62	10	4.1 yrs	4.1 yrs
\$62.20	8	4.1 yrs	4.1 yrs	\$62.20	9	5.1 yrs	5.1 yrs
\$65.37	2	5.1 yrs	5.1 yrs	\$65.37	2	6.1 yrs	6.1 yrs
\$72.54	24	6.1 yrs	6.1 yrs	\$72.54	40	7.1 yrs	7.1 yrs
\$90.44	31	7.1 yrs	7.1 yrs	\$90.44	34	8.1 yrs	8.1 yrs
\$100.06	32	8.1 yrs	8.1 yrs	\$100.06	34	9.1 yrs	9.1 yrs
\$101.87	34	9.1 yrs	9.1 yrs				

All options are granted at the current market price on a specific grant date during each calendar year. There is therefore no weighted average exercise price as the shares granted each year are all granted at the same price, given in the table above.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

**23. Share based payments (continued)**

The total charge for the year relating to employee share based payment plans was £190,464 (2015: £135,260), all of which related to equity-settled share based payment transactions. After deferred tax at 17% (2015: 18%), the total charge was £158,085 (2015: £110,913).

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

	1 January 2017	3 January 2016
Share price at grant date and exercise price	\$101.87	\$100.06
Number of employees	21	21
Shares granted in year	35,750	33,531
Vesting year (years)	3 years	3 years
Expected volatility	15.76%	15.48%
Option life (years)	10 years	10 years
Expected life (years)	7 years	7 years
Risk free rate	1.51%	1.77%
Expected dividend yield	3.10%	2.90%
Fair value per option	\$10.014	\$10.683

Starting in 2006, expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. Prior to 2006, expected volatility was based on a 5-year weekly historical volatility rate. Historical data is used to determine the expected life of the option. The risk free rate was based on the US Treasury yield curve in effect at the time of grant.

**Restricted stock units and performance stock units**

The Company also grants Restricted Stock Units (RSU's) and Performance Stock Units (PSU's). The RSU's were first granted in 2006 and have a vesting period of 3 years. The PSU's were first granted in 2013 and also have a vesting period of 3 years. The average fair value of the RSU's and PSU's granted during the year was \$92.82, using the fair market value at the date of grant. The fair value of restricted stock units was discounted for dividends, which are not paid on the restricted stock units during the vesting year.

	1 January 2017 Number of shares ('000)		3 January 2016 Number of shares ('000)	
	RSU's	PSU's	RSU's	PSU's
Shares at the start of the year	53	4	56	5
Stock granted	19	1	17	1
Stock forfeited	(1)	0	(3)	(2)
Stock issued	(17)	(1)	(17)	0
Stock transferred	0	0	0	0
Shares at the end of the year	54	4	53	4

**Notes to the financial statements  
For the year ended 1 January 2017**

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**23. Share based payments (continued)**

The total charge for the year relating to employee Restricted Stock Units was £1,005,487 (2015: £807,671). After deferred tax at 17% (2015: 18%), the total charge was £834,554 (2015: £662,290).

The total charge for the year relating to employee Performance Stock Units was £92,206 (2015: £14,497). After deferred tax at 17% (2015: 18%), the total charge was £76,531 (2015: £11,888).

**Certificates of Extra Compensation and Certificates of Long-term Performance**

In addition, the Company's employees may be eligible to receive Certificates of Extra Compensation (CEC's) or Certificate of Long-term Performance (CLP's).

CEC's were granted up until 31 December 2009 by the company if it wished to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement, at the time of termination of employment or death while in such employment.

Since 1 January 2010 CLP's may be granted by the company if it wishes to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement. This award represents a deferred compensation instrument with the vested value being paid out at the tenth anniversary of the date of the grant or upon termination or retirement, whichever occurs earlier.

**National insurance**

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.

An accrual of £369,972 (2015: £271,305) for employers' national insurance has been made at 1 January 2017 based on the year-end share price of \$115.21. It has been assumed that 100% of shares held by employees at year-end will be exercised.

An accrual of £450,856 (2015: £332,751) has been made for the employers' national insurance on restricted stock units.

An accrual of £33,708 (2015: £22,593) has been made for the employers' national insurance on performance stock units.

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## DePuy International Limited

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### Notes to the financial statements For the year ended 1 January 2017

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#### 24. Commitments under operating leases

At 1 January 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	1 January 2017 £000	3 January 2016 £000
<b>Land and buildings</b>		
Not later than 1 year	330	330
Later than 1 year and not later than 5 years	1,196	358
	<u>1,526</u>	<u>688</u>
	1 January 2017 £000	3 January 2016 £000
<b>Other operating leases</b>		
Not later than 1 year	223	266
Later than 1 year and not later than 5 years	231	257
	<u>454</u>	<u>523</u>

#### 25. Other commitments and contingencies

	1 January 2017 £000	3 January 2016 £000
Future capital expenditure contracted but not provided for	1,907	1,872
Hedged currency contract commitments	3,919	256
Bank guarantees	200	200
	<u>6,026</u>	<u>2,328</u>

The company enters into forward foreign currency contracts to eliminate currency exposures arising on sales and purchases made in foreign currencies. The company does not hold derivative financial instruments for speculative purposes. The fair value of forward foreign currency contracts held is disclosed in Note 16.

#### 26. Controlling party

The immediate parent company is Johnson & Johnson Medical Limited.

The directors regard Johnson & Johnson, a company registered in the United States of America, as the ultimate parent company and ultimate controlling party. This is the smallest and largest group of which the company is a member and for which group financial statements are prepared. Copies of the consolidated financial statements may be obtained from Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933, USA.

## DePuy International Limited

### Notes to the financial statements For the year ended 1 January 2017

#### 27. First time adoption of FRS 101

The company transitioned to FRS 101 from previously extant UK GAAP as at 29 December 2014. The impact of the transition to FRS 101 is as follows:

		As previously stated under old GAAP at 29 December 2014 £000	Effect of transition 29 December 2014 £000	FRS 101 (as restated) 29 December 2014 £000	As previously stated 3 January 2016 £000	Effect of transition 3 January 2016 £000	FRS 101 (as restated) 3 January 2016 £000
Notes							
Non-current assets		32,758	-	32,758	34,641	-	34,641
Current assets	1	251,961	1,072	253,033	136,514	(32)	136,482
Trade and other payables	2	(102,732)	(35)	(102,767)	(89,714)	6	(89,708)
<b>Net current assets</b>		<b>149,229</b>	<b>1,037</b>	<b>150,266</b>	<b>46,800</b>	<b>(26)</b>	<b>46,774</b>
<b>Total assets less current liabilities</b>		<b>181,987</b>	<b>1,037</b>	<b>183,024</b>	<b>81,441</b>	<b>(26)</b>	<b>81,415</b>
Non-current trade and other payables		(4,103)	-	(4,103)	(4,249)	-	(4,249)
Other provisions		(6,411)	-	(6,411)	(626)	-	(626)
Pension (liability)/ asset	3	(133)	(2,196)	(2,329)	(246)	3,265	3,019
<b>Net assets including pension liability</b>		<b>171,340</b>	<b>(1,159)</b>	<b>170,181</b>	<b>76,320</b>	<b>3,239</b>	<b>79,559</b>
Total equity	1,2,3,5	171,340	(1,159)	170,181	76,320	3,239	79,559

**Notes to the financial statements**  
**For the year ended 1 January 2017**

**27. First time adoption of FRS 101 (continued)**

	Notes	As previously stated 3 January 2016 £000	Effect of transition 3 January 2016 £000	FRS 101 (as restated) 3 January 2016 £000
Revenue	4	23,664	3,657	27,321
Cost of sales		(21,653)	(3,657)	(25,310)
<b>Gross Profit</b>		<b>2,011</b>	<b>-</b>	<b>2,011</b>
Administrative expenses	2	(30,980)	(2,414)	(33,394)
Other operating income		35,922	-	35,922
<b>Profit on ordinary activities before interest and tax</b>		<b>6,953</b>	<b>(2,414)</b>	<b>4,539</b>
Income from investments in subsidiaries		48	-	48
Amounts written off investments		(8)	-	(8)
Interest receivable and similar income		335	-	335
Other finance (expense)/ income	1,2,3	(6)	110	104
Tax on profit on ordinary activities	5	(1,483)	222	(1,261)
<b>Profit for the financial year</b>		<b>5,839</b>	<b>(2,082)</b>	<b>3,757</b>

Explanation of changes to previously reported balances:

1 There was a £1,072,000 increase non-current assets in 2015 compared to previously reported balances, due to increases in the deferred tax asset balance. £466,000 of this related to an increase in the deferred tax asset on remeasurement of the pension liability under IAS 19 'Employee benefits', £433,000 of which resulted in an increase in retained earnings, with the remaining £33,000 recognised to match a corresponding increase in the pension liability noted in 3 below. An additional £606,000 increase in the deferred tax asset and retained earnings was recognised on transition on remeasuring share based compensation under IFRS 2 'Share-based payment' and IAS 12 'Income taxes' to market value for FRS 101 from the fair value at grant used to measure deferred tax on previously reported balances.

In 2015, the equivalent adjustments resulted in a £1,160,000 decrease in the deferred tax asset balance. £1,009,000 of this decrease resulted on remeasurement of the pension asset, recognised as a £1,417,000 expense in 'other comprehensive income' in equity, a £389,000 credit recognised under 'tax on profit on ordinary activities' in the income statement, and the balancing £19,000 representing an increase in the deferred tax asset matched by a corresponding decrease in the pension asset noted in 3 below. The remaining £151,000 of the total decrease in the deferred tax asset was due to remeasurement of the deferred tax on share based compensation, and the corresponding expense is recognised directly in equity.

Additionally, in 2015, there was a £56,000 increase in current assets on remeasurement of derivative assets to fair value under IAS 39 'Financial instruments: recognition and measurement'; this is recognised under 'other finance income' in the income statement.

**Notes to the financial statements**  
**For the year ended 1 January 2017**

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**27. First time adoption of FRS 101 (continued)**

- 2 There was a £35,000 increase in current trade and other payables and decrease in equity on transition compared to previously reported balances on remeasurement of derivative assets to fair value under IAS 39 'Financial instruments: recognition and measurement'.

The equivalent adjustment in 2015 resulted in a £41,000 decrease in current trade and other payables, recognised as 'other finance income' in the income statement.

- 3 The pension liability was increased by £2,196,000 at the date of transition under IAS 19 'Employee Benefits' (revised). £2,163,000 of this was recognised as a reduction in retained earnings, and the remaining £33,000 of the increase in the liability was matched by a corresponding increase in the deferred tax asset noted in 1 above.

In 2015, further remeasurement of the pension balance resulted in an asset of £3,019,000, which is an increase of £5,348,000 from the remeasured liability of £2,329,000 at the date of transition. Of this increase, £7,863,000 was recognised as an increase on remeasurements through 'other comprehensive income', and there were £2,414,000 of expenses recognised in 'administrative expenses', with the remaining balance of the movement recognised in 'other finance income'.

The UK Group operates a funded defined benefit pension scheme and defined contribution scheme for all UK employees. Since more than one employer participates in the Johnson & Johnson UK Group Retirement Plan and because the assets attributable to each individual company could not previously be identified on a consistent and reasonable basis, each company's share of the deficit was not identified. Under IAS 19, an allocation should be made in accordance with company policy or on the basis of the legally sponsoring employer within the group.

The change in the company's accounting policy has therefore been to recognise a balance on the statement of financial position in respect of the defined benefit pension plan. This is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the income statement.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

- 4 The increase of £3,657,000 in revenue and cost of sales in 2015 from previously reported balances followed a review of revenue and costs under IAS 18 'Revenue', which resulted in an increase in royalty income and cost of sales.

- 5 The £222,000 decrease in tax on profit on ordinary activities in 2015 resulted primarily from the £389,000 deferred tax credit on remeasurement of the pension noted in 1 above.

There was also a £169,000 excess current tax deduction on share based compensation exercises, which was recognised in equity with a corresponding increase in 'tax on profit on ordinary activities' in the income statement in accordance with IFRS 2 'Share-based payment' and IAS 12 'Income taxes'.