

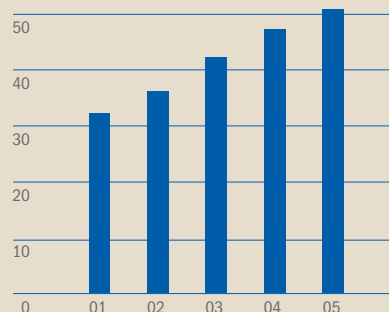


## FINANCIAL HIGHLIGHTS

(Dollars in Millions Except Per Share Figures)	2005	2004	2003	% Change	
				2005	2004
Sales to customers	\$50,514	47,348	41,862	6.7%	13.1
Net earnings	10,411	8,509	7,197	22.4	18.2
Percent return on average shareholders' equity	29.9	29.0	29.0	—	—
Diluted net earnings per share	\$ 3.46	2.84	2.40	21.8%	18.3
Cash dividends paid per share	1.275	1.095	0.925	16.4	18.4
Market price (year-end close)	60.10	63.42	50.62	(5.2)	25.3

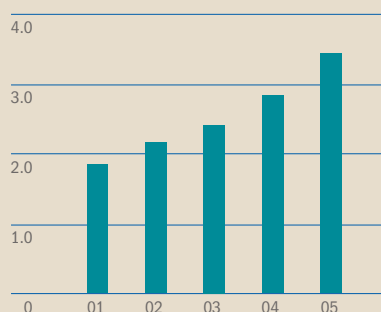
### Net Sales

(in billions of dollars)



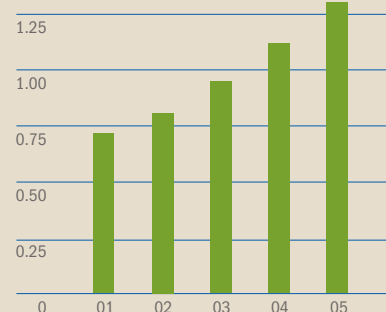
### Diluted Earnings Per Share

(in dollars)



### Dividends Paid Per Share

(in dollars)



## ABOUT THE COMPANY

Johnson & Johnson achieved \$50.5 billion in sales and, through its operating companies, is the world's most comprehensive and broadly based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical, and medical devices and diagnostics markets. The more than 230 Johnson & Johnson operating companies employ approximately 115,600 men and women in 57 countries and sell products throughout the world.

## ON THE COVER

For patients with conditions from coronary artery disease to bipolar disorder, and consumers looking for advanced science in skin care, Johnson & Johnson companies' products are reaching more people and serving more health needs around the world. Inside, read the stories of people whose lives are changed for the better by our products.

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Johnson & Johnson achieved record financial results in 2005 and made further progress in preparing for future growth. Worldwide sales grew to a record \$50.5 billion, a growth rate of nearly 7 percent, with operational growth of 6 percent and a positive currency impact of 1 percent.

Adjusted net earnings for the year were also at record levels, with net income growing at 13.3 percent to \$10.5 billion and diluted net earnings per share increasing 12.9 percent to \$3.50<sup>(1)</sup>.

An improvement in mix toward higher margin products, productivity increases driven by cost containment efforts, and positive interest and other income all helped drive impressive earnings growth.

Our cash flow from operations in 2005 continued to be strong at \$11.9 billion. In light of this, we increased our quarterly dividend to shareholders for the 43rd consecutive year, this year by nearly 16 percent to \$.33. Even with this significant increase, we ended the year with a very strong net cash position of \$13.5 billion, providing us the resources to continue important business building investments.

A year ago I reported to you our excitement about the prospect of broadening our presence in cardiovascular devices through the acquisition of Guidant Corporation. We extended considerable effort throughout the year to conclude this transaction. Unfortunately, a combination of adverse developments in Guidant's business and competition for the asset forced the price to a point where we concluded it was no longer in the best interest of our shareholders to pursue this business opportunity. Nonetheless, we remain committed to strengthening our business in this important therapeutic category.

Elsewhere, aggressive investment in the future continued unabated. We were successful in advancing our future growth through a series of smaller but nonetheless important acquisitions described later in this letter. And, across the business we invested \$6.3 billion in research and development, a \$1.1 billion increase, or more than 21 percent, above our 2004 investment.

The men and women of Johnson & Johnson are to be recognized for their strong performance this past year. They remain the engine that drives our business forward. They make it possible for Johnson & Johnson to continue to touch people's lives in a more meaningful way, as the

stories in this year's annual report relate. Each of our businesses plays an important role in this regard. Let me provide a few examples.

The Medical Devices and Diagnostics segment performed exceptionally well this past year, with strong growth in both revenue and profitability. The segment's strength was broadly based, with five of the seven Medical Devices and Diagnostics franchises growing sales at double-digit rates. The businesses in the segment aspire to a compelling vision: Restoring the joys of life for patients by establishing standards of care.

As we have pursued this vision over the last decade, our Medical Devices and Diagnostics businesses have harnessed the power of science and technology to enhance the diagnosis and treatment of disease across a broad range of medical and surgical specialties.



**William C. Weldon** Chairman, Board of Directors, and Chief Executive Officer

For example, DePuy, the world's leader in joint reconstruction and other important orthopaedic areas, is focusing on less invasive and more durable, motion-saving solutions. iOrthopaedics, DePuy's computer-assisted navigation platform, affords greater surgical precision and improved outcomes in minimally invasive procedures.

In interventional cardiology, Cordis' innovative product solutions are addressing cardiovascular disease, the world's leading cause of death. CYPHER® Sirolimus-Eluting Stent is now the world's market leader, building on the most credible library of clinical evidence on outcomes and safety to win preference among interventional cardiologists.

Other examples like VICRYL® Plus, the world's first and only antibacterial suture, and Veridex, our diagnostic business focused on cancer cell detection at earlier stages of disease, demonstrate how product innovations continue to advance standards of care.



**Robert J. Darretta** Vice Chairman, Board of Directors, and Chief Financial Officer

Key business building acquisitions in the Medical Devices and Diagnostics segment will continue to be an important source of future growth. Last June, we acquired Closure Medical Corporation, a global leader in biomaterial-based medical devices, and in January, we added Hand Innovations LLC, bringing leading technology in the fastest-growing segment of the global extremities market. Just last month, we concluded the acquisition of Animas Corporation, an insulin delivery company that will operate as part of our successful LifeScan business and will strengthen our ability to further advance the treatment of diabetes.

For our Pharmaceutical segment, 2005 was a challenging year, with growth well below historical levels. Growth was affected by the impact of generic competition for DURAGESIC® and ULTRACET®, and by negative publicity related to NATRECOR®.

Although declines in these categories largely offset the growth achieved in the balance of our pharmaceutical business this past year, our long-term record is one of strong growth that reflects our ability to bring to market medicines that address important unmet medical needs. Today, we are leaders in a broad range of traditional medicines as well as a leader in biologicals, and our capabilities in drug delivery enhance our position in both these important areas.

We currently have eight therapeutic areas of interest in our pharmaceutical segment, with leadership positions in four of them: diseases of the central nervous system (CNS), immune-mediated inflammatory diseases, pain management, and anemia. We are focused on building global growth engines in four other therapeutic areas: virology, oncology, antibacterials and cardiovascular disease.

In the CNS category, we have enjoyed longstanding leadership positions. In antipsychotics, we are developing new indications for RISPERDAL® CONSTA®, an injectable antipsychotic indicated for the treatment of schizophrenia, and we are in late-stage development of a further improvement in long-acting injectable technology. And, we recently filed a New Drug Application for paliperidone ER, an extended release oral formulation of our next-generation antipsychotic.

In pain management, we are excited about the potential of IONSYS™, a novel drug/device combination

product recently granted regulatory clearance in Europe but awaiting regulatory review in other jurisdictions. Our pain management portfolio also includes a new formulation of ULTRAM® for the treatment of moderate to moderately severe chronic pain, co-promoted in the U.S. with Biovail Corporation.

We have attained leadership in the immune-mediated inflammatory disease category with REMICADE®, which is now approved for 10 indications spanning conditions from rheumatoid arthritis to ulcerative colitis. We have a number of important advances in this category in development, including two new molecular entities currently in Phase III development.

Virology is a relatively new area of focus for our pharmaceutical business. We are currently developing three HIV compounds, all with high genetic barriers to the development of resistant strains of the disease, all in full development. The most advanced compound is a best-in-class protease inhibitor that was filed with the U.S. Food and Drug Administration (FDA) and European regulatory authorities at the end of 2005.

In oncology, growth drivers include VELCADE®, licensed from Millennium Pharmaceuticals, which we are commercializing outside the United States for the treatment of multiple myeloma, and two novel therapeutics in late-stage development for patients with other forms of cancer for which few or no treatment options exist. One is YONDELIS®, a marine-derived anticancer agent being co-developed with PharmaMar, and the other is ZARNESTRA®.

In the antibacterials area, we are building our franchise on multiple fronts. Our 2005 acquisition of Peninsula Pharmaceuticals, Inc. brought U.S. and European licenses for doripenem, a late-stage development antibiotic to treat serious hospital-based infections, while an agreement with Basilea Pharmaceutica AG gave us rights to ceftobiprole, a first-in-class broad spectrum antibiotic. Both of these important late-stage development programs have been granted fast track review status by the U.S. FDA.

Cardiovascular disease is another area of increasing emphasis for our pharmaceutical business. We are jointly developing with Bayer HealthCare a late-stage drug for the prevention of venous thromboembolism in patients undergoing joint replacement, and for the prevention of stroke in patients with atrial fibrillation.

Turning to our consumer businesses, where we saw continued solid growth in 2005, our strategy is based on building a portfolio of scientifically based and professionally endorsed products. It's evident from recent results that this strategy is enabling us to better serve consumer needs while accelerating growth. More than ever, both our core heritage brands and our emerging brands are differentiated from competitors on the basis of science.

Our adult skincare product line continues to achieve strong growth. NEUTROGENA®, for example, has become one of the most highly recommended brands by dermatologists and has become our first skin care brand to generate revenue of more than \$1 billion annually.

JOHNSON'S® Baby, now 115 years young and still growing – delivered product innovations and geographic expansion with market entrants like JOHNSON'S® Soft line and JOHNSON'S® Soothing Naturals.



**Christine A. Poon** Vice Chairman, Board of Directors

SPLENDA® Brand Sweetener is the cornerstone of our growing nutritionals category. Many people looking to reduce sugar intake, like those managing their weight or dealing with conditions like diabetes, find the no-calorie sweetener helpful.

TYLENOL®, one of our most venerated brands, has kept its vitality through offerings like TYLENOL® Rapid-Release Gels, a fast-acting formulation of a proven product. Over time, there have been more than 75 launches in the TYLENOL® line, a testament to our capacity to innovate and continuously improve iconic brands.

Looking to the future, we are excited about the range of opportunities across our enterprise to use science and technology to advance care and grow our business. At the same time, we are mindful of the challenges we must successfully address, some specific to our Company and some endemic to our industry. For example, during the balance of the decade, we will face patent expirations on our anti-psychotic RISPERDAL® and TOPAMAX® for the treatment of epilepsy and migraine prevention.

Additionally, across all of our businesses, efforts by both public and private payors to reduce health care costs will continue to increase pricing pressures on our products. We think the best way to address these challenges is by controlling costs and, perhaps even more importantly, by providing innovative products that meet important needs and are accompanied by clear evidence of both clinical and economic value.

We also recognize that such pressures are not unique to us but are affecting the global health care industry. As such, we have a responsibility to help shape the future of the health care landscape. Our perspectives on health policy are straightforward: We are champions of a health care system that provides incentives for innovation, that permits public and private health care systems to co-exist, that is characterized by strong and well-respected regulatory authorities, that is centered around the best interests of patients and consumers, that provides for physician and patient choice, and that allows these choices to be made on the basis of broadly available, well-founded, clinical and economic evidence. We have a responsibility to work with policymakers to further ensure access to care.

We are fortunate to be guided in these and other efforts by an outstanding Board of Directors. In 2005, we welcomed Michael Johns, M.D., Executive Vice

President for Health Affairs, Chief Executive Officer of the Robert W. Woodruff Health Sciences Center and Chairman of Emory Healthcare at Emory University, to our Board, where he is a member of the Compensation & Benefits Committee and the Science & Technology Advisory Committee. Last month, Charles Prince, Chief Executive Officer, Citigroup Inc., was also elected to the Board. Mr. Prince serves in a number of leading business organizations, including The Business Council and The Business Roundtable, and will be a strong addition to our Board.

We are committed to making a meaningful contribution to the advancement of health care. Our capacity to succeed and to face into the challenges of the decade are enabled by the men and women of Johnson & Johnson around the world who are dedicated to this noble cause. Through their work and the leadership of our management and directors, we are in a good position to capitalize on the high and growing demand for products that meet serious unmet medical and personal needs. Across all our businesses, the leadership of Johnson & Johnson is looking into the future with a clear understanding of the challenges, and with excitement about the extraordinary opportunities that exist to improve the quality of peoples' lives around the world.



William C. Weldon  
Chairman, Board of Directors,  
and Chief Executive Officer

March 15, 2006

<sup>(1)</sup>Excludes in-process research and development and a tax gain associated with a technical correction made to the American Jobs Creation Act of 2004 related to the repatriation of undistributed international earnings. See Reconciliation of Non-GAAP measures, page 67.



# Reaching more people, Serving more health needs.



**The strategic principles that drive our continued growth and leadership** – broadly based in human health care, decentralized management, managed for the long term on a base of ethical principles – frame the capacity and commitment of Johnson & Johnson to continue to do more to improve human health care. This pursuit to bring more innovation and better health to more people enables the men and women of the Johnson & Johnson companies to provide our best to customers, foster better outcomes for patients, help strengthen communities, and create enduring value for our shareholders.



**Shown clockwise from top:**

**Providing opportunities for more health care education and professional exchange at the Johnson & Johnson Medical (China) Ltd. Science Center**

**Carrying out complex HIV research in Belgium**

**Bringing the quality of JOHNSON'S® Baby products to more parents and children in Brazil**

**Partnering to prevent mother-to-child HIV transmission in India and other regions**

Our strength comes from our breadth and our depth – our vast and diverse science, the scope of our portfolio, our global presence, the men and women of our companies, and the people we touch in the markets we serve. From our growing cardiovascular platform that will enable us to do more to change the face of cardiovascular disease, to our relentless pursuit of innovative pharmaceutical solutions, to technology that delivers a difference to consumers, the Johnson & Johnson companies are helping to transform the future of health care.

Product innovations and collaboration enable physicians worldwide to transform treatment for patients who suffer from circulatory disease.

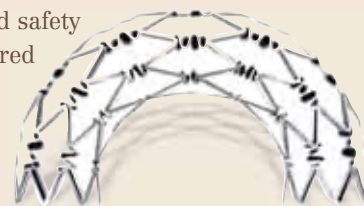


**The CARTOMERGE™ Image Integration Software Module** from Biosense Webster, Inc. is a technological breakthrough for diagnosing arrhythmias, or abnormal rhythms that can cause a heart to pump less effectively. Developed in collaboration with industry leaders in imaging, the CARTOMERGE™ Module enables electrophysiologists to create an accurate 3-dimensional electroanatomical map of a patient's heart and register it with the precision of computer tomography (CT) or magnetic resonance imaging (MRI) scans. Merging a CT or MRI scan with the Biosense Webster CARTO™ XP Navigation System enables physicians to navigate and map within exact anatomical structures of the heart, facilitating the diagnosis and treatment of cardiac arrhythmias.

**Cordis Corporation acquired LuMend, Inc.**, which focuses on the development of endovascular devices to treat chronic total occlusions (CTO) in peripheral vascular disease. A CTO is a complete blockage of an artery that can lead to the need for surgery or lower extremity amputation. LuMend markets the FRONTRUNNER® XP CTO and OUTBACK® LTD™ Re-Entry Catheter devices that facilitate the placement of a guidewire in minimally invasive procedures such as angioplasty and stenting. LuMend products and technologies complement the portfolio of the Cordis Endovascular Division of Cordis Corporation.

**PALMAZ® BLUE™ Stent**, launched in Europe by Cordis Endovascular, is the latest advancement in balloon-expandable stent technology. The PALMAZ® BLUE™ Transhepatic Biliary Cobalt Chromium and Peripheral Stent Systems feature L605, a cobalt alloy enhanced with tungsten, which is stronger than stainless steel and uses less metal. It is designed to provide physicians with increased strength, radiopacity, low profiles, and superior flexibility and deliverability. The PALMAZ® BLUE™ Peripheral Stent System is available in Europe for the treatment of certain atherosclerotic lesions. Worldwide, approximately 60 million people have peripheral vascular disease (PVD), the most common disease of the arteries, caused by a build-up of fatty substances or plaque in the linings of blood vessels. PVD may cause loss of limb or death. Each year, tens of thousands of people also are affected by life-threatening blockages in the bile ducts, leading to the need for treatment. A biliary stent is often used to open blockages so that fluids may continue to pass through organs such as the liver, gallbladder and small intestines. The PALMAZ® BLUE™ Transhepatic Biliary Cobalt Chromium Stent was cleared in the U.S. for treating biliary ducts.

**The medical technology of the CYPHER® Sirolimus-eluting Coronary Stent**, developed and manufactured by Cordis Corporation, offers an effective, safe treatment alternative to open-heart surgery for a broad range of coronary artery disease patients. Available in 80 countries, the CYPHER® Stent has been used to treat more than 1.7 million patients. Significant worldwide growth for the CYPHER® Stent in 2005 was driven by an impressive volume of new clinical data from wide-ranging drug-eluting stent studies that underscore its unsurpassed long-term efficacy and trusted safety profile. Both company-sponsored and independently funded studies document the success of the CYPHER® Stent in a variety of patient populations, both simple and complex. These data, which contribute to the greatest breadth of clinical data over the longest follow-up of any drug-eluting stent, have been instrumental in establishing Cordis as the worldwide market leader in drug-eluting stents.





Far left: The CARTOMERGE™ Image Integration Module is changing the way electrophysiologists identify and plan treatment strategies for complex arrhythmias, or abnormal and potentially fatal heartbeats. Vivek Reddy, M.D., director of the Experimental Electrophysiology Lab at Massachusetts General Hospital in Boston, uses this first-of-its-kind software to view an exact representation of his patient's heart and pinpoint the timing and voltage of the electrical signal, allowing for a more precise diagnosis of an irregular heartbeat.

Right: Stephan H. Duda, M.D., of the Center for Diagnostic Radiology & Minimally Invasive Therapy, The Jewish Hospital Berlin, Germany, discusses a prognosis with patient Hans Denecke following a procedure with PALMAZ® BLUE™ Peripheral Stent System to clear blockage in a renal vessel. PALMAZ® BLUE™ Stent features a cobalt alloy, which is stronger than stainless steel and provides superior flexibility and deliverability.

Below: Huntley Neita, a diabetic patient who had triple-vessel, diffuse disease, was able to return to the life he enjoys with his wife, Doreen, a few weeks after receiving three CYPHER® Stents following a heart attack in 2002.





Left: Prof. Elio Franco, director of vascular surgery, Gaetano Rummo City Hospital, Benevento, Italy, discusses ETHICON OMNEX™ Surgical Sealant, a synthetic, biodegradable material that mechanically seals blood vessels and artificial grafts to prevent blood leakage after traditional suturing.

Right: The Stroke Management Group, which is an internal strategic initiative comprised of representation from 19 Johnson & Johnson companies, is collaborating to bring stroke victims new treatment options such as ST. JOSEPH® 81mg Adult Regimen Aspirin from McNeil Consumer Healthcare Division of McNeil-PPC, Inc. for secondary stroke prevention and development

programs in carotid artery and intracranial stenting. The group has also worked with health care leaders such as Joseph Broderick, M.D., stroke expert and chief of neurology at the University of Cincinnati Medical Center, to help change the way stroke treatment is reimbursed in the U.S. The effort has laid a foundation for new therapies and enables hospitals and providers to improve the quality of care for stroke patients such as David Reichert. Stroke is the third leading cause of death in the U.S.

Below: The Johnson & Johnson Medical (China) Ltd. Science Center in Beijing is dedicated to professional health care education and academic exchange.

Advancing the standards of care and bringing forward new modalities of surgical treatments and breakthrough products help improve outcomes for more patients.



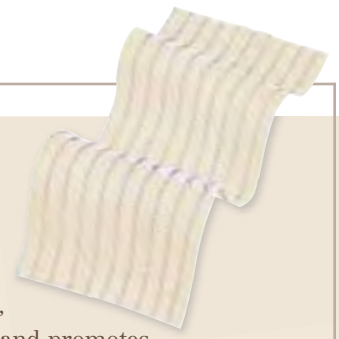


**The acquisition of Closure Medical Corporation** has greatly increased Ethicon, Inc.'s biomaterial-based medical device product offerings and capabilities in topical adhesives and surgical sealants. Closure Medical's proprietary technology can be found in DERMABOND® Topical Skin Adhesive (2-octyl cyanoacrylate) products and BAND-AID® Brand Liquid Bandage. Recently, ETHICON OMNEX™ Surgical Sealant from Closure Medical received European CE Mark approval for use as an adjunct to sutures to achieve hemostasis, or stop bleeding, in peripheral vascular surgery.

**The Johnson & Johnson Medical (China) Ltd. Science Center**, which opened in Beijing in October 2005, is the largest institution of its kind in the Asia Pacific region and the company's second medical science center in China. The institute provides professional education and skills training in traditional and minimally invasive surgery, cardiovascular interventional therapy, orthopaedics and endocrinology, as well as an opportunity for academic exchange among health care professionals globally. The state-of-the-art facility is equipped with simulators and a telesurgery system that allows surgeons to engage in procedures from around the world. The center is also introducing inventory and hospital management training, as well as operating room nurse management training, to medical institutions in China.

**ULTRAPRO® Synthetic Partially Absorbable Mesh** from Ethicon Products Worldwide Division of Ethicon, Inc. is a lightweight and partially absorbable mesh for repairing hernias and other defects of the abdominal fascia, or connective tissue layer. ULTRAPRO® Mesh incorporates the

key elements of light-weight mesh design: thin filaments, large pore size and absorbable components. It allows for clear visualization of anatomy, creates a strong, secure repair and promotes a flexible scar that allows the abdominal wall to move more naturally than traditional polypropylene meshes.



**GYNECARE PROLIFT® Pelvic Floor Repair Systems** from Ethicon Women's Health & Urology Division of Ethicon, Inc. is an innovative and effective surgical option for treating female pelvic organ prolapse, which may occur when pelvic muscles are weakened. GYNECARE PROLIFT® Systems are designed to reinforce tissue and stabilize pelvic floor support structures. Until now, traditional surgical treatments have had reported failure rates up to 40 percent.

**As surgeons perform an increasing number of complex procedures using minimally invasive techniques**, Ethicon Endo-Surgery, Inc. understands and meets their needs with advanced instruments. The HARMONIC ACE™ Curved Shear, the next generation of HARMONIC™ ultrasonic cutting and coagulation surgical devices from Ethicon Endo-Surgery, enables surgeons to coagulate, cut, grasp and dissect various tissue and blood vessels without the need to change instruments. The ENDOPATH® XCEL™ Trocar also facilitates precision and efficiency during surgery by allowing the surgeon one-handed instrument exchange and unencumbered laparoscopic access. The ECHELON™ 60 ENDOPATH® Stapler brings strength and precision to advanced laparoscopic procedures such as gastric bypass and colorectal surgery by providing a long shaft for better access and the capability to achieve hemostasis, or stop bleeding, on

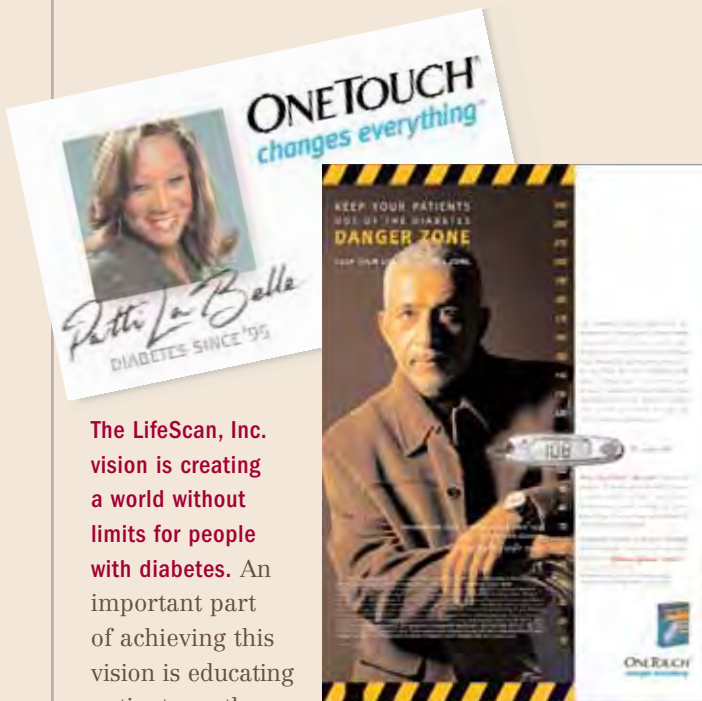


thin to thick tissue. Meanwhile, the CONTOUR™ Curved Cutter Stapler is the only curvilinear cutter stapler for colorectal surgery designed to fit the natural anatomy of the body and provide improved access for surgeons. The instrument gives surgeons the ability to gain lower access into the pelvis than previous instruments to both cut and staple during a lower anterior resection. The unique curved head design also enhances the surgeon's visibility of anatomic structures.



**ACUVUE® OASYS™ Brand Contact Lenses with HYDRACLEAR™ PLUS** from the Vistakon Division of Johnson & Johnson Vision Care, Inc. are made from a unique silicone hydrogel material that

offers a breakthrough for lens wearers who suffer from contact lens dryness. ACUVUE® OASYS™ has been cleared by the U.S. Food and Drug Administration (FDA) for daytime wear and six nights/seven days of extended wear. In the U.S., ACUVUE® ADVANCE™ Brand Contact Lenses for Astigmatism are the fastest-growing silicone hydrogel daily wear contact lens for people with astigmatism.



**The LifeScan, Inc. vision is creating a world without limits for people with diabetes.** An important part of achieving this vision is educating patients on the importance of monitoring blood glucose and the compelling need to manage their disease. In markets around the world, diabetes “Heroes,” such as singer Patti LaBelle in the U.S. and actor Naseeruddin Shah in India, communicate to other diabetes patients the benefits of regular blood glucose self-monitoring with products such as the ONETOUCH® ULTRA® and the ONETOUCH® HORIZON™ Blood Glucose Monitoring Systems.

**DePuy Orthopaedics, Inc. is a leader in mobile bearing knee technology** with the LCS® Total Knee System and the P.F.C.® SIGMA™ Rotating Platform Knee System. The company launched a direct-to-patient education program in November 2004 that has been instrumental in encouraging patients to call for information and talk to an orthopaedic surgeon about joint replacement surgery. The advertising

program educates osteoarthritis patients about advances in techniques and technologies that may reduce their pain and restore their mobility. The campaigns feature DePuy knee and hip replacement patients describing how joint replacement has changed their lives. Orthopaedic surgeons also appear in the campaign to discuss the risks of joint replacement surgery and factors involved in recovery and rehabilitation.

**The acquisition of Hand Innovations LLC**, a manufacturer of diverse and innovative products focused on the needs of the upper extremity surgeon, provides DePuy Orthopaedics, Inc. with leading technology in the fastest-growing segment of the worldwide extremities market. Hand Innovations’ implants for the treatment of distal radius, or wrist, fractures have changed the standard of surgical treatment. The company’s Distal Volar Radius (DVR) plates offer clear benefits including structural strength, less soft tissue disturbance and the potential for faster recovery as compared to casting, external fixation or other plates. Worldwide, more than 200,000 wrist fractures are treated surgically each year, and more than 50,000 DVR plates have been implanted since the technology was introduced in February 2001.

**DePuy International is bringing forward innovation in hip replacement** that represents significant advancements for patients with hip arthritis and uniquely positions the company as a leader in minimally invasive surgery. This advanced approach includes MICROHIP™ instruments and educational services for a minimally invasive surgical technique that enables surgeons to limit muscle and tissue damage during a replacement procedure; DEPUY PROXIMA™, a hip implant designed to preserve bone and soft tissue, and DEPUY ASR™ XL metal-on-metal bearings that offer larger diameters for improved joint stability and reduced wear.

**Advanced solutions from DePuy Spine, Inc.** include the EXPEDIUM™ Spine System (right), a comprehensive system of implants and instruments designed to help surgeons correct deformities, such as scoliosis, or stabilize the spine in cases of trauma or degenerative disc disease.



Customer focus, technological advances and responsible education help bring greater health care solutions to more patients.



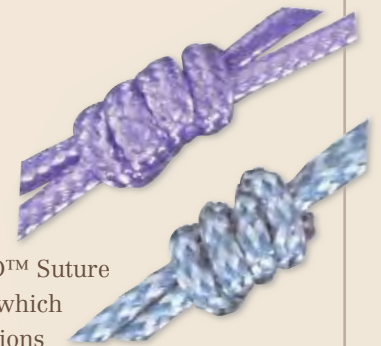
Left: Jeanne, a joint replacement patient, is enjoying life without the pain that plagued her before receiving her knee implant from DePuy Orthopaedics, Inc.

Designed along with leading surgeons, the EXPEDIUM™ is quicker and easier to use than previous systems, while still providing stable, secure fixation of the spine. DePuy Spine is expanding its presence in minimally invasive surgery with three products developed to make spinal surgery less traumatic for patients. When used together, the PIPELINE™ Access System, CONCORDE™ Implant and Instrument System, and the VIPER™ Fixation System provide less invasive access to the spine and controlled placement of implants that stabilize the spine as part of a spinal fusion or decompression procedure.

DePuy Mitek, Inc. introduced ORTHOCORD™ Suture, an orthopaedic suture for knee and shoulder repair with unique product attributes in strength, handling and knot-tying capabilities. DePuy Mitek drew upon the expertise of Ethicon, Inc., which utilizes a unique, proprietary blend of materials and processes. DePuy Mitek has also combined the QUICKANCHOR® Plus

Family with the ORTHOCORD™ Suture to offer three new products, which in addition to multiple indications for arthroscopic shoulder soft tissue repair, may be used in many elbow, hand, foot, wrist, ankle and knee procedures.

ISOCOOL® Bipolar Forceps from Codman & Shurtleff, Inc. enable neurosurgeons to work uninterrupted. Unlike traditional forceps that allow heat to build-up at the tips during coagulation, causing delicate tissue and blood vessels to stick and tear, ISOCOOL® Forceps use a proprietary heat pipe technology to stay cool and clean. This eliminates the need for surgeons to pause to clean forceps during neurosurgical procedures and can lessen thermal spread that may damage surrounding tissue.



**E**xpansion of scientific capabilities and the convergence of technologies broaden the therapeutic benefits of existing products and deliver novel treatment options for complex diseases.



**Left: Centocor Biologics (Ireland) Limited, the biomedicine manufacturing facility under construction in County Cork, Ireland, represents another significant investment for Johnson & Johnson in this region. Targeted to be fully operational by 2010, the state-of-the-art facility will produce products for immunology pioneer Centocor, Inc. for the treatment of immune-mediated inflammatory disorders.**

**The breadth of scientific knowledge and capabilities across our businesses** give Johnson & Johnson companies unparalleled opportunities to collaborate and pursue breakthroughs. Building upon the success of DePuy Biologics, a new center of excellence is expanding the scope of regenerative medicine activities from musculoskeletal products into new therapeutic areas. The group is investigating the potential of transformational technologies such as cell therapy, novel biomaterials, bioactive proteins, and combinations of these, to address diseases and conditions in orthopaedics, urology, gynecology, neurology and cardiovascular medicine. Similarly, work is underway between Veridex, LLC and Johnson & Johnson Pharmaceutical Research & Development, L.L.C. to identify biomarkers and establish data on how an individual's genetics affect the body's response to drugs.

**Commitment to growth in the emerging cardiovascular platform** is represented on many fronts. In a collaboration for the prevention and treatment of thrombosis, Scios Inc., Ortho-McNeil Pharmaceutical, Inc. and Bayer HealthCare will jointly develop and market BAY 59-7939 (Factor Xa

inhibitor), in development for venous thromboembolism (VTE) prevention after major orthopaedic surgery, venous thromboembolism treatment and stroke prevention in atrial fibrillation. Phase III studies in VTE prevention after major orthopaedic surgery have been initiated. If the compound is approved, Scios and Ortho-McNeil Pharmaceutical will share exclusive marketing rights for the cardiology, primary care and hospital specialty markets in the U.S. Bayer will have an option to co-promote the drug in U.S. hospital and specialty markets, and will have sole marketing rights in other countries.

**REMICADE® (infliximab) continues to achieve unprecedented milestones** in the treatment of immune-mediated inflammatory diseases. REMICADE® from Centocor, Inc. received approvals in the U.S. in the treatment of psoriatic arthritis and is the first and only biologic approved in the treatment of ulcerative colitis (UC), a chronic inflammatory bowel disease. REMICADE® also was approved in the European Union for the treatment of moderate to severe plaque psoriasis, a chronic, immune-mediated disease caused when skin cells over-produce and accumulate on the surface, causing itchy, scaly

plaques. Centocor also submitted supplemental Biologics License Applications to the U.S. FDA for REMICADE® for the treatment of moderate to severe plaque psoriasis and for the treatment of pediatric Crohn's disease. REMICADE® has been used to treat nearly 700,000 patients worldwide since it was first approved in 1998.

**IONSYS™** (fentanyl hydrochloride (HCl) Patient-Activated Transdermal System (PATS) 40 mcg/dose) represents the convergence of a pharmaceutical and a delivery system. IONSYS™, an iontophoretic transdermal system for acute postoperative pain in a medically supervised setting, is a compact, needle-free, self-contained, pre-programmed system that offers patient-controlled analgesia. It is the first product in development that incorporates ALZA Corporation's proprietary E-TRANS® drug delivery system, which uses low-level electrical energy to actively transport drugs through intact skin without the use of needles or intravenous lines. Pending approval by the U.S. FDA, Ortho-McNeil, Inc. will market IONSYS™ in the U.S. IONSYS™ will be marketed in the European Union by Janssen-Cilag companies.

**Among recent pharmaceutical product approvals were** LEVAQUIN® (levofloxacin) 750 mg Tablets as a five-day treatment for acute bacterial sinusitis, and RAZADYNE™ ER (galantamine hydrobromide), a once-daily treatment formulation for the symptoms of mild to moderate Alzheimer's disease. Previously named REMINYL® in the U.S., the product was renamed RAZADYNE™ ER to



help avoid confusion with a similarly named prescription product. The once-daily dosing formulation helps make treatment more convenient for patients and their families. Additionally, TOPAMAX® (topiramate) Tablets and TOPAMAX® (topiramate capsules) Sprinkle Capsules received approval as initial monotherapy in patients 10 years of age and older with partial-onset or primary generalized tonic-clonic seizures, the most widely recognized epileptic seizure.

Now approved in 64 countries, VELCADE® (bortezomib) for Injection was approved during 2005 in several countries throughout Asia, Latin America and the Middle East, as well as in Canada and Russia, for treating multiple myeloma in patients who received at least two prior therapies and demonstrated disease progression on the last therapy. VELCADE® also was approved in the U.S. and European Union for second-line use and can now be used earlier to treat patients with multiple myeloma. VELCADE® is being co-developed by Johnson & Johnson Pharmaceutical Research & Development, L.L.C. and Millennium Pharmaceuticals, Inc. Millennium is responsible for the commercialization of VELCADE® in the U.S. Janssen Pharmaceutical K.K. is responsible in Japan, and Janssen-Cilag and Ortho Biotech-affiliated companies are responsible for commercialization in Europe and the rest of the world.

**Cilag GmbH International acquired European marketing and development rights to NORATAK® (nesiritide)** from GlaxoSmithKline (GSK). Nesiritide was developed by Scios Inc. and licensed to GSK in Europe prior to the 2003 Johnson & Johnson acquisition of Scios. Nesiritide is an important treatment option for patients who go to a hospital for treatment of acutely decompensated heart failure that is characterized by shortness of breath while resting, or as a result of minimal activity such as eating, talking or bathing. Janssen-Cilag companies will market the product in Europe. The product is approved in Switzerland and Israel and is marketed there as NORATAK®. In Argentina, Colombia, Dominican Republic, Mexico, Brazil, Curacao and the U.S., it is marketed as NATRECOR®.

**Left: Protein kinases serve as control switches for many cell activities inside the body and also can contribute to both the onset and progression of**

**diseases. Margaret Henson and John Perumattam are members of the Scios research and development teams working on several kinase inhibitor programs.**



**RISPERDAL® (risperidone) has been used by millions of patients worldwide** since it was introduced in 1993 and continues to be a leading treatment option for psychoses. RISPERDAL® is approved in more than 100 countries to treat schizophrenia and bipolar mania. In treating schizophrenia, RISPERDAL® CONSTA® (risperidone) long-acting injection, which is administered every two weeks, offers patients a convenient option to receive their medication and to adhere to therapy. RISPERDAL® CONSTA® was approved in France and Italy in 2005.

**DOXIL® (doxorubicin HCl liposome injection) received full approval** from the U.S. FDA in 2005 for the treatment of ovarian cancer in patients whose disease progresses or recurs after platinum-based chemotherapy. DOXIL®, marketed by Ortho Biotech Products, L.P., originally received accelerated approval for refractory ovarian cancer in 1999. The new label is based on data from a Phase III study that demonstrates the drug's clinical benefit as measured by survival, response rate and time-to-progression. DOXIL® incorporates ALZA Corporation's STEALTH® delivery technology, in which the drug is



surrounded by a coating that allows it to stay in the blood longer than conventional doxorubicin HCl and be given once every four weeks in this patient population. Johnson & Johnson Pharmaceutical Research & Development, L.L.C. and ALZA collaborate on the clinical development of DOXIL®.

**In 2005, Ortho-McNeil Pharmaceutical, Inc., a leader in the fight against drug-resistant bacterial infections,** acquired Peninsula Pharmaceuticals, Inc., a biopharmaceutical company focused on developing and commercializing antibiotics to treat life-threatening infections. Peninsula's portfolio includes doripenem, an investigational antibiotic that addresses serious hospital-based infections and is in Phase III clinical trials. Doripenem and ceftobiprole, an anti-MRSA cephalosporin in Phase III clinical trials for complicated skin and skin structure infections and hospital-acquired pneumonia, will expand Ortho-McNeil's anti-infective portfolio, which already includes the leading quinolone antibiotic, LEVAQUIN® (levofloxacin). Ceftobiprole was obtained in a development and mar-

**The discovery and development of therapeutically diverse compounds to address unmet needs can change the face of disease and the quality of life.**

The manic episodes associated with bipolar I disorder were difficult for Bill. Now, following treatment that included RISPERDAL® (risperidone), he is able to manage his symptoms and be more like his previous self. An estimated two million Americans suffer from bipolar disorder, also known as manic depression, which typically begins in early adulthood and continues throughout life.







Left: In Mechelen, Belgium, Virco BVBA researchers carry out complex research on HIV and other viruses in the company's Biosafety Level 3 laboratory, one of the largest in Europe. In antiviral experiments, researchers test the resistance of HIV-1 patients' viruses to various antiretroviral drugs.

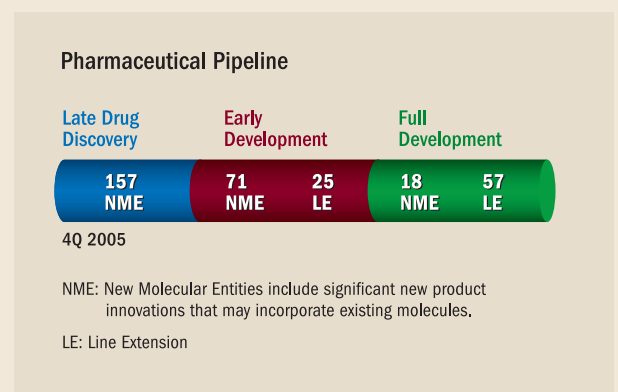
keting agreement between Basilea Pharmaceutica AG and Cilag AG International and Ortho-McNeil, Inc. Johnson & Johnson Pharmaceutical Research & Development, L.L.C. will develop ceftobiprole in collaboration with Basilea, and, pending approval, Ortho-McNeil, Inc. will have U.S. marketing rights.

**Efforts to confront challenges in the evolving HIV/AIDS pandemic** include the development of innovative new compounds, advanced technologies and new program/policy initiatives. Tibotec Pharmaceuticals Ltd. submitted an application to the U.S. FDA, to the European Agency for the Evaluation of Medicinal Products, and to Health Canada for marketing TMC114, an investigational protease inhibitor being studied as a potential treatment for people infected with HIV-1. It is the first time in a decade for an anti-HIV drug that the submissions were based on Phase IIB clinical trial data. TMC114 is the first anti-HIV drug submitted for regulatory approval by a Johnson & Johnson company. Boosted with low-dose ritonavir, TMC114 is in Phase III clinical trials in both patients who have previously been treated as well as patients who have never been treated for HIV-1 infection. A study in pediatric patients is forthcoming.

People around the world who are living with HIV/AIDS are getting access to TMC114 through expanded access programs (EAP). These programs provide early access to TMC114 for patients who are not eligible for Tibotec clinical trials and need this compound to construct a viable treatment regimen. It is expected that approximately 600 sites in up to 50 countries will be involved in the TMC114 EAP coordinated by Tibotec Pharmaceuticals.

**Virco is a diagnostic-pharmacogenomics company providing advanced HIV-1 resistance testing to clinicians and central labs** for the management of HIV infection in individual patients. Virco introduced new integrated clinical cut-offs for its VIRCO® TYPE HIV-1 resistance testing. Adding clinical cut-offs, which identify the levels of drug resistance that reduce response in treated patients, helps clinicians determine how an individual patient's virus will likely respond to drug treatment. This may open up new drug choices and help doctors identify the most effective treatment regimens. Virco has one of the world's largest HIV virology databases, with resistance data for more than 220,000 HIV-1 viruses and clinical outcomes data for more than 13,000 treated patients. In addition to helping doctors and patients make the best personalized treatment choices, Virco's knowledge base continues to progress HIV science and also benefits other Johnson & Johnson companies that are working on new compounds and searching for virology breakthroughs.

**Driving long-term growth through research and development** is an outcome of a strategy that melds the innovation of small and large molecule capabilities with the advances of drug delivery technology. Significant research activities contribute strength and diversity to the pipeline of Johnson & Johnson pharmaceutical companies in all three stages across key therapeutic areas such as oncology, immune-mediated inflammatory disease, infectious disease, pain management, anemia, diseases of the central nervous system, virology and cardiovascular disease. The R&D strategy also encourages a



collaborative environment that draws on collective resources and knowledge. An Asia Pacific/Latin America joint initiative is aligning and integrating capabilities, processes and efficiencies to optimize the development and introduction of novel targets and innovative technologies to more effectively meet the unmet needs of billions of people across the regions.

**McNeil Consumer Healthcare** Division of McNeil-PPC, Inc. celebrated the 50th anniversary of **TYLENOL®** acetaminophen in 2005. **TYLENOL®** Elixir for children was the first aspirin-free prescription pain reliever. What began as a children's fever reducer has grown into a franchise of many of well-known products that treat a variety of pain types. The **TYLENOL®** brand continues its market leadership and legacy of innovation with new products such as Adult Extra Strength **TYLENOL®** Rapid Release Gels



and **TYLENOL®** Sore Throat Liquid with Cool Burst. **TYLENOL®** remains one of the most trusted and recognized brands worldwide.

**LACTAID® Fast Act** from McNeil Nutritionals, LLC is a dietary supplement that contains the natural lactase enzyme a body may lack to digest dairy products. It works with the body to break down the lactose found in dairy products so that consumers can enjoy dairy products without stomach discomfort. With its revolutionary technology, **LACTAID®** Fast Act dissolves faster, so it goes to work sooner and breaks down more lactose than any ultra strength product available. It comes in easy-to-swallow caplets and Vanilla Twist-flavored chewable tablets, which are convenient to carry throughout the day so people with lactose intolerance have the freedom to enjoy the taste and healthy benefits of dairy products anytime, anywhere. Lactose intolerance is most common among Hispanics, African Americans, Asians and Native Americans.



Above: **McNeil Nutritionals, LLC** and **PTO Today, Inc.**, a parent-teacher organization dedicated to serving elementary and middle schools in the U.S., are partnering to promote school bake sales and increased parental involvement. The effort encourages students and parents to raise money for their schools by baking lower-sugar treats with **SPLENDA®** Sugar Blend for Baking. The voluntary participation program provides reduced-sugar recipes for school bake sales, tips on how to incor-

porate fitness into a healthy eating plan, a complimentary bake sale kit, and information on how to host a successful bake sale. The Illinois elementary school shown was one of the first to participate.

Right: **NEUTROGENA®** products are becoming available in select premium department stores in India. Shown at a special counter in Mumbai, a beauty counselor offers personalized skin care recommendations to consumers.

**From heritage brands to new categories, research-driven products contribute to new dimensions in health and personal care.**



**SPLENDA® Brown Sugar Blend** from McNeil Nutritionals, LLC is a first-of-its-kind reduced-calorie brown sugar product. This innovative product offers a

proprietary blend of brown sugar and SPLENDA® Brand Sweetener, or sucralose. A serving of SPLENDA® Brown Sugar Blend has half the calories, half the sugar, and half the carbohydrates of brown sugar and can be used anywhere brown sugar is used. This new addition to the SPLENDA® Brand family of products provides yet another great tasting way to reduce sugar calories in a greater variety of places.

**The science-based skin care technologies** from Johnson & Johnson Consumer Products Company Division of Johnson & Johnson Consumer Companies, Inc., the OrthoNeutrogena division of Ortho-McNeil Pharmaceutical, Inc., and Centocor, Inc. were showcased at the 63rd Annual Meeting of the American Academy of Dermatology in 2005. Proprietary dermatological technologies and applications in addressing key needs



were highlighted, including Feverfew PFE™ for sensitive skin, retinol for anti-aging, soy for even tone and texture, and oatmeal for relief of dry skin. Centocor also presented Phase III data for REMICADE® (infliximab) that demonstrates rapid and significant improvement of plaque psoriasis, a disease that affects as many as 4.5 million people in the U.S. As the skin care category evolves toward advanced cosmetic applications and therapies for diseases and disorders, the scientific expertise across Johnson & Johnson dermatological companies provides a solid foundation for helping consumers achieve and maintain healthy, beautiful skin.



**As the leader in ACTIVE NATURALS™, AVEENO®** utilizes ingredients derived from nature to optimize skin's health and beauty. In 2005, AVEENO® brought new natural technologies to facial care and expanded into lip care and sun care. To address the needs of women with sensitive skin, the new AVEENO® Ultra-Calming line captures the benefits of naturally calming Feverfew, an ingredient related to chamomile, and is clinically proven to visibly reduce redness in as little as one week. AVEENO® ESSENTIAL MOISTURE™ Lip Conditioner with SPF15 and AVEENO® CONTINUOUS PROTECTION Sunblock Lotion are also among the latest introductions to the AVEENO® line. AVEENO® has been recommended by dermatologists and pediatricians for 60 years.

**Introduced in China in late 2004, the NEUTROGENA® brand continues a successful expansion,** bringing skin care benefits and greater choices to more consumers in major cities. NEUTROGENA® acne, facial cleanser and sun protection products are number one dermatologist-recommended, based on surveys in key launch cities.

**Leadership brings with it opportunity and the responsibility to understand and meet the needs of consumers in the markets we serve.**



The NEUTROGENA® VISIBLY CLEAR™ line of cleansing and acne products, which entered the European market in 2004, has become the number one medicated brand in France and the number two medicated brand in Germany. NEUTROGENA® VISIBLY CLEAR™ was developed especially for young skin. It offers a combination of effective skin-cleansing properties with plant extracts for calming benefits.

**NEUTROGENA® ADVANCED SOLUTIONS™ products are meeting needs** in the expansive cosmetic dermatology category. Dermatologists and salon professionals recommend microdermabrasion as a highly effective way to promote surface cellular renewal and rejuvenate the complexion with lasting results. The NEUTROGENA® ADVANCED SOLUTIONS™ MicroDermabrasion kit is a patented system for professional-level microdermabrasion results at home and has rapidly gained market leadership.



**A breakthrough collection of baby skin care products,** JOHNSON'S® SOOTHING NATURALS™ combines the gentleness of JOHNSON'S® with beneficial plant-derived ingredients that contain a patent-pending complex of all four forms of vitamin E, olive leaf extract, minerals and essential amino acids, and emollients. The JOHNSON'S® Skin Maturation Study, an in-depth study of infant skin, guided the development of JOHNSON'S® SOOTHING NATURALS™. This groundbreaking research into the structure and function of infant skin found that babies' skin is rapidly changing during the first years of life. Based on these findings, the JOHNSON'S® SOOTHING NATURALS™ line was created to maintain the integrity of the developing skin barrier and to provide moisture critical to healthy skin. The line includes lotion, cream, wash, balm, and hair and body wash.

**The long-term leadership and growth of the JOHNSON'S® Baby brand** is based on a commitment to continually find better ways to serve parents and their children. Building consumer knowledge is also key to greater opportunities in emerging markets, such as China, India, Russia and Brazil, where birth rates are high and needs differ from those in developed markets. By focusing on in-depth consumer understanding, professional programs and consumer education, enhanced distribution channels, and product offerings tailored to local needs and consumer value, our businesses are achieving significant growth across diverse markets and economic spectrums.

**BabyCenter, L.L.C., the most popular online resource for new and expectant parents,** has helped millions of parents raise happy, healthy children since its launch in 1997. In 2005, it launched its first book, *The BabyCenter® Essential Guide to Pregnancy and Birth*. The company





Above: Vida Nuestra, a mobile health care program featuring 15 consumer brands from seven Johnson & Johnson companies, traveled across the U.S. on a 34-week tour bringing health information to Hispanic communities. The trailer exhibit offered an interactive bilingual educational experience depicting the home of the fictional Bueno family. As visitors passed through each room of the trailer, they received related health information, from how the whole family can benefit from the use of **TYLENOL®** brand products, to the use of **SPLENDA®** Brand Sweetener in the kitchen and **JOHNSON'S®** Baby products in the nursery. The exhibit included an outdoor area for health assessments such as diabetes risk assessment and blood pressure screening.

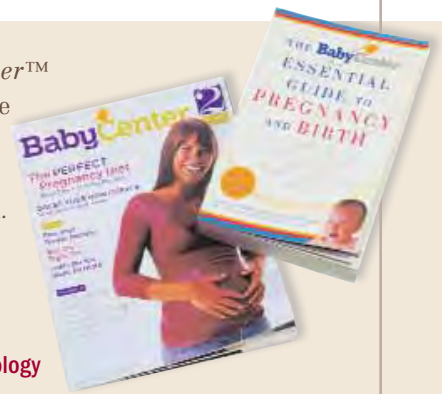
Left: In emerging markets such as São Paulo, Brazil, enhancing value and meeting diverse needs help more parents provide the trusted quality of **JOHNSON'S®** Baby products to their children.

Right: More than 100 billion **BAND-AID®** Brand Adhesive

Bandages have been produced since the bandage was invented in 1920, and the brand continues to garner trust from consumers and health care professionals around the world. In Japan, integrated advertising and educational programs communicate the wound care science behind products such as **BAND-AID®** Brand **KIZUPOWERPAD™**, leading to dramatic gains in market share.



also introduced **BabyCenter™ Magazine**, with each issue targeted to women at a particular stage of pregnancy or new motherhood. **BabyCenter™ Magazine** is the first and only stage-based print magazine.



**Natural ingredients and technology**

advances in the sanitary protection lines are addressing needs and driving growth. **CAREFREE®** Aloe pantliners, available in Europe, feature natural aloe vera and provide gentle, everyday freshness. In the U.S. and Australia, **STAYFREE®** Advanced Protection, with the unique **DRYTECH SYSTEM™**, is the first **STAYFREE®** line developed specifically to protect against both menstrual and bladder leaks. Meanwhile, **o.b.® PROCOMFORT™**, a full range of tampons now available in Europe, offers the best combination of comfort and protection available with the patented **SILK TOUCH™** cover that provides easier insertion.

**The 85th anniversary of BAND-AID® Brand Adhesive Bandages**, a line that set the standard for trusted quality products, was highlighted by innovation and growth around the world. The iconic **BAND-AID®** Brand Adhesive Bandages base product line was reinvented with **COMFORT-FLEX™** technology, combining a revolutionary adhesive material with a new tapered shape to prevent curling or falling off.

**REACH® Fresh & Clean from Personal Products Company Division of McNeil-PPC, Inc.** is the company's first manual toothbrush with a breakthrough two-in-one design. Dual-sided technology combines interdental, bi-level bristles to easily and comfortably brush plaque and bacteria from the teeth, and a soft rubber tongue freshener on the back of the brush head to safely and gently remove germs, which



Creating health solutions requires a culture of caring for people and for communities.

The international commitment to the Olympic movement by the Johnson & Johnson Family of Companies reflects the shared values of teamwork, the pursuit of excellence and service to our communities. In a partnership intended to deepen strong, established ties in China, Italy, the U.S. and around the world, the Johnson & Johnson companies became an official partner of the Beijing 2008 Olympic Games and the 2008 Para-Olympic Games, official health care products sponsor of the Torino 2006 Olympic Winter Games, official health care products partner of the United States Olympic Committee, and the official health care products sponsor of more than 20 national Olympic teams. The partnership includes products from across Johnson & Johnson consumer, pharmaceutical, and medical devices and diagnostics companies and creates a unique platform for providing enhanced health education, services and care to people around the world.

In sponsoring the Beijing 2008 Olympic Games, Johnson & Johnson reaffirms its long-term commitment to China. For two decades, Johnson & Johnson companies have been working with Chinese partners to help increase access to quality health care, enhance medical facilities, train more health professionals, and heighten awareness of important health care issues. The companies have also been recognized as employers of choice. Johnson & Johnson Medical (China) Ltd. was voted as one of the Top 10 Best Employers in Asia in 2005, as well as one of the Top 10 Best Employers in China for the second consecutive time, by global human resources consultant Hewitt Associates in partnership with *21Century Business Herald*. Xian-Janssen Pharmaceutical Ltd., the leading foreign pharmaceutical company in China,

can cause bad breath, from hard-to-reach areas of the tongue. It is an effective way to achieve total mouth cleanliness with an all-in-one product.

**Personal Products Company Division of McNeil-PPC, Inc.** acquired the consumer and professionally dispensed REMBRANDT® Brand tooth whitening products, including whitening toothpastes, whitening strips, whitening systems and mouth rinses. The acquisition of REMBRANDT® Brand products continues a tradition of providing pioneering oral care solutions to consumers and dental professionals.

Below: At a special signing ceremony in Beijing, William Weldon, Chairman and Chief Executive Officer, Johnson & Johnson, described the official partnership and multi-national commitment to the Olympic movement as an opportunity to deepen strong, established ties and to enhance health education, services and care in China, throughout Europe and the U.S., and around the world.

Right: With support from the partnership between Johnson & Johnson and the Elizabeth Glaser Pediatric AIDS Foundation, a health care worker at the Freedom Foundation in Bangalore, India, counsels mothers on how to prevent transmitting the HIV virus to their children. India has the largest number of people living with HIV outside South Africa.





was recognized as one of the Top 10 Employers of 2005 by China Central TV, which reaches 84 percent of the Chinese population.

**Improving the scope and quality of health care for women, children and families** affected by the global HIV/AIDS pandemic is a major focus of philanthropic activity for Johnson & Johnson companies. According to the United Nations Joint Programme on HIV/AIDS, approximately 700,000 children around the world become infected with HIV every year, mainly through mother-to-child transmission during pregnancy and breast-feeding. Johnson & Johnson partners with the Elizabeth Glaser Pediatric AIDS Foundation's Call to Action Project to provide preventing mother-to-child transmission programs, which bring critical health care services to pregnant women, new mothers and newborns. The partnership supports training of health care workers, the delivery of HIV counseling, testing and critical drug interventions at nearly 200 health care delivery sites in China, Russia, India, Malawi, the Republic of Georgia, Zimbabwe and the Dominican Republic.

**In China, nearly 40,000 people each year die from leukemia,** according to the Red Cross Society of China (RCSC). Bone marrow transplants provide an important treatment

option, but matching donors with patients remains a challenge. Johnson & Johnson companies in China have partnered with the RCSC to build awareness for its Hematopoietic Stem Cell Donor Program. Through a broad media campaign, the program has expanded its databank of potential bone marrow donors from 6,000 in 2002 to more than 300,000 at present, significantly enhancing the possibility of a successful match for four million Chinese patients awaiting donations. More than 1,900 associates from Xian-Janssen Pharmaceutical Ltd. and other Johnson & Johnson companies in China have registered with the databank.

**Since the San Francisco earthquake of 1906, Johnson & Johnson companies have aided** the victims of catastrophic events around the world. Today, in partnership with nonprofit organizations like MAP International, AmeriCares and Direct Relief International, the Company responds by providing medical supplies stocked in advanced and stored in "ready now" disaster relief modules. In the aftermath of the tsunami in Southeast Asia and Hurricane Katrina in the U.S., the "ready now" program enabled modules to reach affected areas quickly. At the same time, employees of Johnson & Johnson companies throughout the affected regions volunteered to provide

hands-on assistance to victims. Johnson & Johnson and its companies matched the donations of their employees to such relief groups as the American Red Cross, America's Second Harvest and Habitat for Humanity.

**Commitment to environmental excellence and global sustainable development** is reflected in the efforts of Johnson & Johnson companies to improve energy efficiency and harness renewable resources. Since 2000, Tasmanian Alkaloids Pty. Ltd., producer of active pharmaceutical ingredients, has worked with a third party in Australia to use more than 5,000 tons of poppy seed "waste" as a renewable fossil fuel substitute each year. In addition to reducing carbon dioxide emissions by nearly 60,000 tons between 2000 and 2004, the project has diverted more than 26,000 tons of waste from local landfills.

**Field sales associates and other employees who use company vehicles** participate in a comprehensive safety training and awareness program developed in-house. Since the program's inception in 1994 the fleet has grown by more than 40 percent. Over the same period, the rate of accidents per million miles driven has been reduced by more than 40 percent. As a testament to the efficacy and success of the program, more than 25 major corporations around the world have adopted the Johnson & Johnson Fleet Safety system.

Johnson & Johnson also established a target of reducing emissions per kilometer driven by 30 percent between 2003 and 2010 for its global automobile fleet. To reach this goal, the companies are using more fuel-efficient vehicles and alternate fuels when they are available. By year-end 2006, it is expected that approximately 600 hybrid electric vehicles will be on the road, with an additional 1,000 on order.



**Above:** In California's Silicon Valley, ALZA Corporation has partnered with the city of Mountain View to purchase methane gas from a municipal landfill. The gas will serve as fuel for a cogeneration system, providing the ALZA campus with more than half of its energy requirements. Over the first 10 years of the project, this will be equivalent to powering about 1,900 homes and reducing carbon

dioxide emissions by an average of seven million metric tons per year. ALZA Engineer Harry Lee inspects the unit prior to its going online.

**Left:** Dedicated in October 2005, the 505-kilowatt solar tracking system at Johnson & Johnson Consumer Companies, Inc., in Skillman, New Jersey, is one of the largest ground-mounted solar energy systems in North America. Covering almost three acres, the photovoltaic modules follow the sun from early morning to late afternoon, converting sunlight directly into electricity for use by the facility. The resulting reduction in carbon dioxide emissions is equivalent to removing approximately 1,400 cars from New Jersey's roadways.





Information about products from Johnson & Johnson companies is available on the following Web sites and on [www.jnj.com](http://www.jnj.com).

Please note, offers and information may be specific to the Web site country of origin.

To learn about the latest breakthrough in coronary stent technology and download a patient guide for discussion with your cardiologist, visit [www.cypherusa.com](http://www.cypherusa.com)

For information about hernias and hernia repair, visit [www.herniasolutions.com](http://www.herniasolutions.com)

Learn more about minimally invasive solutions to gynecologic health issues at [www.gynecare.com](http://www.gynecare.com)

New surgical products for a range of surgical procedures that give patients the best of care with reduced trauma is available at [www.ethiconendo.com](http://www.ethiconendo.com)

Find the right ACUVUE® Brand Contact Lenses for you by using the interactive ACUVUE® Lens Advisor at [www.acuvue.com](http://www.acuvue.com)

For diabetes help and support, join the free ONETOUCH® Gold program for expert articles, coupons, recipes, and personalized meal and fitness planning tools at [www.OneTouchGold.com](http://www.OneTouchGold.com)

For information about treatment options for advanced osteoarthritis, visit [www.jointreplacement.com](http://www.jointreplacement.com)

Sign-up to receive helpful information about Crohn's disease, ulcerative colitis, ankylosing spondylitis, psoriatic arthritis or rheumatoid arthritis at [www.remicade.com](http://www.remicade.com)

Learn how LEVAQUIN® is used to treat infections at [www.levaquin.com](http://www.levaquin.com)

For more information about Alzheimer's disease and early warning signs, visit [www.razadyne.com](http://www.razadyne.com)

Do your migraines seem like an endless cycle? Learn more about migraine prevention medication at [www.topamax.com](http://www.topamax.com)

If you or a loved one has been diagnosed with bipolar disorder or schizophrenia, you can find information and resources at [www.mentalwellness.com](http://www.mentalwellness.com)

For more information about ovarian cancer, risk factors, symptoms and treatment options, visit [www.doxil.com](http://www.doxil.com)

[www.cancer.com](http://www.cancer.com) provides a comprehensive listing of credible Web sites for those whose lives are touched by cancer.

ACIPHEX® treats persistent, frequent heartburn and other symptoms associated with acid reflux disease. Visit [www.aciphex.com](http://www.aciphex.com) for information.

Visit [www.ultram-er.com](http://www.ultram-er.com) to learn about ULTRAM® ER, the first extended release tramadol product approved for relief of moderate to moderately severe chronic pain in adults who require around-the-clock pain treatment for an extended period of time.

Get expert advice on lactose intolerance and download delicious recipes made with LACTAID® Brand products at [www.lactaid.com](http://www.lactaid.com) or [www.lactaidenespanol.com](http://www.lactaidenespanol.com)

Purchase your favorite SPLENDA® Sweetener products and find great reduced calorie recipes at [www.splenda.com](http://www.splenda.com), or learn more about hosting a successful bake sale at [www.schoolbakesales.com](http://www.schoolbakesales.com)

Discover nature's secret to healthy, beautiful skin for your face, your body, your lips and your baby at [www.aveeno.com](http://www.aveeno.com)

Get your personal guide to healthy beauty, choose the NEUTROGENA® products that are right for you, and learn about special offers at [www.neutrogena.com](http://www.neutrogena.com)

Discover the new line of skin care products formulated with beneficial plant-derived ingredients that meet the unique needs of baby's skin at [www.johnsonsbaby.com/soothingnaturals](http://www.johnsonsbaby.com/soothingnaturals)

They're fast. They're fun. Send a friend an eGreeting card today, courtesy of CAREFREE® at [www.carefreeliners.com](http://www.carefreeliners.com)

BabyCenter, L.L.C. is the most popular online resource for new and expectant parents. For more information, visit [www.babycenter.com](http://www.babycenter.com)

Learn more about BAND-AID® Brand COMFORT-FLEX™ Adhesive Bandages and the BAND-AID® Brand story by visiting [www.bandaid.com](http://www.bandaid.com)

Find coupons and special offers on REACH® Brand oral care products for healthy teeth and gums at [www.mrreach.com](http://www.mrreach.com)

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The following trademarks of other companies also appear in this report:

ACIPHEX/PARIET (Eisai Co., Ltd.), BENECOL (Raisio Group), ALAMAST (Santen Pharmaceutical Co., Ltd.), BETIMOL (Santen Pharmaceutical Co., Ltd.), LEVAQUIN (Daiichi Pharmaceutical Co.), NORATAK (GlaxoSmithKline), PEPCID (Merck & Co., Inc.), QUIXIN (Santen Pharmaceutical Co., Ltd.), VELCADE (Millennium Pharmaceuticals, Inc.).

## BOARD OF DIRECTORS

First column, from top:

**William C. Weldon** Chairman, Board of Directors, and Chief Executive Officer

**Michael M. E. Johns, M.D.** Executive Vice President for Health Affairs, Emory University; Chief Executive Officer of the Robert W. Woodruff Health Sciences Center, Emory University; Chairman of Emory Healthcare, Emory University

**Mary Sue Coleman, Ph.D.**

President, University of Michigan

**Arnold G. Langbo** Retired Chairman and Chief Executive Officer, Kellogg Company

**Charles Prince** Chief Executive Officer, Citigroup Inc.

Second column, from top:

**Robert J. Darretta** Vice Chairman, Board of Directors, and Chief Financial Officer

**David Satcher, M.D., Ph.D.** Interim President, Morehouse School of Medicine; Former U.S. Surgeon General

**Ann D. Jordan** Former Director, Social Services Department, Chicago Lying-In Hospital

**James G. Cullen** Retired President and Chief Operating Officer, Bell Atlantic Corporation

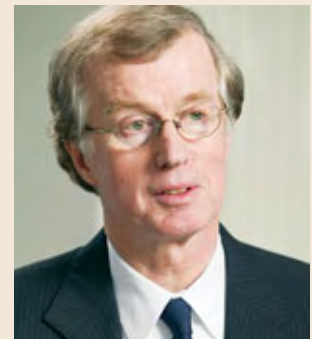
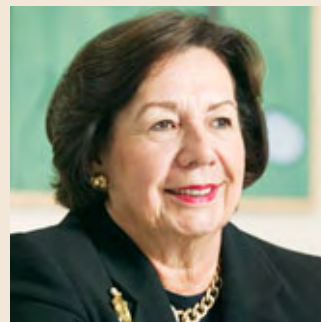
Third column, from top:

**Christine A. Poon** Vice Chairman, Board of Directors, and Worldwide Chairman, Medicines & Nutritionals Group

**Leo F. Mullin** Retired Chairman and Chief Executive Officer, Delta Air Lines, Inc.

**Susan L. Lindquist, Ph.D.** Member and Former Director, Whitehead Institute for Biomedical Research; Professor of Biology, Massachusetts Institute of Technology

**Steven S. Reinemund** Chairman and Chief Executive Officer, PepsiCo.



### Audit

The Audit Committee, comprised entirely of independent, non-employee Directors, helps the Board oversee the Company's accounting and reporting practices. It recommends independent public accountants for appointment by the Board and reviews their performance; monitors the adequacy of internal accounting practices, procedures and controls; and reviews all significant changes in accounting policies.

James G. Cullen, Chairman  
Mary Sue Coleman, Ph.D.  
Leo F. Mullin

### Compensation & Benefits

The Compensation & Benefits Committee, comprised entirely of independent, non-employee Directors, reviews the compensation philosophy and policy of the non-Board Management Compensation Committee with respect to executive compensation (except for members of the Executive Committee), fringe benefits and other compensation matters. The Committee also administers the Company's long-term incentive plans and determines the compensation of the members of the Executive Committee. Additionally, the Committee reviews the management of the various retirement, pension, health and welfare plans that cover substantially all employees of the Company's domestic operations and employees of certain international subsidiaries.

Arnold G. Langbo, Chairman  
Michael M. E. Johns, M.D.  
Ann D. Jordan  
Steven S Reinemund

### Finance

The Finance Committee exercises the management authority of the Board during the intervals between Board meetings.

William C. Weldon, Chairman  
Robert J. Darretta  
Christine A. Poon

### Nominating & Corporate Governance

The Nominating & Corporate Governance Committee, comprised entirely of independent, non-employee Directors, is responsible for overseeing corporate governance matters, reviewing possible candidates for Board membership and recommending nominees for election. The Committee is also responsible for overseeing the process for performance evaluations of the Board and its committees. Additionally, the Committee reviews the Company's management succession plans and executive resources.

Ann D. Jordan, Chairman  
James G. Cullen  
Arnold G. Langbo  
Steven S Reinemund

### Public Policy

The Public Policy Advisory Committee reviews the Company's policies, programs and practices on public health issues regarding the environment and the health and safety of employees. The Committee also reviews the Company's governmental affairs and policies and other public policy issues facing the Company. The Committee advises and makes recommendations to the Board on these issues as appropriate. The Public Policy Advisory Committee is comprised of Board members and the Company's General Counsel and Vice Presidents for Corporate Affairs, Government Affairs and Policy, and Technical Resources.

Leo F. Mullin, Chairman  
Brenda S. Davis, Ph.D.  
Russell C. Deyo  
Thomas M. Gorrie, Ph.D.  
Susan L. Lindquist, Ph.D.  
Brian D. Perkins  
David Satcher, M.D., Ph.D.

### Science & Technology

The Science & Technology Advisory Committee is comprised of Board members and the Company's Vice President, Science and Technology. It advises the Board on scientific matters, including major internal projects, interaction with academic and other outside research organizations, and the acquisition of technologies and products.

David Satcher, M.D., Ph.D., Chairman  
Mary Sue Coleman, Ph.D.  
Michael M. E. Johns, M.D.  
Susan L. Lindquist, Ph.D.  
Theodore J. Torphy, Ph.D.

**CORPORATE OFFICERS****William C. Weldon**

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Chief Executive Officer  
Chairman, Executive Committee

**Robert J. Darretta**

Vice Chairman, Board of Directors  
Chief Financial Officer  
Executive Committee

**Christine A. Poon**

Vice Chairman, Board of Directors  
Worldwide Chairman,  
Medicines & Nutritionals Group  
Executive Committee

**J. Andrea Alstrup**

Vice President, Advertising

**Stephen J. Cosgrove**

Corporate Controller

**Brenda S. Davis, Ph.D.**

Vice President, Technical Resources  
Corporate Compliance Officer

**Russell C. Deyo**

Vice President, General Counsel  
Chief Compliance Officer  
Executive Committee

**Michael J. Dormer**

Worldwide Chairman,  
Medical Devices Group  
Executive Committee

**Kaye I. Foster-Cheek**

Vice President, Human Resources  
Executive Committee

**Colleen A. Goggins**

Worldwide Chairman,  
Consumer & Personal Care Group  
Executive Committee

**Thomas M. Gorrie, Ph.D.**

Vice President,  
Government Affairs and Policy

**JoAnn Heffernan Heisen**

Vice President, Diversity

**David P. Holveck**

Vice President,  
Corporate Development

**Raymond C. Jordan**

Vice President, Public Affairs &  
Corporate Communications

**John A. Papa**

Treasurer

**Brian D. Perkins**

Vice President,  
Corporate Affairs

**Per A. Peterson, M.D., Ph.D.**

Chairman, Research & Development  
Pharmaceuticals Group  
Executive Committee

**Joseph C. Scodari**

Worldwide Chairman,  
Pharmaceuticals Group  
Executive Committee

**Theodore J. Torphy, Ph.D.**

Vice President,  
Science and Technology

**Michael H. Ullmann**

Secretary  
Associate General Counsel

**Nicholas J. Valeriani**

Worldwide Chairman,  
Cardiovascular Devices  
and Diagnostics Group  
Executive Committee

**Donnie Young**

Vice President,  
Worldwide Operations

**COMPANY GROUP CHAIRMEN****Supratim Bose****Donald M. Casey****Rosemary A. Crane****Roy N. Davis****Seth H. Z. Fischer****Carlos A. Gottschalk****John H. Johnson****Guy J. Lebeau, M.D.****Karen A. Licitra****William L. McComb****Sheri S. McCoy****Eric P. Milledge****Patrick D. Mutchler****David Y. Norton****Jose V. Sartarelli, Ph.D.****Curt M. Selquist****Michael E. Sneed****Pericles P. Stamatiades****Paul Stoffels, M.D.**

The Executive Committee of Johnson & Johnson is the principal management group responsible for the operations and allocation of the resources of the Company. This Committee oversees and coordinates the activities of the Consumer, Pharmaceutical and Medical Devices and Diagnostics business segments. Each subsidiary within the business segments is, with some exceptions, managed by citizens of the country where it is located.

Johnson & Johnson is governed by the values set forth in Our Credo, created by General Robert Wood Johnson in 1943. These principles have guided us over the years and continue to set the tone of integrity for the entire Company. At all levels, the employees of Johnson & Johnson are committed to the ethical principles embodied in Our Credo and these principles have been woven into the fabric of the Company.

The Credo values extend to our accounting and financial reporting responsibilities that we have to our shareholders and investors. We, the management of Johnson & Johnson, are responsible for the integrity and objectivity of the accompanying financial statements and related information. We are also responsible for ensuring that financial data are reported accurately and in a manner that facilitates the understanding of this data.

As evidence of our commitment to this responsibility, we maintain a well-designed system of internal accounting controls, encourage strong and effective corporate governance from our Board of Directors, continuously review our business results and strategic choices and focus on financial stewardship.

Our corporate staff of professionally trained internal auditors, who travel worldwide, monitor our system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions and events are recorded properly. Our internal controls include self-assessments and internal reviews of our operating companies.

While most of the groundwork surrounding compliance with Section 404 of the Sarbanes-Oxley Act of 2002 was firmly in place, the Company continued to invest significant time and resources in 2005 to ensure continued compliance. Based on the work performed, we have concluded that our internal control over financial reporting was effective as of January 1, 2006. We refer you to Management's Report on Internal Control over Financial Reporting on page 64.

We also require the management teams of our operating companies to certify their compliance with our Policy on Business Conduct and we have a systematic program to ensure compliance with these policies at all employee levels.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, is engaged to perform an integrated

audit of our consolidated financial statements and internal control over financial reporting. Their Report of Independent Registered Public Accounting Firm is on page 65.

Our Audit Committee of the Board of Directors is composed solely of independent directors with the financial knowledge and experience to provide appropriate oversight. We review internal control matters and key accounting and financial reporting issues with the Audit Committee on a regular basis. In addition, the independent auditors, the General Counsel and the Vice President of Internal Audit regularly meet in private sessions with our Audit Committee to discuss the results of their work including observations on the adequacy of internal financial controls, the quality of financial reporting and confirmation that they are properly discharging their responsibilities and other relevant matters.

Our Executive Committee is continuously involved in the review of financial results as well as developing and understanding strategies and key initiatives for long-term growth. Our intent is to ensure that we maintain objectivity in our business assessments, constructively challenge the approach to business opportunities and issues and monitor our business results and the related controls.

Our consolidated financial statements and financial data that follow have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based upon our best judgments. We are committed to present and discuss results of operations in a clear and transparent manner in order to provide timely, accurate and understandable information to our shareholders.



William C. Weldon  
Chairman, Board of  
Directors, and Chief  
Executive Officer



Robert J. Darretta  
Vice Chairman, Board of  
Directors, and Chief  
Financial Officer

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## Organization and Business Segments

### Description of the Company and Business Segments

The Company and its subsidiaries have approximately 115,600 employees worldwide engaged in the manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world and its primary focus has been on products related to human health and well-being.

The Company is organized into three business segments: Consumer, Pharmaceutical, and Medical Devices and Diagnostics. The Consumer segment manufactures and markets a broad range of products used in the baby and child care, skin care, oral and wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. These products are marketed principally to the general public and sold both to wholesalers and directly to independent and chain retail outlets throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-fungal, anti-infective, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, psychotropic (central nervous system) and urology areas. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use by the general public. The Medical Devices and Diagnostics segment includes a broad range of products used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal care products; Ethicon's wound care and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring products; Ortho-Clinical Diagnostics' professional diagnostic products and Vision Care's disposable contact lenses.

The Company's structure is based upon the principle of decentralized management. The Executive Committee of Johnson & Johnson is the principal management group responsible for the operations and allocation of the resources of the Company. This Committee oversees and coordinates the activities of the Consumer, Pharmaceutical and Medical Devices and Diagnostics business segments. Each subsidiary within the business segments is, with some exceptions, managed by citizens of the country where it is located.

In all of its product lines, the Company competes with companies both large and small, located throughout the world. Competition is strong in all product lines without regard to the number and size of the competing companies involved. Competition in research, involving the development and the improvement of new and existing products and processes, is particularly significant. The development of new and improved products is important to the Company's success in all areas of its business. This also includes protecting the Company's portfolio of intellectual property. The competitive environment requires substantial investments in continuing research and multiple sales forces. In addition, the development and maintenance of customer acceptance of the Company's consumer products involves significant expenditures for advertising and promotion.

### Management's Objectives

The Company's objective is to achieve superior levels of capital efficient profitable growth. To accomplish this, the Company's management operates the business consistent with certain strategic principles that have proven successful over time. To this end, the Company participates in growth areas in human health care and is committed to attaining leadership positions in these growth segments through the development of innovative products and services. New products introduced within the past five years accounted for over 33% of 2005 sales. In 2005, \$6.3 billion, or 12.5% of sales were invested in research and development, an increase of \$1.1 billion over 2004. This significant increase reflects management's commitment to the importance of on-going development of new and differentiated products and services, and to sustain long term growth.

With more than 230 operating companies located in 57 countries, the Company views its principle of decentralized management as an asset and fundamental to the success of a broadly based business. It also fosters an entrepreneurial spirit, combining the extensive resources of a large organization with the ability to react quickly to local market changes and challenges.

The Company is committed to developing global business leaders who can drive growth objectives. Businesses are managed for the long term in order to sustain leadership positions and achieve growth that provides an enduring source of value to our shareholders.

Unifying the management team and the Company's dedicated employees in achieving these objectives is the Johnson & Johnson Credo. The Credo provides a common set of values and serves as a constant reminder of the Company's responsibilities to its customers, employees, communities and shareholders. The Company believes that these basic principles, along with its overall mission of improving the quality of life for people everywhere, will enable Johnson & Johnson to continue to be among the leaders in the health care industry.

## Results of Operations

### Analysis of Consolidated Sales

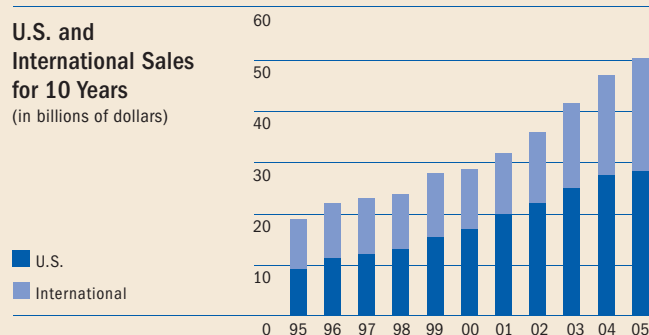
In 2005, worldwide sales increased 6.7% to \$50.5 billion, compared to increases of 13.1% in 2004 and 15.3% in 2003. These sales increases consisted of the following:

Sales increase due to:	2005	2004	2003
Volume	5.4%	8.7	9.4
Price	0.6	1.0	1.3
Currency	0.7	3.4	4.6
Total	6.7%	13.1	15.3

Sales by U.S. companies were \$28.4 billion in 2005, \$27.7 billion in 2004 and \$25.3 billion in 2003. This represents an increase of 2.2% in 2005, 9.9% in 2004 and 12.6% in 2003. Sales by international companies were \$22.1 billion in 2005, \$19.6 billion in 2004 and \$16.6 billion in 2003. This represents an increase of 13.1% in 2005, 18.0% in 2004 and 19.8% in 2003.

### U.S. and International Sales for 10 Years

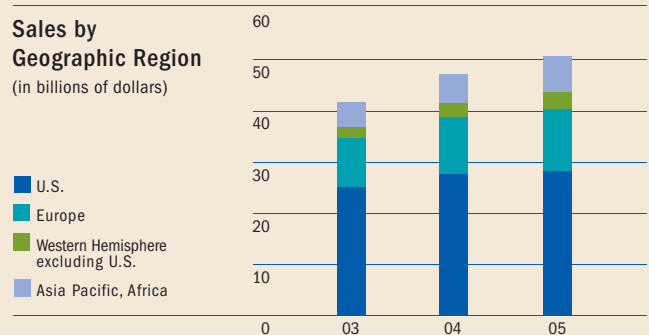
(in billions of dollars)



The five-year compound annual growth rates for worldwide, U.S. and international sales were 11.6%, 10.4% and 13.3%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 10.5%, 12.1% and 8.9%, respectively.

### Sales by Geographic Region

(in billions of dollars)



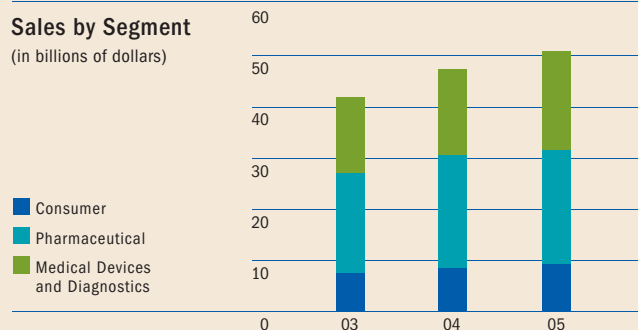
All international geographic regions experienced sales growth during 2005, consisting of 9.3% in Europe, 19.2% in the Western Hemisphere (excluding the U.S.) and 17.6% in the Asia-Pacific, Africa regions. These sales gains include a positive impact of currency fluctuations between the U.S. dollar and foreign currencies in Europe of 0.5%, in the Western Hemisphere (excluding the U.S.) of 9.2% and in the Asia-Pacific, Africa region of 0.8%.

In 2005, the Company did not have a customer that represented 10% of total revenues. In 2004, sales to Cardinal Distribution and McKesson HBOC accounted for 10.2% and 10.0% of total revenues. In 2003, sales to McKesson HBOC accounted for 10.5% of total revenues.

2004 results benefited from the inclusion of a 53rd week. (See Note 1 for Annual Closing Date details.) The Company estimated that the fiscal fourth quarter growth rate in 2004 was enhanced by approximately 2% and the year by approximately 0.5%. The net earnings impact of the additional week in 2004 was negligible.

### Sales by Segment

(in billions of dollars)



### Analysis of Sales by Business Segments

#### Consumer Segment

Consumer segment sales in 2005 were \$9.1 billion, an increase of 9.2%, over 2004 with operational growth accounting for 7.8% of the total growth and 1.4% due to positive currency fluctuations. U.S. Consumer segment sales were \$4.4 billion, an increase of 4.3%. International sales were \$4.7 billion, an increase of 14.2%, with 11.3% as a result of operations and 2.9% due to currency fluctuations over 2004.

Consumer segment sales growth in 2005 was attributable to strong sales performance in the major franchises including Over-the-Counter (OTC) Pharmaceuticals and Nutritionals products, Skin Care, Women's Health and Baby & Kids Care. OTC franchise sales were \$2.7 billion, an increase of 11.8% over 2004. Overall growth in this franchise primarily resulted from the rapid growth of SPLENDA® No Calorie Sweetener in the tabletop category and adult and pediatric analgesics. This sales growth was partially offset by the negative impact of retail restrictions implemented on products containing pseudoephedrine. This will continue to negatively impact the business until products containing pseudoephedrine are reformulated.

The Skin Care franchise sales in 2005 were \$2.4 billion, representing a 12.2% increase over 2004. This was attributable to sales growth in RoC®, AVEENO®, CLEAN & CLEAR® and NEUTROGENA® brand products. The Women's Health franchise

### Major Consumer Franchise Sales:

(Millions of Dollars)

OTC Pharmaceuticals & Nutritionals  
Skin Care  
Women's Health  
Baby & Kids Care  
Other  
Total

	% Change				
	2005	2004	2003	'05 vs. '04	'04 vs. '03
OTC Pharmaceuticals & Nutritionals	\$2,678	2,395	2,044	11.8%	17.2
Skin Care	2,401	2,140	1,797	12.2	19.1
Women's Health	1,568	1,470	1,369	6.7	7.4
Baby & Kids Care	1,561	1,447	1,309	7.9	10.5
Other	888	881	912	0.8	(3.4)
Total	\$9,096	8,333	7,431	9.2%	12.1

grew by 6.7% to \$1.6 billion in 2005, with strong contributions from the K-Y® and STAYFREE® product lines. The Baby & Kids Care franchise grew by 7.9% to \$1.6 billion in 2005. Growth in this franchise was led by the success of the JOHNSON'S® SOFTWASH® and SOFTLOTION™ product lines and BabyCenter.com®.

Consumer segment sales in 2004 were \$8.3 billion, an increase of 12.1% over 2003, with operational growth accounting for 8.8% of the total growth, and 3.3% due to a positive currency impact. U.S. sales increased by 6.5% while international sales increased by 18.7%, with 11.5% due to operational gains and a positive currency impact of 7.2% over 2003. Consumer segment sales in 2003 were \$7.4 billion, an increase of 13.2% over 2002, with 9.4% of the increase due to operational growth and 3.8% due to a positive currency impact. U.S. sales increased by 10.1% while international sales gains were 17.0%, with 8.6% due to operational gains and a positive currency impact of 8.4%.

### Pharmaceutical Segment

Pharmaceutical segment sales in 2005 were \$22.3 billion, an increase of 0.9% over 2004, with 0.4% of this change due to operational growth and the remaining 0.5% increase related to the positive impact of currency. U.S. Pharmaceutical segment sales decreased 3.2% while international Pharmaceutical segment sales increased 9.4%, which included 7.8% of operational growth and 1.6% related to the positive impact of currency.

Pharmaceutical segment sales in 2005 included a benefit from adjustments related to previously estimated performance based rebate allowances and managed care contracts. These adjustments were less than 1.0% of sales in both 2005 and 2004.

Sales growth within the segment was led by strong performances from RISPERDAL® (risperidone), REMICADE® (infliximab), TOPAMAX® (topiramate) and LEVAQUIN® (levofloxacin). However, this growth was offset by generic competition related to DURAGESIC® (fentanyl transdermal system), ULTRACET® (tramadol hydrochloride/acetaminophen), SPORANOX® (itraconazole) and hormonal contraceptives.

A key driver of growth for the segment in 2005 was the continued success of RISPERDAL® (risperidone), and RISPERDAL® CONSTA® (risperidone), a long acting injection medication that treats the symptoms of schizophrenia. These products achieved \$3.6 billion in sales, an increase of 16.5% over the prior year. Ongoing country approvals for the use of RISPERDAL® for additional indications have been a key factor in product growth.

PROCRT® (Epoetin alfa) and EPREX® (Epoetin alfa) performance continued to be adversely affected by competition. Combined, these two products had sales of \$3.3 billion in 2005, a decline of 7.4% as compared to 2004. Volume associated with share loss to competitive products was the primary driver of the decline.

REMICADE® (infliximab), a biologic approved for the treatment of Crohn's disease, ankylosing spondylitis, and use in the treatment of rheumatoid and psoriatic arthritis experienced sales of \$2.5 billion, with strong growth of 18.2% over the prior year. The U.S. FDA granted approval for REMICADE® to be used in the treatment of psoriatic arthritis, during the fiscal second quarter of 2005. REMICADE® received approval for the treatment of ulcerative colitis by the FDA in the fiscal third quarter of 2005 and by the European Commission in the fiscal first quarter of 2006. Additionally, the European Commission granted approval for use in the treatment of severe plaque psoriasis during the fiscal fourth quarter of 2005. These approvals contributed to strong growth of REMICADE® in 2005.

Sales of TOPAMAX® (topiramate), which has been approved for adjunctive use in epilepsy, as well as for the prophylactic treatment of migraines, accounted for \$1.7 billion in sales, achieving strong growth of 19.1% over the prior year. In June of 2005, TOPAMAX® was also approved by the FDA for use as an initial monotherapy in the treatment of epilepsy.

DURAGESIC® (fentanyl transdermal system) sales declined to \$1.6 billion in 2005, a 23.9% reduction over 2004, primarily driven by the negative impact of generic competition in the U.S. beginning in January 2005. Additionally, generic versions of DURAGESIC® have been launched in Europe. An authorized generic version of DURAGESIC®, being marketed for the Company in the U.S., was launched in the fiscal first quarter of 2005.

LEVAQUIN® (levofloxacin) and FLOXIN® (ofloxacin) achieved combined sales of \$1.5 billion in 2005, representing growth of 15.2% over the prior year, benefiting from strong market growth. During the fiscal third quarter of 2005, LEVAQUIN® obtained FDA approval for short course treatment of acute bacterial sinusitis.

The hormonal contraceptive franchise accounted for \$1.1 billion in sales, declining by 11.1% over the prior year. Reduced sales of ORTHO TRI-CYCLEN® (norgestimate/ethinyl estradiol), resulting from generic competition, were partially offset by strong growth in ORTHO TRI-CYCLEN® LO (norgestimate/ethinyl estradiol), a low dose oral contraceptive. While there was an overall

### Major Pharmaceutical Product Revenues:

(Millions of Dollars)

	% Change				
	2005	2004	2003	'05 vs. '04	'04 vs. '03
RISPERDAL® (risperidone)/RISPERDAL® CONSTA® (risperidone)	\$ 3,552	3,050	2,512	16.5%	21.4
PROCRT®/EPREX® (Epoetin alfa)	3,324	3,589	3,984	(7.4)	(9.9)
REMICADE® (infliximab)	2,535	2,145	1,729	18.2	24.1
TOPAMAX® (topiramate)	1,680	1,410	1,043	19.1	35.2
DURAGESIC® (fentanyl transdermal system)/Fentanyl Transdermal	1,585	2,083	1,631	(23.9)	27.7
LEVAQUIN®/FLOXIN® (levofloxacin/ofloxacin)	1,492	1,296	1,149	15.2	12.8
ACIPHEX®/PARIET® (rabeprazole sodium)	1,169	1,116	966	4.7	15.5
Hormonal Contraceptives	1,136	1,278	1,175	(11.1)	8.8
Other	5,849	6,161	5,328	(5.1)	15.6
<b>Total</b>	<b>\$22,322</b>	<b>22,128</b>	<b>19,517</b>	<b>0.9%</b>	<b>13.4</b>



sales increase in 2005 as compared to 2004 in ORTHO EVRA® (norelgestromin/ethinyl estradiol), the first contraceptive patch approved by the FDA, labeling changes and negative media coverage concerning product safety are expected to impact sales in 2006.

CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder, achieved sales of \$0.8 billion in 2005, representing an increase of 11.4% over 2004. At present, the FDA has not approved any generic version that is substitutable for CONCERTA®. Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA® are pending and may be approved at any time. Recent negative publicity and FDA activities concerning attention deficit hyperactivity products may impact CONCERTA® sales in 2006.

NATRECOR® (nesiritide), a product for the treatment of patients with acutely decompensated congestive heart failure who have dyspnea at rest or with minimal activity, has experienced a significant decline in demand due to recent negative media coverage regarding a meta analysis of selected historical clinical trials. The Company believes that there are no new data supporting the conclusions of these medical and consumer publications and the currently approved label for NATRECOR® reflects all available data to date. In response, the Company assembled an expert panel to review the available data and clinical development plans for the product and engaged in dialogue with the FDA. Both the panel and the FDA support the continued appropriate use of NATRECOR®.

NATRECOR®, a Scios Inc. product, was purchased by the Company in 2003 and resulted in the recording of an intangible asset, which is being amortized over 15 years. The remaining unamortized intangible value associated with NATRECOR® was \$1.1 billion at the end of the fiscal fourth quarter of 2005, and based on the current estimate of projected future cash flows, no adjustment to this intangible asset is required.

Pharmaceutical segment sales in 2004 included the benefit from adjustments related to previously estimated performance-based rebate allowances in managed care contracts. These adjustments were made based on a review of actual performance levels as achieved by customers, compared to expected performance levels. These favorable adjustments amounted to less than one percentage point of the Pharmaceutical segment's operational growth in 2004. The vast majority of the impact of this adjustment was in the hormonal contraceptive franchise.

Pharmaceutical segment sales in 2004 were \$22.1 billion, an increase of 13.4% over 2003, with 10.7% of this change due to operational growth and the remaining 2.7% increase related to the positive impact of currency. U.S. Pharmaceutical segment sales increased 12.7% while international Pharmaceutical segment sales increased 14.8%, which included 6.4% growth operationally and 8.4% related to the positive impact of currency. Pharmaceutical segment sales in 2003 were \$19.5 billion, an increase of 13.8% over 2002, with 9.7% due to operational growth and 4.1% due to positive currency fluctuations. U.S. sales increased by 11.3% while international sales grew 19.4% over 2002. This included operational growth of 6.0% and a 13.4% positive impact from currency.

#### Medical Devices and Diagnostics Segment

The Medical Devices and Diagnostics segment achieved sales of \$19.1 billion in 2005, representing an increase over the prior year of 13.1%, with operational growth of 12.5% and a positive impact from currency of 0.6%. U.S. sales increased 10.6% while international sales increased 15.7%, with 14.5% from operations and 1.2% from currency.

Strong sales growth in the Medical Devices and Diagnostics segment was achieved by multiple franchises.

The Cordis franchise was a key contributor to the segment results with reported sales of \$4.0 billion, an increase of 24.0% over the prior year. The primary growth driver of the Cordis franchise was the CYPHER® Sirolimus-eluting Stent in both U.S. and international markets, with excellent growth in Japan. Biosense Webster also contributed to the success of the Cordis franchise, with continued solid double-digit growth. During the fiscal fourth quarter of 2005, Biosense Webster received approval for the use of the CELSIUS™ RMT diagnostic ablation steerable tip catheter.

In April and July of 2004, the Cordis Cardiology Division of Cordis Corporation received warning letters from the FDA regarding Good Manufacturing Practice regulations and Good Clinical Practice regulations. These observations followed post-approval site inspections completed in 2003 and early 2004, including sites involved in the production of the CYPHER® Sirolimus-eluting Stent. In response to the warning letters, Cordis has made improvements to its quality systems and anticipates follow-up site inspections in the fiscal first and second quarters of 2006.

#### Major Medical Devices and Diagnostics Franchise Sales:

(Millions of Dollars)	% Change				
	2005	2004	2003	'05 vs. '04	'04 vs. '03
CORDIS®	\$ 3,982	3,213	2,707	24.0%	18.7
DEPUY®	3,847	3,420	3,008	12.5	13.7
ETHICON®	3,101	2,838	2,639	9.3	7.5
ETHICON ENDO-SURGERY®	3,096	2,849	2,587	8.7	10.1
LIFESCAN®	1,909	1,701	1,426	12.3	19.3
Vision Care	1,694	1,530	1,297	10.7	18.0
ORTHO-CLINICAL DIAGNOSTICS®	1,408	1,273	1,176	10.6	8.2
Other	59	63	74	(6.3)	(14.9)
Total	\$19,096	16,887	14,914	13.1%	13.2

The DePuy franchise reported \$3.8 billion in sales, which represents 12.5% growth over the prior year. Double-digit growth in DePuy's orthopaedic joint reconstruction unit led the increase for this franchise. Strong sales growth was also achieved in DePuy's spine unit and Mitek sports medicine products.

The Ethicon worldwide franchise achieved \$3.1 billion of sales in 2005, representing 9.3% growth over the prior year. Contributing to the strong results was the continued growth of suture and mesh products, including VICRYL® (polyglactin 910) Plus, an anti-bacterial coated suture, MULTIPASS® Needles and PROCEED® tissue separating mesh.

The Ethicon Endo-Surgery franchise reported \$3.1 billion of sales in 2005, representing 8.7% growth over the prior year. This growth was mainly driven by endocutter sales that include products used in performing bariatric procedures for the treatment of obesity, an important focus area for the franchise. Double-digit sales increases in the Advanced Sterilization Products line were also a key contributor to the overall sales growth of the franchise.

The LifeScan franchise reported \$1.9 billion of sales in 2005, a growth rate of 12.3% over the prior year. The ONETOUGH® ULTRA® product line achieved strong growth in 2005.

The Vision Care franchise achieved \$1.7 billion of sales in 2005, which was a growth rate of 10.7% over the prior year, led by the continued success of ACUVUE® ADVANCE™ Brand Contact Lenses with HYDRACLEAR™ and 1-DAY ACUVUE®. An additional contributor was ACUVUE® OASYS™ with HYDRACLEAR™, for tired and dry eyes, which was launched in the fiscal third quarter of 2005.

The Ortho-Clinical Diagnostics franchise reported \$1.4 billion of sales in 2005, representing 10.6% growth over the prior year. This growth was mainly driven by the continued market penetration of automated blood typing products, ongoing growth of the ECI product line and the success of the VITROS® 5, 1 FS Clinical Chemistry system.

The Medical Devices and Diagnostics segment achieved sales of \$16.9 billion in 2004, representing an increase over the prior year of 13.2%, with operational growth of 9.0% and a positive impact from currency of 4.2%. U.S. sales increased 6.9% while international sales increased 20.7%, with 11.4% from operations and 9.3% from currency. In 2003, the Medical Devices and Diagnostics segment achieved sales of \$14.9 billion, representing an increase over the prior year of 18.5% with operational growth of 12.8% and a positive impact from currency of 5.7%. U.S. sales increased 15.9% while international sales increased 21.7%, with 9.0% from operations and 12.7% from currency.

### Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income increased to \$13.7 billion, or 6.4%, over the \$12.8 billion earned in 2004. The increase in 2004 was 24.5% over the \$10.3 billion in 2003. As a percent to sales, consolidated earnings before provision for taxes on income in 2005 was 27.0%, representing a decrease of 0.1% over the 27.1% in 2004. For 2004, the improvement was 2.5% over the 24.6% in 2003, and the decline in 2003 was 1.0% over 2002. The sections that follow highlight the significant components of the changes in consolidated earnings before provision for taxes on income.

**Cost of Products Sold and Selling, Marketing and Administrative Expenses:** Cost of products sold and selling, marketing and administrative expenses as a percent to sales were as follows:

% of Sales	2005	2004	2003
Cost of products sold	27.6%	28.4	29.1
Percent increase/(decrease) over the prior year	(0.8)	(0.7)	0.3
Selling, marketing and administrative expenses	33.4%	33.5	33.7
Percent increase/(decrease) over the prior year	(0.1)	(0.2)	—

In 2005, there was a decrease in the percent to sales of cost of products sold. This was due to lower manufacturing costs primarily related to the CYPHER® Sirolimus-eluting Stent, as well as ongoing cost containment activity across the organization, partially offset by the negative impact of pharmaceutical product mix. There was also a decrease in the percent to sales of selling, marketing and administrative expenses. This was due to cost containment initiatives in the Pharmaceutical segment partially offset by increases in investment spending in the Medical Devices and Diagnostics segment.

In 2004, there was a decrease in the percent to sales of cost of products sold. This was due to favorable mix, as well as cost improvement initiatives. There was also a decrease in the percent to sales of selling, marketing and administrative expenses. This was due to the Company's focus on managing expenses, partially offset by an increase in investment spending across a number of businesses focused on driving future growth. In 2003, there was no change in the percent to sales of selling, marketing and administrative expenses and an increase in the percent to sales of cost of products sold. This was due to the changes in the mix of products with varying cost structures, as well as the cost of the retirement enhancement program of \$95 million expensed in the fiscal fourth quarter of 2003.

**Research and Development:** Research activities represent a significant part of the Company's business. These expenditures relate to the development of new products, improvement of existing products, technical support of products and compliance with governmental regulations for the protection of consumers and patients. Worldwide costs of research activities, excluding in-process research and development charges, were as follows:

(Millions of Dollars)	2005	2004	2003
Research expense	\$6,312	5,203	4,684
Percent increase over the prior year	21.3%	11.1	18.4
Percent of sales	12.5%	11.0	11.2

Research and development expense as a percent of sales for the Pharmaceutical segment was 19.9% for 2005, 16.4% for 2004 and 16.4% for 2003. Combined the Consumer and Medical Devices and Diagnostics segments averaged 6.6%, 6.2% and 6.7% in 2005, 2004 and 2003, respectively.

Research activities accelerated in the Pharmaceutical segment, increasing to \$4.4 billion, or 22.3%, over 2004. The compound annual growth rate was approximately 16.4% for the five-year period since 2000.

The increased investment in research and development in all segments demonstrates the Company's focus on knowledge based products, and reflects a significant number of projects in late stage development.

**In-Process Research and Development:** In 2005, the Company recorded in-process research and development (IPR&D) charges of \$362 million before tax related to the acquisitions of TransForm Pharmaceuticals, Inc., Closure Medical Corporation, Peninsula Pharmaceuticals, Inc., and the international commercial rights to certain patents and know-how in the field of sedation and analgesia from Scott Lab, Inc. TransForm Pharmaceuticals, Inc., a company specializing in the discovery of superior formulations and novel crystalline forms of drug molecules, accounted for \$50 million before tax of the IPR&D charges and was included in the operating profit of the Pharmaceutical segment. Closure Medical Corporation, a company with expertise and intellectual property in the biosurgicals market, accounted for \$51 million before tax of the IPR&D charges and was included in the operating profit of the Medical Devices and Diagnostics segment. Peninsula Pharmaceuticals, Inc., a biopharmaceutical company focused on developing and commercializing antibiotics to treat life-threatening infections, accounted for \$252 million before tax of the IPR&D charges and was included in the operating profit of the Pharmaceutical segment. The \$9 million before tax IPR&D charge related to Scott Lab, Inc. referred to above was included in the operating profit of the Medical Devices and Diagnostics segment.

In 2004, the Company recorded IPR&D charges of \$18 million before tax as a result of the acquisition of U.S. commercial rights to certain patents and know-how in the field of sedation and analgesia from Scott Lab, Inc. This charge was included in the operating profit of the Medical Devices and Diagnostics segment.

In 2003, the Company recorded IPR&D charges of \$918 million before tax related to the acquisitions of Scios Inc., Link Spine Group, Inc., certain assets of Orquest, Inc. and 3-Dimensional Pharmaceuticals, Inc. Scios Inc. is a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on autoimmune diseases. The acquisition of Scios Inc. accounted for \$730 million before tax of the IPR&D charges and was included in the operating profit of the Pharmaceutical segment. Link Spine Group, Inc. was acquired to provide the Company with exclusive worldwide rights to the CHARITÉ™ Artificial Disc for the treatment of spine disorders. The acquisition of Link Spine Group, Inc. accounted for \$170 million before tax of the IPR&D charges and was included in the operating profit of the Medical Devices and Diagnostics segment. Orquest, Inc. is a biotechnology company focused on developing biologically-based implants for orthopaedic spine surgery. The acquisition of certain assets of Orquest, Inc. accounted for \$11 million before tax of the IPR&D

charges and was included in the operating profit of the Medical Devices and Diagnostics segment. 3-Dimensional Pharmaceuticals, Inc. is a company with a technology platform focused on the discovery and development of potential new drugs in early stage development for inflammation. The acquisition of 3-Dimensional Pharmaceuticals, Inc. accounted for \$7 million before tax of the IPR&D charges and was included in the operating profit of the Pharmaceutical segment.

**Other (Income) Expense, Net:** Other (income) expense includes gains and losses related to the sale and write-down of certain investments in equity securities held by Johnson & Johnson Development Corporation, gains and losses on the disposal of property, plant and equipment, currency gains and losses, minority interests, litigation settlement (income) expense and royalty income. The change in net other (income) expense from 2004 to 2005 was an increase in income of \$229 million.

For 2005, the other income balance of \$214 million included royalty income partially offset by several expense items, none of which were individually significant.

For 2004, the other expense balance of \$15 million included several expense items, none of which were individually significant, partially offset by royalty income.

In 2003, other income of \$385 million included a favorable ruling from a stent patent settlement of \$230 million. This amount was received during the fourth quarter of 2003 and was included in the Medical Devices and Diagnostics segment operating profit. Also included in the Medical Devices and Diagnostics segment operating profit was the gain on the sale of various product lines that were no longer compatible with this segment's strategic goals. Other income for 2003 also included the recovery of a \$40 million loan, previously written off, included in the Pharmaceutical segment operating profit.

#### Operating Profit by Segment

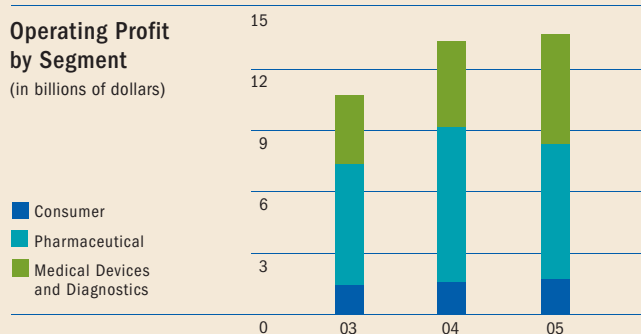
Operating profits by segment of business were as follows:

			Percent of Segment Sales	
(Millions of Dollars)	2005	2004	2005	2004
Consumer	\$ 1,667	1,514	18.3%	18.2
Pharmaceutical	6,610	7,608	29.6	34.4
Med Devices and Diag	5,418	4,091	28.4	24.2
Segments total	13,695	13,213	27.1	27.9
Less: Expenses not allocated to segments <sup>(1)</sup>	39	375		
Earnings before provision for taxes on income	\$13,656	12,838	27.0%	27.1

<sup>(1)</sup> Amounts not allocated to segments include interest (income)/expense, minority interest, and general corporate (income)/expense.

### Operating Profit by Segment

(in billions of dollars)



**Consumer Segment:** Consumer segment operating profit in 2005 increased 10.1% over the prior year. As a percent to sales, 2005 increased slightly to 18.3%, despite increases in investment spending in advertising and research and development. Consumer segment operating profit in 2004 increased 8.7% over the prior year. As a percent to sales, 2004 experienced a decrease of 0.5% from 2003, primarily due to additional investment in consumer promotions and advertising in the Over-the-Counter Pharmaceuticals and Nutritionals franchise.

**Pharmaceutical Segment:** In 2005, Pharmaceutical segment operating profit decreased 13.1%, and as a percent to sales declined 4.8% from 2004 to 29.6%. This change was primarily due to increased investment in research and development spending, as well as the impact of \$302 million of IPR&D expenses in 2005. In 2004, Pharmaceutical segment operating profit increased 29.0% and reflected an operating profit as a percent to sales improvement of 4.2% over 2003 to 34.4%. This change was primarily due to the impact of \$737 million of IPR&D expenses in 2003.

**Medical Devices and Diagnostics Segment:** In 2005, the Medical Devices and Diagnostics segment operating profit increased 32.4%, and as a percent to sales increased 4.2% from 2004 to 28.4%. This increase was driven by improved gross margins due to cost reduction programs and product mix, primarily related to the CYPHER® Sirolimus-eluting Stent. This was partially offset by an increased investment in research and development spending. In 2004, the Medical Devices and Diagnostics segment operating profit increased 21.4%. The increase over the prior year was achieved through improved gross margins, resulting from cost reduction programs and product mix, and the impact of \$181 million of IPR&D expenses related to acquisitions in 2003.

**Interest (Income) Expense:** Interest income in 2005 increased by \$292 million due primarily to higher rates of interest, as well as a higher average cash balance. The cash balance, including current marketable securities, was \$16.1 billion at the end of 2005 and averaged \$14.3 billion, as compared to the \$11.3 billion average cash balance in 2004.

Interest expense in 2005 decreased as compared to 2004 due in part to a decrease in the average debt balance, from \$3.5 billion in 2004 to \$2.6 billion in 2005.

Interest income in 2004 increased by \$18 million due primarily to a higher cash balance. The cash and marketable securities combined balance at the end of 2004 was

\$12.9 billion and averaged \$11.3 billion, which is significantly higher than the \$8.6 billion average cash balance in 2003.

Interest expense in 2004 decreased by \$20 million as compared to 2003 primarily due to a decrease in the average debt balance, from \$5.0 billion in 2003 to \$3.5 billion in 2004.

**Provision for Taxes on Income:** The worldwide effective income tax rate was 23.8% in 2005, 33.7% in 2004 and 30.2% in 2003. The decrease in the tax rate was attributable to a tax benefit of \$225 million, recorded in 2005, related to a technical correction associated with the American Jobs Creation Act of 2004. Also contributing to the decrease in the 2005 tax rate was the increase in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions, as a result of increased expenditures in higher tax jurisdictions and a shift in sales mix. These benefits were partially offset by non-deductible IPR&D charges. The increase in the effective tax rate in 2004 was primarily due to the \$789 million tax cost on the intended repatriation of undistributed international earnings associated with the American Jobs Creation Act of 2004, which added 6.1% to the effective income tax rate.

### Liquidity and Capital Resources

#### Cash Flows

Cash generated from operations and selected borrowings provide the major sources of funds for the growth of the business, including working capital, capital expenditures and acquisitions. Other uses of cash include share repurchases, dividends and debt repayments.

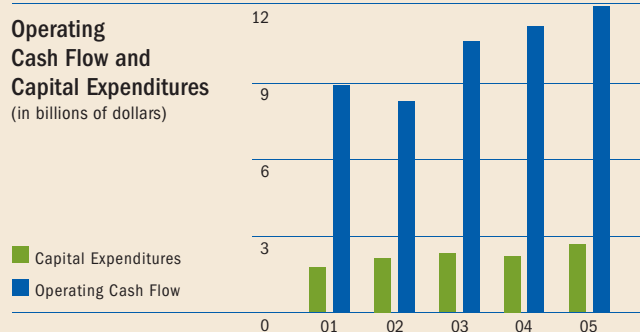
In 2005, cash flow from operations was \$11.9 billion, an increase of \$0.7 billion over 2004. The increase in cash generated from operations was a result of a net income increase of \$2.2 billion, net of the non-cash impact of IPR&D charges. A \$1.0 billion decrease in other current and non-current assets also contributed to this increase. This was partially offset by a \$1.5 billion decrease in accounts payable and accrued liabilities. Additionally, cash payments of approximately \$0.5 billion were made for previously accrued taxes on the repatriation of undistributed international earnings in accordance with the American Jobs Creation Act of 2004. There was also an increase of approximately \$0.2 billion in pension funding in 2005 as compared to 2004.

Net cash used for investing activities decreased by \$2.1 billion in 2005 due to a \$3.1 billion net increase in the sales of investments. This was partially offset by a \$0.5 billion increase in capital expenditures and a \$0.4 billion increase in acquisition activity. For a more detailed discussion on mergers and acquisitions, see Note 17.

Net cash used for financing activities decreased by \$0.6 billion in 2005 due to a net issuance of debt partially offset by an increase in dividends and increased levels of common stock repurchases.

Cash and current marketable securities were \$16.1 billion at the end of 2005 as compared with \$12.9 billion at the end of 2004.

Cash generated from operations amounted to \$11.1 billion in 2004, which was \$0.5 billion more than the cash generated from operations in 2003 of \$10.6 billion. The major factor contributing to the increase was a net income increase of \$0.4 billion, net of the non-cash impact of IPR&D charges.



### Financing and Market Risk

The Company uses financial instruments to manage the impact of foreign exchange rate changes on cash flows. Accordingly, the Company enters into forward foreign exchange contracts to protect the value of existing foreign currency assets and liabilities and to hedge future foreign currency product costs. Gains or losses on these contracts are offset by the gains or losses on the underlying transactions. A 10% appreciation of the U.S. Dollar from the January 1, 2006 market rates would increase the unrealized value of the Company's forward contracts by \$267 million. Conversely, a 10% depreciation of the U.S. Dollar from the January 1, 2006 market rates would decrease the unrealized value of the Company's forward contracts by \$326 million. In either scenario, the gain or loss on the forward contract would be offset by the change in value of the forecasted transaction, and therefore, would have no impact on future earnings and cash flows.

The Company hedges the exposure to fluctuations in currency exchange rates, and the effect on certain assets and liabilities in foreign currency, by entering into currency swap contracts. A 1% change in the spread between U.S. and foreign interest rates on the Company's interest rate sensitive financial instruments would either increase or decrease the unrealized value of the Company's swap contracts by approximately \$60 million. In either scenario, at maturity, the gain or loss on the swap contract would be offset by the gain or loss on the underlying transaction and therefore would have no impact on future earnings or cash flows.

The Company does not use financial instruments for trading or speculative purposes. Further, the Company has a policy of only entering into contracts with parties that have at least an "A" (or equivalent) credit rating. The counterparties to these contracts are major financial institutions and there is no significant concentration of exposure with any one counterparty. Management believes the risk of loss is remote.

Total unused credit available to the Company approximates \$3.6 billion, including \$1.5 billion of credit commitments, of which \$0.75 billion expire September 28, 2006 and \$0.75 billion expire September 29, 2010. Also included are \$0.8 billion of uncommitted lines with various banks worldwide that expire during 2006.

Total borrowings at the end of 2005 and 2004 were \$2.7 billion and \$2.8 billion, respectively. In 2005, net cash (cash and current marketable securities, net of debt) was \$13.5 billion

compared to net cash of \$10.0 billion in 2004. Total debt represented 6.6% of total capital (shareholders' equity and total debt) in 2005 and 8.2% of total capital in 2004. Shareholders' equity per share at the end of 2005 was \$12.73 compared with \$10.71 at year-end 2004, an increase of 18.9%.

On August 19, 2005, Scios Inc. exercised its right to redeem all of its outstanding \$150 million original principal amount of 5.50% Convertible Subordinated Notes due in 2009. The redemption price was 103.143% of the principal amount or \$1,031.43 per \$1,000 principal amount of Debentures, with accrued interest to, but excluding, the date of redemption.

For the period ended January 1, 2006, there were no material cash commitments. Johnson & Johnson continues to be one of a few industrial companies with a Triple A credit rating. A summary of borrowings can be found in Note 6.

### Long-Term Contractual Obligations and Commitments

The Company has long-term contractual obligations, primarily lease, debt obligations and unfunded retirement plans, with no other significant obligations. To satisfy these obligations, the Company will use cash from operations. The following table summarizes the Company's contractual obligations and their aggregate maturities as of January 1, 2006 (see Notes 4, 6 and 13 for further details):

(Millions of Dollars)	Operating Leases	Long-Term Debt Obligations <sup>(1)</sup>	Unfunded Retirement Plans	Total
2006	\$162	12	37	211
2007	142	17	40	199
2008	119	8	41	168
2009	103	208	44	355
2010	88	9	46	143
After 2010	151	1,776	267	2,194
<b>Total</b>	<b>\$765</b>	<b>2,030</b>	<b>475</b>	<b>3,270</b>

<sup>(1)</sup> Amounts do not include interest expense.

### Dividends

The Company increased its dividend in 2005 for the 43rd consecutive year. Cash dividends paid were \$1.275 per share in 2005, compared with dividends of \$1.095 per share in 2004 and \$0.925 per share in 2003. The dividends were distributed as follows:

	2005	2004	2003
First quarter	\$0.285	0.240	0.205
Second quarter	0.330	0.285	0.240
Third quarter	0.330	0.285	0.240
Fourth quarter	0.330	0.285	0.240
<b>Total</b>	<b>\$1.275</b>	<b>1.095</b>	<b>0.925</b>

On January 4, 2006, the Board of Directors declared a regular cash dividend of \$0.33 per share, payable on March 14, 2006, to shareholders of record as of February 28, 2006. The Company expects to continue the practice of paying regular cash dividends.

## Other Information

### Critical Accounting Policies and Estimates

Management's discussion and analysis of results of operations and financial condition are based on the Company's consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that management make estimates and assumptions that affect the amounts reported for revenues, expenses, assets, liabilities and other related disclosures. Actual results may or may not differ from these estimates. The Company believes that the understanding of certain key accounting policies and estimates are essential in achieving more insight into the Company's operating results and financial condition. These key accounting policies include revenue recognition, income taxes, legal and self insurance contingencies, valuation of long-lived assets and assumptions used to determine the amounts recorded for pensions and other employee benefit plans and accounting for stock options.

**Revenue Recognition:** The Company recognizes revenue from product sales when goods are shipped or delivered and title and risk of loss pass to the customer. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates, the largest being the Medicaid rebate provision, are estimated based on sales terms, historical experience, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third party sell-through and market research data, as well as internally generated information.

Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals.

The Company also earns service revenue for co-promotion of certain products. For all years presented, service revenues were less than 2% of total revenues and are included in sales to customers.

**Income Taxes:** Income taxes are recorded based on amounts refundable or payable for the current year and include the results of any difference between U.S. GAAP accounting and U.S. tax reporting that are recorded as deferred tax assets or liabilities. The Company estimates deferred tax assets and liabilities based on current tax regulations and

rates. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities in the future. Management believes that changes in these estimates would not result in a material effect on the Company's results of operations, cash flows or financial position.

In 2005, the Company repatriated the previously disclosed \$10.8 billion of undistributed international earnings in accordance with the American Jobs Creation Act of 2004 (AJCA), and recorded a tax charge of \$789 million during the fiscal fourth quarter of 2004. During the fiscal second quarter of 2005, the Company recorded a tax benefit of \$225 million, due to the reversal of the tax liability previously recorded during the fiscal fourth quarter of 2004, associated with a technical correction made to the AJCA in May 2005. At January 1, 2006 and January 2, 2005, the cumulative amount of undistributed international earnings were approximately \$12.0 billion and \$18.6 billion, respectively. The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded to cover the undistributed portion not intended for repatriation.

**Legal and Self Insurance Contingencies:** The Company records accruals for various contingencies including legal proceedings and product liability cases as these arise in the normal course of business. The accruals are based on management's judgment as to the probability of losses, opinions of legal counsel and, where applicable, actuarially determined estimates. Additionally, the Company records insurance receivable amounts from third party insurers when recovery is probable. As appropriate, reserves against these receivables are recorded for estimated amounts that may not be collected from third party insurers.

**Long-Lived and Intangible Assets:** The Company assesses changes in economic conditions and makes assumptions regarding estimated future cash flows in evaluating the value of the Company's property, plant and equipment, goodwill and intangible assets. As these assumptions and estimates may change over time, it may or may not be necessary for the Company to record impairment charges. In fiscal years 2005, 2004 and 2003, certain tangible and intangible assets were written down to fair value with the resulting charge recorded in cost of products sold, which was insignificant.

**Employee Benefit Plans:** The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, that cover most employees worldwide. These plans are based on assumptions for the discount rate, expected return on plan assets, expected salary increases and health care cost trend rates. See Note 13 for further detail on these rates and the effect a rate change would have on the Company's results of operations.

**Stock Options:** The Company has elected to use Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), that does not require compensation costs related to stock options to be charged against net income, as all options granted under the various stock options plans had an exercise price equal to the market value of the underlying common stock at grant date. Statement of Financial Accounting Standard (SFAS) No. 148 *Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123*, requires pro forma disclosure of net income and earnings per share determined as if the fair value method of accounting for stock options had been applied in measuring compensation cost. See Notes 1 and 10 for further information regarding stock options.

#### **New Accounting Standards**

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment*. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (such as employee stock options and restricted stock units). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options and restricted stock units) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). On April 14, 2005 the SEC approved a new rule that delayed the effective date of SFAS No. 123(R) for annual, rather than interim, periods that begin after June 15, 2005. As a result, the Company will adopt this statement in the fiscal first quarter of 2006.

Upon adoption of this standard, the Company currently intends to apply the modified retrospective transition method. Previously reported financial statements will be restated to reflect SFAS No. 123 disclosure amounts. As required by SFAS No. 148, *Accounting for Stock Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123*, the Company has disclosed the net income and earnings per share effect had the Company applied the fair value recognition provision of SFAS No. 123. The disclosure impact in 2005 and 2004 was compensation expense, net of tax, of \$351 million and \$329 million and earnings per share of \$0.12 and \$0.11, respectively.

The Company will implement SFAS 151, *Inventory Costs, an amendment of ARB No. 43* in the fiscal first quarter of 2006. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

The Company implemented FIN 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*, during the fiscal fourth quarter of 2005. The implementation of this Standard did not have a material effect on the Company's results of operations, cash flows or financial position.

The Company implemented SFAS 153, *Exchanges of Non-monetary Assets, an amendment of APB 29* during the fiscal third quarter of 2005, which did not have a material effect on its results of operations, cash flows or financial position.

The following accounting pronouncements became effective in 2004 and did not have a material impact on the Company's results of operations, cash flows or financial position.

- EITF Issue 02-14: *Whether an Investor should apply the Equity Method of Accounting to Investments other than Common Stock.*
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- SFAS No. 149: *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*
- FIN 46 and FIN 46(R): *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51.*

#### **Economic and Market Factors**

Johnson & Johnson is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concerns about the rising cost of health care. In response to these concerns, Johnson & Johnson has a long standing policy of pricing products responsibly. For the period 1995–2005, in the U.S., the weighted average compound annual growth rate of Johnson & Johnson net price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI).

Inflation rates, even though moderate in many parts of the world during 2005, continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases. The Company faces various worldwide health care changes that may result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

The Company also operates in an environment which has become increasingly hostile to intellectual property rights. Generic drug firms have filed Abbreviated New Drug Applications seeking to market generic forms of most of the Company's key pharmaceutical products, prior to expiration of the applicable patents covering those products. In the event the Company is not successful in defending the patent claims challenged in Abbreviated New Drug Application filings, the generic firms will then introduce generic versions of the product at issue, resulting in the potential for substantial market share and revenue losses for that product. For further information see the discussion on "Litigation Against Filers of Abbreviated New Drug Applications" in Note 18.

### Legal Proceedings

The Company is involved in numerous product liability cases in the U.S., many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use which accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by existing amounts accrued in the Company's balance sheet, and where available by third-party product liability insurance.

The Company is also involved in a number of patent, trademark and other lawsuits incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the Company's opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities already accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company's results of operations and cash flows for that period.

See Note 18 for further information regarding legal proceedings.

### Common Stock Market Prices

The Company's common stock is listed on the New York Stock Exchange under the symbol JNJ. The composite market price ranges for Johnson & Johnson common stock during 2005 and 2004 were:

	2005		2004	
	High	Low	High	Low
First quarter	\$68.68	61.20	54.90	49.25
Second quarter	69.99	64.43	57.28	49.90
Third quarter	65.35	61.65	58.80	54.37
Fourth quarter	64.60	59.76	64.25	54.81
Year-end close	\$60.10		63.42	

### Cautionary Factors That May Affect Future Results

This Annual Report contains forward-looking statements. Forward-looking statements do not relate strictly to historical or current facts and anticipate results based on management's plans that are subject to uncertainty. Forward-looking statements may be identified by the use of words like "plans," "expects," "will," "anticipates," "estimates" and other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company's strategy for growth, product development, regulatory approval, market position and expenditures.

Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or that unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

Risks and uncertainties include general industry conditions and competition; economic conditions, such as interest rate and currency exchange rate fluctuations; technological advances, new products and patents attained by competitors; challenges inherent in new product development, including obtaining regulatory approvals; challenges to patents; U.S. and foreign health care reforms and governmental laws and regulations; trends toward health care cost containment; increased scrutiny of the health care industry by government agencies; product efficacy or safety concerns resulting in product recalls or regulatory action.

The Company's report on Form 10-K for the year ended January 1, 2006 includes Exhibit 99(b), a discussion of additional factors that could cause actual results to differ from expectations. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995.



At January 1, 2006 and January 2, 2005 (Dollars in Millions Except Share and Per Share Data) (Note 1)

	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Notes 1, 14 and 15)	\$16,055	9,203
Marketable securities (Notes 1, 14 and 15)	83	3,681
Accounts receivable trade, less allowances for doubtful accounts \$164 (2004, \$206)	7,010	6,831
Inventories (Notes 1 and 2)	3,959	3,744
Deferred taxes on income (Note 8)	1,845	1,737
Prepaid expenses and other receivables	2,442	2,124
<b>Total current assets</b>	<b>31,394</b>	<b>27,320</b>
Marketable securities, non-current (Notes 1, 14 and 15)	20	46
Property, plant and equipment, net (Notes 1 and 3)	10,830	10,436
Intangible assets, net (Notes 1 and 7)	6,185	5,979
Goodwill, net (Notes 1 and 7)	5,990	5,863
Deferred taxes on income (Note 8)	385	551
Other assets (Note 5)	3,221	3,122
<b>Total assets</b>	<b>\$58,025</b>	<b>53,317</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Loans and notes payable (Note 6)	\$ 668	280
Accounts payable	4,315	5,227
Accrued liabilities	3,529	3,523
Accrued rebates, returns and promotions	2,017	2,297
Accrued salaries, wages and commissions	1,166	1,094
Accrued taxes on income	940	1,506
<b>Total current liabilities</b>	<b>12,635</b>	<b>13,927</b>
Long-term debt (Note 6)	2,017	2,565
Deferred taxes on income (Note 8)	211	403
Employee related obligations (Notes 5 and 13)	3,065	2,631
Other liabilities	2,226	1,978
<b>Total liabilities</b>	<b>20,154</b>	<b>21,504</b>
<b>Shareholders' equity</b>		
Preferred stock – without par value (authorized and unissued 2,000,000 shares)	–	–
Common stock – par value \$1.00 per share (Note 20) (authorized 4,320,000,000 shares; issued 3,119,842,000 shares)	3,120	3,120
Note receivable from employee stock ownership plan (Note 16)	–	(11)
Accumulated other comprehensive income (Note 12)	(755)	(515)
Retained earnings	41,471	35,223
	43,836	37,817
Less: common stock held in treasury, at cost (Note 20) (145,364,000 shares and 148,819,000 shares)	5,965	6,004
<b>Total shareholders' equity</b>	<b>37,871</b>	<b>31,813</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$58,025</b>	<b>53,317</b>

See Notes to Consolidated Financial Statements

(Dollars in Millions Except Per Share Figures) (Note 1)

	2005	2004	2003
<b>Sales to customers</b>	\$50,514	47,348	41,862
Cost of products sold	13,954	13,422	12,176
Gross profit	36,560	33,926	29,686
Selling, marketing and administrative expenses	16,877	15,860	14,131
Research expense	6,312	5,203	4,684
Purchased in-process research and development (Note 17)	362	18	918
Interest income	(487)	(195)	(177)
Interest expense, net of portion capitalized (Note 3)	54	187	207
Other (income) expense, net	(214)	15	(385)
	22,904	21,088	19,378
Earnings before provision for taxes on income	13,656	12,838	10,308
Provision for taxes on income (Note 8)	3,245	4,329	3,111
<b>Net earnings</b>	\$10,411	8,509	7,197
<b>Basic net earnings per share (Notes 1 and 19)</b>	\$ 3.50	2.87	2.42
<b>Diluted net earnings per share (Notes 1 and 19)</b>	\$ 3.46	2.84	2.40

See Notes to Consolidated Financial Statements

(Dollars in Millions) (Note 1)	Total	Comprehensive Income	Retained Earnings	Note Receivable From Employee Stock Ownership Plan (ESOP)	Accumulated Other Comprehensive Income	Common Stock Issued Amount	Treasury Stock Amount
<b>Balance, December 29, 2002</b>	<b>\$22,697</b>		<b>26,571</b>	<b>(25)</b>	<b>(842)</b>	<b>3,120</b>	<b>(6,127)</b>
Net earnings	7,197	7,197	7,197				
Cash dividends paid	(2,746)		(2,746)				
Employee stock compensation and stock option plans	534		(626)				1,160
Conversion of subordinated debentures	2		(2)				4
Repurchase of common stock	(1,183)						(1,183)
Business combinations	109		109				
Other comprehensive income, net of tax:							
Currency translation adjustment	334	334			334		
Unrealized gains on securities	29	29			29		
Pension liability adjustment	(31)	(31)			(31)		
Losses on derivatives & hedges	(80)	(80)			(80)		
Reclassification adjustment		(2)					
Total comprehensive income		<u>7,447</u>					
Note receivable from ESOP	<u>7</u>			<u>7</u>			
<b>Balance, December 28, 2003</b>	<b>\$26,869</b>		<b>30,503</b>	<b>(18)</b>	<b>(590)</b>	<b>3,120</b>	<b>(6,146)</b>
Net earnings	8,509	8,509	8,509				
Cash dividends paid	(3,251)		(3,251)				
Employee stock compensation and stock option plans	883		(520)				1,403
Conversion of subordinated debentures	105		(18)				123
Repurchase of common stock	(1,384)						(1,384)
Other comprehensive income, net of tax:							
Currency translation adjustment	268	268			268		
Unrealized gains on securities	59	59			59		
Pension liability adjustment	(282)	(282)			(282)		
Gains on derivatives & hedges	30	30			30		
Reclassification adjustment		(10)					
Total comprehensive income		<u>8,574</u>					
Note receivable from ESOP	<u>7</u>			<u>7</u>			
<b>Balance, January 2, 2005</b>	<b>\$31,813</b>		<b>35,223</b>	<b>(11)</b>	<b>(515)</b>	<b>3,120</b>	<b>(6,004)</b>
Net earnings	10,411	10,411	10,411				
Cash dividends paid	(3,793)		(3,793)				
Employee stock compensation and stock option plans	1,017		(441)				1,458
Conversion of subordinated debentures	369		(132)				501
Repurchase of common stock	(1,717)		203				(1,920)
Other comprehensive income, net of tax:							
Currency translation adjustment	(415)	(415)			(415)		
Unrealized losses on securities	(16)	(16)			(16)		
Pension liability adjustment	26	26			26		
Gains on derivatives & hedges	165	165			165		
Reclassification adjustment		(15)					
Total comprehensive income		<u>10,156</u>					
Note receivable from ESOP	<u>11</u>			<u>11</u>			
<b>Balance, January 1, 2006</b>	<b>\$37,871</b>		<b>41,471</b>	<b>—</b>	<b>(755)</b>	<b>3,120</b>	<b>(5,965)</b>

See Notes to Consolidated Financial Statements

(Dollars in Millions) (Note 1)

	2005	2004	2003
<b>Cash flows from operating activities</b>			
Net earnings	\$10,411	8,509	7,197
Adjustments to reconcile net earnings to cash flows:			
Depreciation and amortization of property and intangibles	2,093	2,124	1,869
Purchased in-process research and development	362	18	918
Deferred tax provision	(46)	(498)	(720)
Accounts receivable allowances	(31)	3	6
Changes in assets and liabilities, net of effects from acquisitions:			
Increase in accounts receivable	(568)	(111)	(691)
(Increase)/decrease in inventories	(396)	11	39
(Decrease)/increase in accounts payable and accrued liabilities	(911)	607	2,192
Decrease/(increase) in other current and non-current assets	620	(395)	(746)
Increase in other current and non-current liabilities	343	863	531
<b>Net cash flows from operating activities</b>	<b>11,877</b>	<b>11,131</b>	<b>10,595</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	(2,632)	(2,175)	(2,262)
Proceeds from the disposal of assets	154	237	335
Acquisitions, net of cash acquired (Note 17)	(987)	(580)	(2,812)
Purchases of investments	(5,660)	(11,617)	(7,590)
Sales of investments	9,187	12,061	8,062
Other (primarily intangibles)	(341)	(273)	(259)
<b>Net cash used by investing activities</b>	<b>(279)</b>	<b>(2,347)</b>	<b>(4,526)</b>
<b>Cash flows from financing activities</b>			
Dividends to shareholders	(3,793)	(3,251)	(2,746)
Repurchase of common stock	(1,717)	(1,384)	(1,183)
Proceeds from short-term debt	1,215	514	3,062
Retirement of short-term debt	(732)	(1,291)	(4,134)
Proceeds from long-term debt	6	17	1,023
Retirement of long-term debt	(196)	(395)	(196)
Proceeds from the exercise of stock options	696	642	311
<b>Net cash used by financing activities</b>	<b>(4,521)</b>	<b>(5,148)</b>	<b>(3,863)</b>
Effect of exchange rate changes on cash and cash equivalents	(225)	190	277
Increase in cash and cash equivalents	6,852	3,826	2,483
Cash and cash equivalents, beginning of year (Note 1)	9,203	5,377	2,894
<b>Cash and cash equivalents, end of year (Note 1)</b>	<b>\$16,055</b>	<b>9,203</b>	<b>5,377</b>
<b>Supplemental cash flow data</b>			
Cash paid during the year for:			
Interest	\$ 151	222	206
Income taxes	3,429	3,880	3,146
<b>Supplemental schedule of noncash investing and financing activities</b>			
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	\$ 818	802	905
Conversion of debt	369	105	2
<b>Acquisitions</b>			
Fair value of assets acquired	\$ 1,128	595	3,135
Fair value of liabilities assumed	(141)	(15)	(323)
<b>Net cash paid for acquisitions</b>	<b>\$ 987</b>	<b>580</b>	<b>2,812</b>

See Notes to Consolidated Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of Johnson & Johnson and subsidiaries. Intercompany accounts and transactions are eliminated.

### Description of the Company and Business Segments

The Company and its subsidiaries have approximately 115,600 employees worldwide engaged in the manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world and its primary focus is on products related to human health and well-being.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. The Consumer segment manufactures and markets a broad range of products used in the baby and child care, skin care, oral and wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. These products are marketed principally to the general public and sold both to wholesalers and directly to independent and chain retail outlets throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-fungal, anti-infective, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, psychotropic (central nervous system) and urology areas. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use by the general public. The Medical Devices and Diagnostics segment includes a broad range of products used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal care products; Ethicon's wound care and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring products; Ortho-Clinical Diagnostics' professional diagnostic products and Vision Care's disposable contact lenses.

### New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment*. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (such as employee stock options and restricted stock units). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options and restricted stock units) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). On April 14, 2005 the SEC approved a new rule that delayed the effective date of SFAS No. 123(R) for annual, rather than interim, periods that begin after June 15, 2005. As a result, the Company will adopt this statement in the fiscal first quarter of 2006.

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  - SFAS No. 149: *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.*
  - FIN 46 and FIN 46(R): *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51.*

### Cash Equivalents

The Company considers securities with maturities of three months or less, when purchased, to be cash equivalents.

### Investments

Short-term marketable securities are carried at cost, which approximates fair value. Investments classified as available-for-sale are carried at estimated fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive income. Long-term debt securities that the Company has the ability and intent to hold until maturity are carried at amortized cost, which also approximates fair value.

Management determines the appropriate classification of its investment in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. The Company periodically reviews its investments in equity securities for impairment and adjusts these investments to their fair value when a decline in market value is deemed to be other than temporary.

#### Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost. The Company utilizes the straight-line method of depreciation over the estimated useful lives of the assets:

Building and building equipment	20-40 years
Land and leasehold improvements	10-20 years
Machinery and equipment	2-13 years

The Company capitalizes certain computer software and development costs, included in machinery and equipment, when incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are amortized over the estimated useful lives of the software, which generally range from 3 to 5 years.

The Company reviews long-lived assets to assess recoverability using undiscounted cash flows. When necessary, charges for impairments of long-lived assets are recorded for the amount by which the present value of future cash flows is less than the carrying value of these assets.

#### Revenue Recognition

The Company recognizes revenue from product sales when the goods are shipped or delivered and title and risk of loss pass to the customer. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted for as reductions in sales in the same period the related sales are recorded.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates, the largest being the Medicaid rebate provision, are estimated based on sales terms, historical experience, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third party sell-through and market research data, as well as internally generated information.

Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals. The Company also earns service revenue for co-promotion of certain products and includes it in sales to customers.

#### Shipping and Handling

Shipping and handling costs incurred were \$736 million, \$679 million and \$604 million in 2005, 2004 and 2003, respectively, and are included in selling, marketing and administrative expense. The amount of revenue received for shipping

and handling is less than 0.5% of sales to customers for all periods presented.

#### Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

#### Goodwill and Intangible Assets

Effective at the beginning of fiscal year 2002 in accordance with SFAS No. 142, the Company discontinued the amortization relating to all existing goodwill and indefinite lived intangible assets, which are non-amortizable. SFAS No. 142 requires that goodwill and non-amortizable intangible assets be assessed annually for impairment. The Company completed the annual impairment test for 2005 in the fiscal fourth quarter and no impairment was determined. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if a triggering event occurs.

Intangible assets that have finite useful lives continue to be amortized over their useful lives, and are reviewed for impairment when warranted by economic conditions. See Note 7 for further details on Intangible Assets.

#### Financial Instruments

The Company follows the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, collectively referred to as SFAS No. 133. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, what type of hedge transaction.

The Company uses forward exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany product and third party purchases of raw materials denominated in foreign currency. The Company also uses currency swaps to manage currency risk primarily related to borrowings. Both of these types of derivatives are designated as cash flow hedges. Additionally, the Company uses forward exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward exchange contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities.

The designation as a cash flow hedge is made at the entrance date into the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. The fair value of a derivative instrument (i.e. Forward Foreign Exchange Contract, Currency Swap) is the aggregation, by currency, of all

future cash flows discounted to its present value at prevailing market interest rates and subsequently converted to the U.S. dollar at the current spot foreign exchange rate.

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period earnings, and was insignificant in 2005, 2004 and 2003.

The Company documents all relationships between hedged items and derivatives. The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are: (1) minimize foreign currency exposure's impact on the Company's financial performance; (2) protect the Company's cash flow from adverse movements in foreign exchange rates; (3) ensure the appropriateness of financial instruments; and (4) manage the enterprise risk associated with financial institutions.

### Product Liability

Accruals for product liability claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. As a result of cost and availability factors, effective November 1, 2005, the Company ceased purchasing third party product liability insurance. Based on the availability of prior coverage, receivables for insurance recoveries related to product liability claims are recorded on an undiscounted basis, when it is probable that a recovery will be realized.

### Research and Development

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with research and development collaborations are expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in other intangibles, net of accumulated amortization.

### Advertising

Costs associated with advertising are expensed in the year incurred and are included in the selling, marketing and administrative expenses. Advertising expenses worldwide, which are comprised of television, radio, print media and Internet advertising, were \$2.1 billion in 2005, \$1.9 billion in 2004 and \$1.7 billion in 2003.

### Income Taxes

The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded to cover the undistributed portion not intended for repatriation. At January 1, 2006 and January 2, 2005, the cumulative amount of undistributed international earnings were approximately \$12.0 billion and \$18.6 billion, respectively.

Deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities.

### Net Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock using the treasury stock method.

### Stock Options

At January 1, 2006, the Company had 17 stock-based employee compensation plans that are described in Note 10. The Company accounts for those plans under the recognition and measurement principles of Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and its related Interpretations. Compensation costs are not recorded in net earnings for stock options as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

As required by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123*, the following table shows the estimated effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

(Dollars in Millions Except Per Share Data)	2005	2004	2003
Net earnings, as reported	\$10,411	8,509	7,197
Less:			
Compensation expense <sup>(1)</sup>	351	329	349
Net earnings, pro forma	10,060	8,180	6,848
Net earnings per share:			
Basic — as reported	\$ 3.50	2.87	2.42
— pro forma	3.38	2.76	2.31
Diluted — as reported	3.46	2.84	2.40
— pro forma	3.35	2.74	2.29

<sup>(1)</sup> Determined under fair value based method for all awards, net of tax.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates are used when accounting for sales discounts, rebates, allowances and incentives, product liabilities, income taxes, depreciation, amortization, employee benefits, contingencies and asset and liability valuations. For instance, in determining annual pension and post-employment benefit costs, the Company estimates the rate of return on plan assets, and the cost of future health care benefits. Actual results may or may not differ from those estimates.

## Annual Closing Date

The Company follows the concept of a fiscal year which ends on the Sunday nearest to the end of the month of December. Normally each fiscal year consists of 52 weeks, but every five or six years, the fiscal year consists of 53 weeks, as was the case in 2004.

## Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

## 2. INVENTORIES

At the end of 2005 and 2004, inventories were comprised of:

(Dollars in Millions)	2005	2004
Raw materials and supplies	\$ 931	964
Goods in process	1,073	1,113
Finished goods	1,955	1,667
	\$3,959	3,744

## 3. PROPERTY, PLANT AND EQUIPMENT

At the end of 2005 and 2004, property, plant and equipment at cost and accumulated depreciation were:

(Dollars in Millions)	2005	2004
Land and land improvements	\$ 502	515
Buildings and building equipment	5,875	5,907
Machinery and equipment	10,835	10,455
Construction in progress	2,504	1,787
	19,716	18,664
Less accumulated depreciation	8,886	8,228
	\$10,830	10,436

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2005, 2004 and 2003 was \$111 million, \$136 million and \$108 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2005, 2004 and 2003 was \$1.5 billion, \$1.5 billion and \$1.4 billion, respectively.

Upon retirement or other disposal of property, plant and equipment, the cost and related amount of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is recorded in earnings.

## 4. RENTAL EXPENSE AND LEASE COMMITMENTS

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately \$248 million in 2005, \$254 million in 2004 and \$279 million in 2003.

The approximate minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at January 1, 2006 are:

(Dollars in Millions)	2006	2007	2008	2009	2010	After 2010	Total
	\$162	142	119	103	88	151	765

Commitments under capital leases are not significant.

## 5. EMPLOYEE RELATED OBLIGATIONS

At the end of 2005 and 2004, employee related obligations were:

(Dollars in Millions)	2005	2004
Pension benefits	\$1,264	1,109
Postretirement benefits	1,157	1,071
Postemployment benefits	322	244
Deferred compensation	511	397
	\$3,254	2,821
Less current benefits payable	189	190
Employee related obligations	\$3,065	2,631

Prepaid employee related obligations of \$1,218 million and \$1,001 million for 2005 and 2004, respectively, are included in other assets on the consolidated balance sheet.

## 6. BORROWINGS

The components of long-term debt are as follows:

(Dollars in Millions)	2005	Effective Rate%	2004	Effective Rate%
3% Zero Coupon Convertible Subordinated Debentures due 2020	\$ 202	3.00	560	3.00
4.95% Debentures due 2033	500	4.95	500	4.95
3.80% Debentures due 2013	500	3.82	500	3.82
6.95% Notes due 2029	293	7.14	293	7.14
6.73% Debentures due 2023	250	6.73	250	6.73
6.625% Notes due 2009	199	6.80	198	6.80
5.50% Convertible Subordinated Notes due 2009 <sup>(2)</sup>	—	—	177	2.00
Industrial Revenue Bonds	31	3.90	34	2.76
Other	55	—	71	—
	2,030	5.18 <sup>(1)</sup>	2,583	4.63 <sup>(1)</sup>
Less current portion	13		18	
	\$2,017		2,565	

<sup>(1)</sup> Weighted average effective rate.

<sup>(2)</sup> 5.50% Convertible Subordinated Notes redeemed by Scios Inc. in August 2005.



The Company has access to substantial sources of funds at numerous banks worldwide. Total unused credit available to the Company approximates \$3.6 billion, including \$1.5 billion of credit commitments, of which \$0.75 billion expire September 28, 2006 and \$0.75 billion expire September 29, 2010. Also included are \$0.8 billion of uncommitted lines with various banks worldwide that expire during 2006. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material for all periods presented.

The Company filed a shelf registration with the Securities and Exchange Commission that became effective January 21, 2004, which enables the Company to issue up to \$1.985 billion in debt securities and warrants for the purchase of debt securities. No debt was issued off the shelf during 2005 and the full amount remained available as of January 1, 2006.

On August 19, 2005, Scios Inc. exercised its right to redeem all of its outstanding \$150 million original principal amount of 5.50% Convertible Subordinated Notes due 2009. The redemption price was 103.143% of the principal amount or \$1,031.43 per \$1,000 principal amount of Debentures, with accrued interest to, but excluding, the date of redemption.

On July 28, 2000, ALZA Corporation completed a private offering of the 3% Zero Coupon Convertible Subordinated Debentures, which were issued at a price of \$551.26 per \$1,000 principal amount at maturity. At January 1, 2006, the outstanding 3% Debentures had a total principal amount at maturity of \$311.6 million with a yield to maturity of 3% per annum, computed on a semiannual bond equivalent basis. There are no periodic interest payments. Under the terms of the 3% Debentures, holders are entitled to convert their Debentures into approximately 15.0 million shares of Johnson & Johnson stock at a price of \$40.102 per share. Approximately 10.7 million shares have been issued as of January 1, 2006, due to voluntary conversions by note holders. At the option of the holder, the 3% Debentures may be repurchased by the Company on July 28, 2008 or 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may elect to deliver either Johnson & Johnson common stock or cash, or a combination of stock and cash, in the event of repurchase of the 3% Debentures. The Company, at its option, may also redeem any or all of the 3% Debentures after July 28, 2003 at the issue price plus accreted original issue discount. At January 1, 2006, and January 2, 2005, the fair value based on quoted market value of the 3% Debentures was \$260.6 million and \$780.5 million, respectively.

Short-term borrowings and current portion of long term debt amounted to \$668 million at the end of 2005, of which \$381 million relates to a commercial paper program. The remainder represents principally local borrowing by international subsidiaries.

On November 1, 2004 the Company exercised its right to redeem all of its \$300 million aggregate principal amount of 8.72% Debentures due in 2024. The redemption price was 104.360% of the principal amount or \$1,043.36 per \$1,000 principal amount of Debentures, with accrued interest to the date of redemption.

Short-term borrowings and current portion of long-term debt amounted to \$280 million at the end of 2004, principally local borrowing by international subsidiaries.

Aggregate maturities of long-term obligations commencing in 2006 are:

(Dollars in Millions)	2006	2007	2008	2009	2010	After 2010
	\$12	17	8	208	9	1,776

## 7. INTANGIBLE ASSETS AND GOODWILL

At the end of 2005 and 2004, the gross and net amounts of intangible assets were:

(Dollars in Millions)	2005	2004
Trademarks (non-amortizable) – gross	\$ 1,400	1,232
Less accumulated amortization	134	142
Trademarks (non-amortizable) – net	\$ 1,266	1,090
Patents and trademarks – gross	\$ 4,128	3,974
Less accumulated amortization	1,370	1,125
Patents and trademarks – net	\$ 2,758	2,849
Other intangibles – gross	\$ 3,544	3,302
Less accumulated amortization	1,383	1,262
Other intangibles – net	\$ 2,161	2,040
Subtotal intangible assets – gross	\$ 9,072	8,508
Less accumulated amortization	2,887	2,529
Subtotal intangible assets – net	\$ 6,185	5,979
Goodwill – gross	\$ 6,703	6,597
Less accumulated amortization	713	734
Goodwill – net	\$ 5,990	5,863
Total intangible assets – gross	\$15,775	15,105
Less accumulated amortization	3,600	3,263
Total intangible assets – net	\$12,175	11,842

Goodwill as of January 1, 2006 and January 2, 2005, as allocated by segment of business is as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev and Diag	Total
Goodwill at				
December 28, 2003	\$ 882	781	3,727	5,390
Acquisitions	232	32	138	402
Translation/other	46	19	6	71
Goodwill at				
January 2, 2005	\$1,160	832	3,871	5,863
Acquisitions	–	71	194	265
Translation/other	(70)	(29)	(39)	(138)
Goodwill at				
January 1, 2006	\$1,090	874	4,026	5,990

The weighted average amortization periods for patents and trademarks and other intangible assets are 15 years and 17 years, respectively. The amortization expense of amortizable intangible assets for the fiscal years ended January 1, 2006, January 2, 2005 and December 28, 2003, was \$521 million, \$603 million and \$454 million before tax, respectively. Certain patents and intangibles were written down to fair value during fiscal years 2005, 2004 and 2003, with the resulting charge included in amortization expense. The estimated amortization expense for the five succeeding years approximates \$565 million before tax, per year. Substantially all of the amortization expense is included in cost of products sold.

## 8. INCOME TAXES

The provision for taxes on income consists of:

(Dollars in Millions)	2005	2004	2003
Currently payable:			
U.S. taxes	\$2,181	3,654	2,934
International taxes	1,110	1,173	897
	3,291	4,827	3,831
Deferred:			
U.S. taxes	228	(70)	(409)
International taxes	(274)	(428)	(311)
	(46)	(498)	(720)
	\$3,245	4,329	3,111

A comparison of income tax expense at the federal statutory rate of 35% in 2005, 2004 and 2003, to the Company's effective tax rate is as follows:

(Dollars in Millions)	2005	2004	2003
U.S.	\$7,381	7,895	6,333
International	6,275	4,943	3,975
Earnings before taxes on income:	\$13,656	12,838	10,308
Tax rates:			
Statutory	35.0%	35.0%	35.0%
Puerto Rico and Ireland operations	(7.0)	(5.6)	(6.1)
Research tax credits	(0.6)	(0.8)	(1.0)
U.S. state and local	1.0	1.6	2.0
International subsidiaries excluding Ireland	(2.6)	(1.7)	(2.0)
Repatriation of International earnings	(1.6)	6.1	—
IPR&D	0.9	—	3.1
All other	(1.3)	(0.9)	(0.8)
Effective tax rate	23.8%	33.7%	30.2%

During 2005, the Company had subsidiaries operating in Puerto Rico under various tax incentive grants. Also, the U.S. possessions tax credit, which expires in 2006, applies to certain operations in Puerto Rico. In addition, the Company had subsidiaries manufacturing in Ireland under an incentive tax rate. During the second quarter of 2005, a tax benefit of \$225 million was recorded due to the reversal of a tax liability related to a technical correction associated with the American Jobs Creation Act of 2004. The decrease in the 2005 tax rate was attributed to increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions, as a result of increased expenditures in higher tax jurisdictions and a shift in sales mix.

Temporary differences and carry forwards for 2005 and 2004 are as follows:

(Dollars in Millions)	2005 Deferred Tax		2004 Deferred Tax	
	Asset	Liability	Asset	Liability
Employee related obligations	\$ 670		483	
Depreciation		(428)		(378)
Non-deductible intangibles		(1,401)		(1,366)
International R&D capitalized for tax	999		905	
Reserves & liabilities	788		720	
Income reported for tax purposes	458		463	
Miscellaneous international	495	(149)	535	(236)
Capitalized intangibles	140		147	
Miscellaneous U.S.	342		515	
Total deferred income taxes	\$3,892	(1,978)	3,768	(1,980)

The difference between the net deferred tax on income per the balance sheet and the net deferred tax above is included in taxes on income on the balance sheet.

## 9. INTERNATIONAL CURRENCY TRANSLATION

For translation of its subsidiaries operating in non-U.S. dollar currencies, the Company has determined that the local currencies of its international subsidiaries are the functional currencies except those in highly inflationary economies, which are defined as those which have had compound cumulative rates of inflation of 100% or more during the past three years, or where a substantial portion of its cash flows are not in the local currency.

In consolidating international subsidiaries, balance sheet currency effects are recorded as a component of accumulated other comprehensive income. This equity account includes the results of translating all balance sheet assets and liabilities at current exchange rates, except for those located in highly inflationary economies that are reflected in operating results.

An analysis of the changes during 2005 and 2004 for foreign currency translation adjustments is included in Note 12.

Net currency transaction and translation gains and losses included in other (income) expense were losses of \$32 million, \$38 million, and \$22 million in 2005, 2004 and 2003, respectively.

## 10. COMMON STOCK, STOCK OPTION PLANS AND STOCK COMPENSATION AGREEMENTS

At January 1, 2006, the Company had 17 stock-based compensation plans. The shares outstanding are for contracts under the Company's 1995 and 2000 Stock Option Plans, the 2005 Long Term Incentive Plan, the 1997 Non-Employee Director's Plan and the Biosense, Centocor, Innovasive Devices, ALZA, Inverness and Scios Stock Option Plans. During 2005, no options were granted under any of these plans except the 2000 Stock Option Plan and 2005 Long Term Incentive Plan. The 2000 Stock Option Plan expired April 19, 2005. All options granted subsequent to that date were under the 2005 Long Term Incentive Plan.

Stock options expire 10 years from the date they are granted and vest over service periods that range from one to five years. All options are granted at current market price on the date of grant. Under the 2005 Long Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long Term Incentive Plan were 259.2 million at the end of 2005.

A summary of the status of the Company's stock option plans as of January 1, 2006, January 2, 2005, and December 28, 2003, and changes during the years ending on those dates are presented below:

(Shares in Thousands)	Options Outstanding	Weighted Average Exercise Price
Balance at December 29, 2002	189,741	\$41.42
Options granted	50,880	49.15
Options exercised	(21,242)	17.22
Options canceled/forfeited	(5,430)	52.68
Balance at December 28, 2003	213,949	45.37
Options granted	47,815	53.94
Options exercised	(24,066)	28.50
Options canceled/forfeited	(8,694)	53.77
Balance at January 2, 2005	229,004	48.62
Options granted	47,556	66.16
Options exercised	(21,733)	34.19
Options canceled/forfeited	(6,285)	55.84
Balance at January 1, 2006	248,542	\$53.05

The average fair value of options granted was \$15.48 in 2005, \$13.11 in 2004, and \$13.58 in 2003. The fair value was estimated using the Black-Scholes option pricing model based on the weighted average assumptions of:

	2005	2004	2003
Risk-free rate	3.72%	3.15%	3.09%
Volatility	25.0%	27.0%	28.0%
Expected life	5.0 yrs	5.0 yrs	5.0 yrs
Dividend yield	1.93%	1.76%	1.35%

The following table summarizes stock options outstanding and exercisable at January 1, 2006:

	Outstanding			Exercisable	
	Options	Average Exercise Price	Average Life <sup>(1)</sup>	Options	Average Exercise Price
(Shares in Thousands)					
Exercise Price Range					
\$ 3.62-\$27.00	6,735	1.8	\$23.27	6,733	\$23.27
\$27.06-\$40.16	24,997	2.6	35.82	24,912	35.81
\$40.53-\$50.08	20,470	4.1	49.18	20,239	49.18
\$50.11-\$52.11	29,394	4.8	50.70	29,174	50.69
\$52.20-\$53.89	37,709	7.1	52.22	177	52.79
\$53.93-\$54.89	43,789	8.1	53.94	672	54.54
\$55.01-\$66.08	40,180	6.1	57.46	37,473	57.35
\$66.18-\$91.89	45,268	9.1	66.20	10	87.08
	248,542	6.4	\$53.05	119,390	\$47.90

<sup>(1)</sup> Average contractual life remaining in years.

Stock options exercisable at January 2, 2005 and December 28, 2003 were 100,488 options at an average price of \$41.26 and 119,663 options at an average price of \$38.51, respectively.

## 11. SEGMENTS OF BUSINESS<sup>(1)</sup> AND GEOGRAPHIC AREAS

(Dollars in Millions)	Sales to Customers <sup>(2)</sup>		
	2005	2004	2003
Consumer – United States	\$ 4,405	4,224	3,968
International	4,691	4,109	3,463
<b>Total</b>	<b>9,096</b>	<b>8,333</b>	<b>7,431</b>
Pharmaceutical – United States	14,478	14,960	13,271
International	7,844	7,168	6,246
<b>Total</b>	<b>22,322</b>	<b>22,128</b>	<b>19,517</b>
Medical Devices and Diagnostics – United States	9,494	8,586	8,035
International	9,602	8,301	6,879
<b>Total</b>	<b>19,096</b>	<b>16,887</b>	<b>14,914</b>
<b>Worldwide total</b>	<b>\$50,514</b>	<b>47,348</b>	<b>41,862</b>

(Dollars in Millions)	Operating Profit			Identifiable Assets		
	2005 <sup>(5)</sup>	2004 <sup>(6)</sup>	2003 <sup>(7)</sup>	2005	2004	2003
Consumer	\$ 1,667	1,514	1,393	\$ 6,275	6,142	5,371
Pharmaceutical	6,610	7,608	5,896	16,091	16,058	15,001
Medical Devices and Diagnostics	5,418	4,091	3,370	16,540	15,805	16,082
<b>Segments total</b>	<b>13,695</b>	<b>13,213</b>	<b>10,659</b>	<b>38,906</b>	<b>38,005</b>	<b>36,454</b>
Less: Expenses not allocated to segments <sup>(3)</sup>	39	375	351			
General corporate <sup>(4)</sup>				19,119	15,312	11,809
<b>Worldwide total</b>	<b>\$13,656</b>	<b>12,838</b>	<b>10,308</b>	<b>\$58,025</b>	<b>53,317</b>	<b>48,263</b>

(Dollars in Millions)	Additions to Property, Plant & Equipment			Depreciation and Amortization		
	2005	2004	2003	2005	2004	2003
Consumer	\$ 321	227	229	\$ 232	222	246
Pharmaceutical	1,388	1,197	1,236	918	1,008	765
Medical Devices and Diagnostics	785	630	639	821	769	761
<b>Segments total</b>	<b>2,494</b>	<b>2,054</b>	<b>2,104</b>	<b>1,971</b>	<b>1,999</b>	<b>1,772</b>
General corporate	138	121	158	122	125	97
<b>Worldwide total</b>	<b>\$2,632</b>	<b>2,175</b>	<b>2,262</b>	<b>\$2,093</b>	<b>2,124</b>	<b>1,869</b>

(Dollars in Millions)	Sales to Customers <sup>(2)</sup>			Long-Lived Assets <sup>(8)</sup>		
	2005	2004	2003	2005	2004	2003
United States	\$28,377	27,770	25,274	\$15,355	14,324	14,367
Europe	12,187	11,151	9,483	5,646	6,142	5,193
Western Hemisphere excluding U.S.	3,087	2,589	2,236	957	748	772
Asia-Pacific, Africa	6,863	5,838	4,869	596	620	605
<b>Segments total</b>	<b>50,514</b>	<b>47,348</b>	<b>41,862</b>	<b>22,554</b>	<b>21,834</b>	<b>20,937</b>
General corporate				451	444	448
Other non long-lived assets				35,020	31,039	26,878
<b>Worldwide total</b>	<b>\$50,514</b>	<b>47,348</b>	<b>41,862</b>	<b>\$58,025</b>	<b>53,317</b>	<b>48,263</b>

<sup>(1)</sup> See Note 1 for a description of the segments in which the Company operates.

<sup>(2)</sup> Export sales and intersegment sales are not significant. In 2005, the Company did not have a customer that represented 10% of total revenues. Sales to our top distributors accounted for 10.2% and 10.0% of total revenues in 2004 and 10.5% of total revenues in 2003.

<sup>(3)</sup> Amounts not allocated to segments include interest (income)/expense, minority interest and general corporate (income)/expense.

<sup>(4)</sup> General corporate includes cash and marketable securities.

<sup>(5)</sup> Includes \$302 million and \$60 million of In-Process Research and Development (IPR&D) for the Pharmaceutical and Medical Devices and Diagnostics segments, respectively.

<sup>(6)</sup> Includes \$18 million of IPR&D in the Medical Devices and Diagnostics segment.

<sup>(7)</sup> Includes \$737 million of IPR&D in the Pharmaceutical segment and \$181 million of IPR&D and \$230 million of an arbitration ruling on stent patents in the Medical Devices and Diagnostics segment.

<sup>(8)</sup> Long-lived assets include property, plant and equipment, net for 2005, 2004 and 2003 of \$10,830, \$10,436 and \$9,846, respectively, and intangible assets, net for 2005, 2004 and 2003 of \$12,175, \$11,842 and \$11,539, respectively.

## 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of other comprehensive income/(loss) consist of the following:

(Dollars in Millions)	Foreign Currency Translation	Unrealized Gains/ (Losses) on Securities	Pension Liability Adjustments	Gains/ (Losses) on Derivatives & Hedges	Total Accumulated Other Comprehensive Income/(Loss)
Dec. 29, 2002	\$(707)	(2)	(33)	(100)	(842)
2003 changes					
Net change due to hedging transactions	—	—	—	(567)	
Net amount reclassified to net earnings	—	—	—	487	
Net 2003 changes	334	29	(31)	(80)	252
Dec. 28, 2003	\$(373)	27	(64)	(180)	(590)
2004 changes					
Net change due to hedging transactions	—	—	—	15	
Net amount reclassified to net earnings	—	—	—	15	
Net 2004 changes	268	59	(282)	30	75
Jan. 2, 2005	\$(105)	86	(346)	(150)	(515)
2005 changes					
Net change due to hedging transactions	—	—	—	112	
Net amount reclassified to net earnings	—	—	—	53	
Net 2005 changes	(415)	(16)	26	165	(240)
Jan. 1, 2006	\$(520)	70	(320)	15	(755)

Total other comprehensive income for 2005 includes reclassification adjustment gains of \$23 million realized from the sale of equity securities and the associated tax expense of \$8 million. Total other comprehensive income for 2004 includes reclassification adjustment gains of \$16 million realized from the sale of equity securities and the associated tax expense of \$6 million. Total other comprehensive income for 2003 includes reclassification adjustment gains of \$3 million realized from the sale of equity securities and the associated tax expense of \$1 million.

The tax effect on the unrealized gains/(losses) on the equity securities balance is an expense of \$38 million, \$47 million and \$15 million in 2005, 2004 and 2003, respectively. The tax effect related to the minimum pension liability was \$160 million in 2005. The tax effect on the gains/(losses) on derivatives and hedges are a loss of \$11 million in 2005 and benefits of \$81 million and \$99 million in 2004 and 2003, respectively. See Note 15 for additional information relating to derivatives and hedging.

The currency translation adjustments are not currently adjusted for income taxes as they relate to permanent investments in international subsidiaries.

## 13. PENSIONS AND OTHER BENEFIT PLANS

The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, which cover most employees worldwide. The Company also provides postretirement benefits, primarily health care, to all U.S. retired employees and their dependents.

Many international employees are covered by government-sponsored programs for which the direct cost to the Company is not significant.

Retirement plan benefits are primarily based on the employee's compensation during the last three to five years

before retirement and the number of years of service. International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts or reserves are provided.

The Company does not fund retiree health care benefits in advance and has the right to modify these plans in the future.

The Company uses the date of its consolidated financial statements (January 1, 2006 and January 2, 2005, respectively) as the measurement date for all U.S. and international retirement and other benefit plans.

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for 2005, 2004 and 2003 included the following components:

(Dollars in Millions)	Retirement Plans			Other Benefit Plans		
	2005	2004	2003	2005	2004	2003
Service cost	\$ 462	409	325	\$ 56	56	28
Interest cost	488	444	391	87	91	70
Expected return on plan assets	(579)	(529)	(495)	(3)	(3)	(3)
Amortization of prior service cost	12	15	18	(7)	(4)	(3)
Amortization of net transition asset	(2)	(3)	(4)	—	—	—
Recognized actuarial losses	219	173	109	25	27	3
Curtailments and settlements	2	3	1	—	—	—
Special termination benefits	—	—	95	—	—	—
Net periodic benefit cost	\$ 602	512	440	\$158	167	95

The net periodic benefit cost attributable to U.S. retirement plans was \$370 million in 2005, \$329 million in 2004 and \$309 million in 2003.

During 2003, the Company offered a voluntary retirement program with enhanced benefits called the Retirement Enhancement Program (REP) to eligible U.S. regular, full-time employees who have attained age 55 with at least 10 years of pension credited service by June 30, 2004. The program enhancements included the elimination of the early retirement

reduction for pension benefit purposes (normally 4% per year prior to age 62) and a special termination benefit (one week of pay per year of credited service). The program resulted in a one-time increase in U.S. pension expense of \$95 million in 2003 to reflect the value of the retirement enhancement.

The weighted-average assumptions in the following table represent the rates used to develop the actuarial present value of projected benefit obligation for the year listed and also the net periodic benefit cost for the following year.

U.S. Benefit Plans	Retirement Plans				Other Benefit Plans			
	2005	2004	2003	2002	2005	2004	2003	2002
Discount rate	5.75%	5.75	6.00	6.75	5.75%	5.75	6.00	6.75
Expected long-term rate of return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Rate of increase in compensation levels	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
<b>International Benefit Plans</b>								
Discount rate	4.75%	5.00	5.25	5.75	5.00%	5.50	6.00	6.75
Expected long-term rate of return on plan assets	8.25	8.00	7.50	7.50	—	—	—	—
Rate of increase in compensation levels	3.75	3.75	3.50	3.50	4.25	4.25	4.25	4.25

The Company's discount rates are determined by considering current yield curves representing high quality, long-term fixed income instruments. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumptions is determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

The following table displays the assumed health care cost trend rates, for all individuals:

Health Care Plans	2005	2004
Health care cost trend rate assumed for next year	9.00%	9.00
Rate to which the cost trend rate is assumed to decline (ultimate trend)	4.50%	4.50
Year the rate reaches the ultimate trend rate	2010	2010

A one-percentage-point change in assumed health care cost trend rates would have the following effect:

(Dollars in Millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
<b>Health Care Plans</b>		
Total interest and service cost	\$ 25	\$ (20)
Postretirement benefit obligation	257	(206)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2005 and 2004 for the Company's defined benefit retirement plans and other postretirement plans:

	Retirement Plans		Other Benefit Plans	
	2005	2004	2005	2004
<b>Change in Benefit Obligation</b>				
Projected benefit obligation – beginning of year	\$ 8,941	7,680	\$1,593	1,329
Service cost	462	409	56	56
Interest cost	488	444	87	91
Plan participant contributions	22	21	–	–
Amendments	13	(65)	–	(46)
Actuarial losses	932	609	57	229
Divestitures & acquisitions	–	(1)	–	–
Curtailments & settlements	(1)	(7)	–	–
Benefits paid from plan	(366)	(401)	(75)	(73)
Effect of exchange rates	(320)	252	(1)	7
Projected benefit obligation – end of year	\$10,171	8,941	\$1,717	1,593
<b>Change in Plan Assets</b>				
Plan assets at fair value – beginning of year	\$ 7,125	6,050	\$ 37	39
Actual return on plan assets	801	713	1	4
Company contributions	714	531	71	65
Plan participant contributions	22	21	–	–
Divestitures	–	(2)	–	–
Benefits paid from plan assets	(366)	(359)	(75)	(71)
Effect of exchange rates	(188)	171	–	–
Plan assets at fair value – end of year	\$ 8,108	7,125	\$ 34	37

Strategic asset allocations are determined by country, based on the nature of the liabilities and consideration of the demographic composition of the plan participants (average age, years of service and active versus retiree status). The Company's plans are

considered non-mature plans and the long-term strategic asset allocations are consistent with these types of plans. Emphasis is placed on diversifying equities on a broad basis combined with currency matching of the fixed income assets.

The following table displays the projected future benefit payments from the Company's retirement and other benefit plans:

	2006	2007	2008	2009	2010	2011-2015
<b>Projected future benefit payments</b>						
Retirement plans	\$357	374	379	404	416	2,583
Other benefit plans – gross	\$ 79	84	89	95	100	587
Medicare rebates	(5)	(6)	(6)	(7)	(8)	(49)
Other benefit plans – net	\$ 74	78	83	88	92	538

The Company is not required to fund its U.S. retirement plans in 2006 in order to meet minimum statutory funding requirements. International plans will be funded in accordance with local regulations. Additional discretionary contributions will be made when deemed appropriate to meet the long-term

obligations of the plans. In certain countries other than the U.S., the funding of pension plans is not a common practice as funding provides no economic benefit. Consequently, the Company has several pension plans which are not funded.

The following table displays the projected future minimum contributions to the Company's U.S. and international unfunded retirement plans. These amounts do not include any discretionary contributions that the Company may elect to make in the future.

	2006	2007	2008	2009	2010	2011-2015
<b>Projected future contributions</b>						
Unfunded U.S. retirement plans	\$21	22	23	24	25	140
Unfunded International retirement plans	\$16	18	18	20	21	127

The Company's retirement plan asset allocation at January 1, 2006 and January 2, 2005 and target allocations for 2006 are as follows:

	Percent of Plan Assets		Target Allocation
	2005	2004	2006
<b>U.S. Retirement Plans</b>			
Equity securities	76%	76%	75%
Debt securities	24	24	25
Total plan assets	100%	100%	100%
<b>International Retirement Plans</b>			
Equity securities	69%	69%	75%
Debt securities	30	30	25
Real estate and other	1	1	—
Total plan assets	100%	100%	100%

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of \$34 million and \$37 million at January 1, 2006 and January 2, 2005, respectively.

The fair value of Johnson & Johnson common stock directly held in plan assets was \$419 million (5.2% of total plan assets) and \$440 million (6.2% of total plan assets) at January 1, 2006 and January 2, 2005, respectively.

Amounts recognized in the Company's balance sheet consist of the following:

(Dollars in Millions)	Retirement Plans		Other Benefit Plans	
	2005	2004	2005	2004
Plan assets at fair value	\$ 8,108	7,125	\$ 34	37
Projected benefit obligation	10,171	8,941	1,717	1,593
Funded status	(2,063)	(1,816)	(1,683)	(1,556)
Unrecognized actuarial losses	2,484	2,055	574	541
Unrecognized prior service cost	49	46	(48)	(56)
Unrecognized net transition asset	5	3	—	—
Total recognized in the consolidated balance sheet	\$ 475	288	\$(1,157)	(1,071)
Book accruals	\$(1,264)	(1,109)	\$(1,157)	(1,071)
Prepaid benefits	1,218	1,001	—	—
Intangible assets	41	50	—	—
Accumulated comprehensive income	480	346	—	—
Total recognized in the consolidated balance sheet	\$ 475	288	\$(1,157)	(1,071)

The accumulated benefit obligation for all U.S. and international defined benefit retirement plans was \$8,570 million and \$7,488 million at January 1, 2006 and January 2, 2005, respectively.

A minimum pension liability adjustment is required when the actuarial present value of the accumulated benefits obligation (ABO) exceeds the fair value of plan assets and accrued pension liabilities. The minimum pension liabilities (intangible assets and accumulated comprehensive income) in 2005 and 2004 of \$521 million and \$396 million, respectively, relate primarily to plans outside of the U.S.

Plans with accumulated benefit obligations in excess of plan assets consist of the following:

(Dollars in Millions)	Retirement Plans	
	2005	2004
Accumulated benefit obligation	\$(2,759)	(2,703)
Projected benefit obligation	(3,230)	(3,327)
Plan assets at fair value	1,570	1,727



On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 was enacted that introduces a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree health care benefit plans. The Company's application to the Centers for Medicare and Medicaid Services attesting to the plan's "actuarial equivalence" to Medicare has been accepted, and subsidy reimbursements

are expected beginning in 2006. There is no change in estimated participation rates or per capita claims costs as a result of the Act. The Company has recognized the effect of the subsidy on a prospective basis from June 28, 2004. The recognition reduces before-tax and after-tax expense by \$16 million and the accumulated postretirement benefit obligation by \$163 million.

#### 14. CASH EQUIVALENTS AND MARKETABLE SECURITIES

(Dollars in Millions)	January 1, 2006			January 2, 2005		
	Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value	Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value
<b>Current Investments</b>						
Government securities and obligations	\$ 1,743	—	1,743	4,213	(1)	4,212
Corporate debt securities	67	—	67	2,798	(1)	2,797
Money market funds	11,918	—	11,918	2,153	—	2,153
Time deposits	985	—	985	1,325	—	1,325
Collateralized mortgage obligations and asset backed securities	—	—	—	397	—	397
Bank notes	—	—	—	20	—	20
Total cash equivalents and current marketable securities	\$14,713	—	14,713	10,906	(2)	10,904
<b>Non-Current Investments</b>						
Marketable securities	\$ 20	—	20	46	—	46

Current marketable securities include \$14.6 billion and \$7.2 billion that are classified as cash equivalents on the balance sheet at January 1, 2006 and January 2, 2005, respectively.

#### 15. FINANCIAL INSTRUMENTS

The Company follows the provisions of SFAS 133 requiring that all derivative instruments be recorded on the balance sheet at fair value.

As of January 1, 2006, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was \$15 million after-tax. For additional information, see Note 12. The Company expects that substantially all of this amount will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. Derivative gains/(losses), initially reported as a component of other comprehensive income, are reclassified to earnings in the period when the forecasted transaction affects earnings.

For the years ended January 1, 2006, January 2, 2005 and December 28, 2003, the net impact of hedge ineffectiveness, transactions not qualifying for hedge accounting and discontinuance of hedges, to the Company's financial statements was insignificant.

Refer to Note 12 for disclosures of movements in Accumulated Other Comprehensive Income.

#### Concentration of Credit Risk

The Company invests its excess cash in both deposits with major banks throughout the world and other high quality money market instruments. The Company has a policy of making investments only with commercial institutions that have at least an A (or equivalent) credit rating. On average, these investments mature within six months, and the Company has not incurred any related losses.

#### 16. SAVINGS PLAN

The Company has voluntary 401(k) savings plans designed to enhance the existing retirement programs covering eligible employees. The Company matches a percentage of each employee's contributions consistent with the provisions of the plan for which he/she is eligible.

In the U.S. salaried plan, through 2004, one-third of the Company match was paid in Company stock under an employee stock ownership plan (ESOP) unless the employee chose to

redirect his or her investment. In 1990, to establish the ESOP, the Company loaned \$100 million to the ESOP Trust to purchase shares of the Company stock on the open market. In exchange, the Company received a note, the balance of which was recorded as a reduction of shareholders' equity. The remaining shares held by the ESOP trust were allocated to participant accounts by the end of February 2005. From March 2005, and going forward, all company match will be made in cash and will follow the individual employee's investment elections.

Total Company contributions to the plans were \$148 million in 2005, \$143 million in 2004 and \$128 million in 2003.

## 17. MERGERS, ACQUISITIONS AND DIVESTITURES

Certain businesses were acquired for \$987 million in cash and \$141 million of liabilities assumed during 2005. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2005 acquisitions included: TransForm Pharmaceuticals, Inc., a company specializing in the discovery of superior formulations and novel crystalline forms of drug molecules; Closure Medical Corporation, a company with expertise and intellectual property in the biosurgicals market; Peninsula Pharmaceuticals, Inc., a biopharmaceutical company focused on developing and commercializing antibiotics to treat life-threatening infections; and rights to all consumer and professionally dispensed REMBRANDT® Brand of oral care products, such as whitening toothpastes, strips, systems and mouth rinses.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$720 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately \$362 million has been identified as the value of in-process research and development (IPR&D) primarily associated with the acquisitions of TransForm Pharmaceuticals, Inc., Closure Medical Corporation and Peninsula Pharmaceuticals, Inc.

The IPR&D charge related to the acquisition of TransForm Pharmaceuticals, Inc. was \$50 million and is associated with research related to the discovery and application of superior formulations. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate applied was 10%.

The IPR&D charge related to the acquisition of Closure Medical Corporation was \$51 million and is associated with the OMNEX™ Surgical Sealant in vascular indications outside Europe and in other potential indications worldwide. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 90% for vascular indications and 60% for all other indications was used to reflect inherent clinical and regulatory risk. The discount rate applied to both vascular and other indications was 15%.

The IPR&D charge related to the acquisition of Peninsula Pharmaceuticals, Inc. was \$252 million and is associated with the development of doripenem, which is in Phase III clinical trials. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 80% was used to reflect

inherent clinical and regulatory risk and the discount rate applied was 14%.

The remaining \$9 million in IPR&D was associated with the acquisition of international commercial rights to certain patents and know-how in the field of sedation and analgesia from Scott Lab, Inc. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate was 17%.

Certain businesses were acquired for \$455 million in cash and \$15 million of liabilities assumed during 2004. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

In addition, per the terms of the 2003 acquisition agreement with the Link Spine Group, Inc., \$125 million in cash was paid to the owners of the Link Spine Group, Inc. in 2004 based on the date the U.S. Food and Drug Administration (FDA) approved the CHARITÉ™ Artificial Disc. Thus, the 2004 total cash expenditures related to acquisitions were \$580 million.

The 2004 acquisitions included: Merck's 50% interest in the Johnson & Johnson-Merck Consumer Pharmaceuticals Co. European non-prescription pharmaceutical joint venture including all of the infrastructure and brand assets managed by the European joint venture; Egea Biosciences, Inc. through the exercise of the option to acquire the remaining outstanding stock not owned by Johnson & Johnson, which has developed a proprietary technology platform called Gene Writer, that allows for the rapid and highly accurate synthesis of DNA sequences, gene assembly, and construction of large synthetic gene libraries; Artemis Medical, Inc., a privately held company with ultrasound and x-ray visible biopsy site breast markers as well as hybrid markers; U.S. commercial rights to certain patents and know-how in the field of sedation and analgesia from Scott Lab, Inc.; Biopharm SAS, a privately held French producer and marketer of skin care products centered around the leading brand BIAFINE®; the assets of Micomed, a privately owned manufacturer of spinal implants primarily focused on supplying the German market; and the acquisition of the AMBI® skin care brand for women of color.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$425 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. The \$125 million related to the U.S. FDA approval of the CHARITÉ™ Artificial Disc was recorded as additional goodwill associated with the 2003 Link Spine Group, Inc. acquisition. Thus, total additions to intangibles and goodwill in 2004 were \$550 million. Approximately \$18 million has been identified as the value of IPR&D associated with the Scott Lab, Inc. acquisition. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. The discount rate was 25%.

Certain businesses were acquired for \$2.8 billion in cash and \$323 million of liabilities assumed during 2003. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2003 acquisitions included: Link Spine Group, Inc., a privately owned corporation with exclusive worldwide rights

to the CHARITÉ™ Artificial Disc; Scios Inc., a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on auto-immune diseases; 3-Dimensional Pharmaceuticals, Inc., a company with a technology platform focused on the discovery and development of therapeutic small molecules; OraPharma, Inc., a specialty pharmaceutical company focused on the development and commercialization of unique oral therapeutics; and certain assets of Orquest, Inc., a privately held biotechnology company focused on developing biologically-based implants for orthopaedics and spine surgery.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to \$1.8 billion and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately \$918 million has been identified as the value of IPR&D primarily associated with the acquisition of Link Spine Group, Inc. and Scios Inc.

The IPR&D charge related to the Link Spine Group, Inc. acquisition was \$170 million and is associated with the CHARITÉ™ Artificial Disc. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 95% was used to reflect inherent clinical and regulatory risk. The discount rate was 19%. The purchase price for the Link Spine Group, Inc. acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately \$84 million and was allocated to goodwill. Substantially all of the amount allocated to goodwill will not be deductible for tax purposes.

The IPR&D charge related to Scios Inc. was \$730 million and is largely associated with its p-38 kinase inhibitor program. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects using a 16% probability of success factor and a 9% discount rate. The purchase price for the Scios Inc. acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Identifiable intangible assets included patents and trademarks valued at approximately \$1.5 billion. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately \$440 million and was allocated to goodwill. Substantially all of the amount allocated to goodwill will not be deductible for tax purposes.

The remaining IPR&D was associated with Orquest, Inc., and 3-Dimensional Pharmaceuticals, Inc., with charges of \$11 million and \$7 million, respectively.

Supplemental pro forma information for 2005, 2004 and 2003 per *SFAS No. 141, Business Combinations*, and *SFAS No. 142, Goodwill and Other Intangible Assets*, is not provided, as the impact of the aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position.

Divestitures in 2005, 2004 and 2003 did not have a material effect on the Company's results of operations, cash flows or financial position.

## 18. LEGAL PROCEEDINGS

### Product Liability

The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use that accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by existing amounts accrued in the Company's balance sheet, and where available by third-party product liability insurance.

One group of cases against the Company concerns a product of the Company's subsidiary, Janssen Pharmaceutica Inc. (Janssen), PROPULSID® (cisapride), which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, numerous lawsuits were filed against Janssen and the Company regarding PROPULSID® in state and federal courts across the country.

These actions seek substantial compensatory and punitive damages and accuse Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and over promotion. In addition, Janssen and the Company have entered into tolling agreements with various plaintiffs' counsel halting the running of the statutes of limitations with respect to the potential claims of a significant number of individuals while those attorneys evaluate whether or not to sue Janssen and the Company on their behalf.

On February 5, 2004, Janssen announced that it had reached an agreement in principle with the Plaintiffs Steering Committee (PSC) of the PROPULSID® Federal Multi-District Litigation (MDL), to resolve federal lawsuits related to PROPULSID®. The agreement was to become effective once 85% of the death claimants, and 75% of the remainder, agreed to the terms of the settlement. In addition, 12,000 individuals who had not filed lawsuits, but whose claims were the subject of tolling agreements suspending the running of the statutes of limitations against those claims, also had to agree to participate in the settlement before it became effective.

On March 24, 2005, it was confirmed that the PSC of the MDL had enrolled enough plaintiffs and claimants in the settlement program to make the agreement effective. Of the 282 death plaintiffs subject to the program, 267 (94%) are confirmed enrolled. Of the 3,538 other plaintiffs subject to the program, 3,189 (90%) are confirmed enrolled. In addition, 19,865 "tolled" claimants are confirmed as enrolled. Those participating in the settlement will submit medical records to an independent panel of physicians who will determine whether the claimed injuries were caused by PROPULSID® and otherwise meet the standards for compensation. If those standards are met, a court-appointed special master will determine compensatory damages. Janssen has paid into a compensation escrow account \$82.6 million, established an administrative fund of \$15 million, and paid legal fees to the PSC of \$22.5 million, which amount was approved by the court.

Not participating in the settlement program are 2,407 plaintiffs and 7,723 tolled claimants. Of those, 329 plaintiffs are potentially subject to the MDL settlement but did not enroll in it; 1,529 plaintiffs filed cases in federal court subsequent to February 1, 2004, and thus are not subject to the MDL settlement; and 529 have state court actions and thus are not subject to the settlement. Of those not participating in or subject to the MDL settlement, 133 plaintiffs are alleged to have died from use of the drug and 2,274 assert other personal injury claims. The nature of the claims of the tolled claimants are unknown. Of the remaining federal and state plaintiffs, 2,264 cases (94%) are venued in Mississippi.

On December 15, 2005, Janssen reached agreement with the MDL PSC and the plaintiffs' State Liaison Committee (SLC) to create a second settlement program for resolving the remaining state and federal lawsuits filed before November 15, 2005, as well as remaining unfiled claims subject to tolling agreements. The new program becomes effective once 90% of the plaintiffs representing decedents and 95% of the other plaintiffs agree to the terms of the settlement. The new program allows enrollment by any claimant who was eligible for the prior settlement program but chose not to enroll, plus state court plaintiffs and federal court plaintiffs filing after February 1, 2004, and thus not eligible. Janssen will pay as compensation a minimum of \$14.5 million and a maximum of \$15 million into the new settlement program, depending upon the percentage of enrollment above the 90% and 95% thresholds. Janssen will also establish an administrative fund not to exceed \$3 million and pay legal fees not to exceed \$4 million subject to court approval.

Janssen and the Company believe they have adequate self-insurance accruals and third-party product liability insurance with respect to these cases. In communications to the Company, the excess insurance carriers have raised certain defenses to their liability under the policies and to date have declined voluntarily to reimburse Janssen and the Company for PROPULSID®-related costs despite demand for payment. In May 2005, hearings were held in London in the arbitration proceeding commenced by Janssen and the Company against Allianz Underwriters Insurance Company, which issued the first layer of applicable excess insurance coverage, to obtain reimbursement of PROPULSID®-related costs. That proceeding was resolved in a fashion satisfactory to Janssen and the Company in November 2005. In May 2005, the Company commenced arbitration against Lexington Insurance Company, which issued the second layer of excess insurance coverage. In the opinion of the Company, the excess carriers remain legally obligated to provide coverage for the PROPULSID®-related losses at issue.

### Affirmative Stent Patent Litigation

In patent infringement actions tried in Delaware Federal District Court in late 2000, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards against Boston Scientific Corporation (Boston Scientific) and Medtronic AVE, Inc. (Medtronic) based on a number of Cordis vascular stent patents. On December 15, 2000, the jury in the damage action against Boston Scientific returned a verdict of \$324 million and on December 21, 2000, the jury in the Medtronic action returned a verdict of \$271 million. These sums represent lost profit and reasonable royalty damages to compensate Cordis for infringement but do not include pre or post judgment interest.

In March and May 2002, the district judge granted Boston Scientific a new trial on liability and damages and vacated the verdict against Medtronic on legal grounds. On August 12, 2003, the Court of Appeals for the Federal Circuit found the trial judge erred in vacating the verdict against Medtronic and remanded the case to the trial judge for further proceedings. In March 2005, the remaining issues were tried in the remanded case against Medtronic and the retrial proceeded against Boston Scientific. Juries returned verdicts of infringement and patent validity in favor of Cordis in both retrials. Cordis has requested the trial court to reinstate with interest the verdicts obtained against those entities in 2000. Defendants in both cases have filed post-trial motions seeking to vacate the jury verdicts or, alternatively, grant them a new trial on damages. Cordis also has pending in Delaware Federal District Court a second action against Medtronic AVE accusing Medtronic of infringement by sale of stent products introduced by Medtronic subsequent to its GFX® and MicroStent® products, the subject of the earlier action referenced above. That second action was stayed in April 2005 pending the outcome of an arbitration held in late 2005 concerning Medtronic's claim that the products at issue in that case are licensed pursuant to a 1997 license.

In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2™, Taxus® and Liberte stents of infringing the Palmaz patent that expired in November 2005. The Liberte stent was also accused of infringing Cordis' Gray patent that expires in 2016. In June 2005, a jury found that the Express2™, Taxus® and Liberte stents infringed the Palmaz patent and that the Liberte stent also infringed the Gray patent. Boston Scientific has filed post-trial motions seeking to vacate the verdict or obtain a new trial. If those motions are denied, there will be a trial on damages and willfulness in the future.

### Patent Litigation Against Various Johnson & Johnson Subsidiaries

The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which could potentially adversely affect the ability of those subsidiaries to sell those products, or require the payment of past damages and future royalties. With respect to all of these matters, the Johnson & Johnson subsidiary involved is vigorously defending against the claims of infringement and disputing, where appropriate, the validity and enforceability of the patent claims asserted against it.

On July 1, 2005, a jury in Federal District Court in Delaware found that the Cordis CYPHER® stent infringed Boston Scientific's Ding`536 patent and that the Cordis CYPHER® and BX VELOCITY® stents also infringed Boston Scientific Corporation's Jang`021 patent. The jury also found both those patents valid. Cordis has asked the judge to overturn the jury verdicts or grant a new trial. If the judge does not overturn the jury verdicts, there will be a damage and willfulness trial in 2006 and Boston Scientific will seek an injunction against CYPHER®. If upheld by the trial court, Cordis will appeal the jury verdicts to the Court of Appeals for the Federal Circuit.

In March 2006, Boston Scientific's case asserting infringement by the CYPHER® stent of another Boston Scientific patent is scheduled for trial in Delaware Federal District Court. In that case as well, Boston Scientific seeks an injunction and substantial damages.

On January 26, 2005, the Federal District Court for the Southern District of Florida granted Cordis summary judgment dismissing a breach of contract and patent infringement suit filed against Cordis by Arlaine and Gina Rockey seeking royalties on the sales of all Cordis balloon expandable stents. Plaintiffs have filed an appeal with the Court of Appeals for the Federal Circuit.

In an action filed in Belgium by Boston Scientific under its Kastenhofer patent, Boston Scientific is seeking a pan-European injunction against the sale of infringing catheters, i.e., an injunction that would be effective not just in Belgium but in all of the countries served by the European Patent Office. Trial has not been scheduled but could occur during 2006.

The following chart summarizes various patent lawsuits concerning products of Johnson & Johnson subsidiaries.

Product	J&J Company	Patents	Plaintiff/ Patent Holder	Court	Trial Date	Date Filed
Drug Eluting Stents	Cordis	Grainger	Boston Scientific Corp.	D. Del.	3/06	12/03
Stents	Cordis	Boneau	Medtronic Inc.	D. Del.	*	4/02
Two-layer Catheters	Cordis	Kastenhofer Forman	Boston Scientific Corp.	N.D. Cal Belgium	* *	2/02 12/03
Stents	Cordis	Israel	Medinol	Multiple E.U. jurisdictions	*	5/03
Contact Lenses	Vision Care	Nicolson	CIBA Vision	M.D. Fla.	*	9/03

\* Trial date to be established.

### Litigation Against Filers of Abbreviated New Drug Applications (ANDAs)

The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering those products. These ANDAs typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event the subsidiary of the Company involved is not successful in these actions, or the 30-month stay expires before a ruling from the district court is obtained, the firms involved will have the ability to introduce generic versions of the product at issue resulting in very substantial market share and revenue losses for the product of the Company's subsidiary.

As previously communicated and noted from the following chart, 30-month stays are scheduled to expire during 2006 with respect to ANDA challenges regarding ORTHO TRI-CYCLEN® LO, RISPERDAL® and TOPAMAX®. Trial did not occur before the expiration of the stays with respect to ORTHO TRI-CYCLEN® LO, is unlikely to occur with respect to RISPERDAL®, but could occur in the case of TOPAMAX®. Unless 30-month stays are extended or preliminary injunctions granted, outcomes which are uncertain, final FDA approval to market will occur shortly after expiration of the 30-month stays. Because a firm that launches an ANDA product before trial would be liable potentially for lost profits if found at trial to infringe a valid patent, typically ANDA products are not launched under such circumstances. Nonetheless, such "at risk" launches have occurred in cases involving drugs of Johnson & Johnson subsidiaries, and the risk of such a launch cannot be ruled out.

Brand Name Product	Patent/NDA Holder	Generic Challenger	Court	Trial Date	Date Filed	30-Month Stay Expires
ACIPHEX® 20 mg delay release tablet	Eisai (for Janssen)	Teva	S.D.N.Y.	*	11/03	02/07
		Dr. Reddy's	S.D.N.Y.	*	11/03	02/07
		Mylan	S.D.N.Y.	*	01/04	02/07
CONCERTA® 18, 27, 36 and 54 mg controlled release tablet	McNeil-PPC ALZA	Impax Andrx	D.Del.	*	09/05	None
DITROPAN XL®, 5, 10, 15 mg controlled release tablet	Ortho-McNeil ALZA	Mylan	D.W.V.	02/05	05/03	09/05
		Impax	N.D.Cal.	12/05	09/03	01/06
LEVAQUIN® Tablets 250, 500, 750 mg tablets	Daiichi, JJPRD Ortho-McNeil	Mylan	D.W.V.	05/04	02/02	07/04
		Teva	D.N.J.	04/06	06/02	11/04
LEVAQUIN® Injectable Single use vials and 5 mg/ml premix	Daiichi, JJPRD Ortho-McNeil	Sicor (Teva)	D.N.J.	04/06	12/03	05/06
LEVAQUIN® Injectable Single use vials	Daiichi, JJPRD Ortho-McNeil	American Pharmaceutical Partners	D.N.J.	04/06	12/03	05/06
QUIXIN® Ophthalmic Solution (Levofloxacin) Ophthalmic solution	Daiichi, Ortho-McNeil	Hi-Tech Pharmacal	D.N.J.	04/06	12/03	05/06
ORTHO TRI CYCLEN® LO 0.18 mg/0.025 mg 0.215 mg/0.025 mg and 0.25 mg/0.025 mg	Ortho-McNeil	Barr	D.N.J.	*	10/03	02/06
PEPCID® Complete	McNeil-PPC	Perrigo	S.D.N.Y.	*	02/05	06/07
RAZADYNE™	Janssen	Teva	D. Del	06/07	07/05	01/08
		Mylan	D. Del	06/07	07/05	01/08
		Dr. Reddy's	D. Del	06/07	07/05	01/08
		Purepac	D. Del	06/07	07/05	01/08
		Barr	D. Del	06/07	07/05	01/08
		Par	D. Del	06/07	07/05	01/08
		AlphaPharm	D. Del	06/07	07/05	01/08
RISPERDAL® Tablets .25, 0.5, 1, 2, 3, 4 mg tablets	Janssen	Mylan	D.N.J.	*	12/03	05/06
		Dr. Reddy's	D.N.J.	*	12/03	06/06
RISPERDAL® M-Tab 0.5, 1, 2, 3, 4 mg	Janssen	Dr. Reddy's	D.N.J.	*	02/05	07/07
		Barr	D.N.J.	*	10/05	02/08
TOPAMAX® 25, 50, 100, 200 mg tablet	Ortho-McNeil	Mylan	D.N.J.	*	04/04	09/06
		Cobalt	D.N.J.	*	10/05	03/08
TOPAMAX® SPRINKLE 25, 50 mg capsule	Ortho-McNeil	Cobalt	D.N.J.	*	12/05	05/08
ULTRACET® 37.5 tram/325 apap tablet	Ortho-McNeil	Kali (Par)	D.N.J.	*	11/02	04/05
		Teva	D.N.J.	*	02/04	07/06
		Caraco	E.D. Mich	*	09/04	02/07

\* Trial date to be established.

In the action against Mylan Pharmaceuticals USA (Mylan) involving the Company's subsidiary Ortho-McNeil Pharmaceutical, Inc.'s (Ortho-McNeil) product, DITROPAN XL® (oxybutynin chloride), the court on September 27, 2005, found the DITROPAN XL® patent invalid and not infringed by Mylan's ANDA product. Ortho-McNeil and ALZA Corporation (ALZA), a

subsidiary of the Company, have appealed. In the action against Impax, Impax also received judgment of invalidity based on the decision in the Mylan suit and Ortho-McNeil and ALZA have appealed that decision. Both appeals have been consolidated. Neither Mylan nor Impax has received final FDA approval to launch its ANDA product, but such approval could come at any point.

On December 20, 2005, Mylan announced that it had entered into two agreements with Ortho-McNeil Pharmaceutical, Inc. regarding oxybutynin chloride extended release tablets. One agreement relates to Ortho-McNeil's supply of certain dosages of oxybutynin chloride extended release tablets and the second relates to a patent license to ALZA intellectual property regarding DITROPAN XL®. The terms of the agreements, which are confidential, depend on the outcome of the appeal of the West Virginia court's decision and are subject to review by the Federal Trade Commission.

In the weeks following the adverse ruling in the DITROPAN XL® ANDA litigation against Mylan in September 2005, Ortho-McNeil and ALZA received five antitrust class action complaints filed by indirect purchasers of the product. The complaints were filed in various federal courts, but all claim damages based on the laws of over 25 states. They allege that Ortho-McNeil and ALZA violated the antitrust laws of the various states by knowingly pursuing baseless patent litigation, and thereby delaying entry in the market by Mylan and Impax.

In the action against Mylan involving Ortho-McNeil for LEVAQUIN® (levofloxacin), the trial judge on December 23, 2004 found the patent at issue valid, enforceable and infringed by Mylan's ANDA product and issued an injunction precluding sale of the product until patent expiration in late 2010. On December 19, 2005, the Court of Appeals for the Federal Circuit, affirmed the judgment of validity, enforceability and infringement. Mylan has filed a motion for rehearing by the Court of Appeals.

In the consolidated actions against Teva, Sicor, Hi-Tech Pharmacal, and American Pharmaceutical Partners involving the ANDAs for various Levofloxacin preparations, a trial is tentatively scheduled to begin in April 2006 on the claim that the Levaquin patent was obtained by inequitable conduct and is therefore unenforceable.

In the action against Kali involving Ortho-McNeil's ULTRACET® (tramadol hydrochloride/acetaminophen), Kali moved for summary judgment on the issues of infringement and invalidity. The briefing on that motion was completed in October 2004 and a decision is expected anytime. With respect to claims other than that at issue in the litigation against Kali, Ortho-McNeil has filed a reissue application in the U.S. Patent and Trademark Office seeking to narrow the scope of the claims. Notice of allowance of that patent was received on October 21, 2005. Kali obtained final approval of its ANDA at expiration of the 30-month stay on April 21, 2005, and launched its generic product the same day. If Ortho-McNeil ultimately prevails in its patent infringement action against Kali, Kali will be subject to an injunction and damages.

In the action against Teva Pharmaceuticals USA (Teva) involving Ortho-McNeil's ULTRACET® (tramadol hydrochloride/acetaminophen), Teva has moved for summary judgment on the issues of infringement and validity. The briefing on that motion was completed in March 2005. A ruling could issue at any point.

In the action against Caraco involving Ortho-McNeil's ULTRACET® (tramadol hydrochloride/acetaminophen), Caraco's motion for summary judgment of non-infringement was granted on October 20, 2005. Ortho-McNeil has appealed

that decision. Caraco launched its generic ULTRACET® "at risk" in December 2005.

With respect to all of the above matters, the Johnson & Johnson subsidiary involved is vigorously defending the validity and enforceability and asserting the infringement of its own or its licensor's patents.

#### **Average Wholesale Price (AWP) Litigation**

Johnson & Johnson and its pharmaceutical subsidiaries, along with numerous other pharmaceutical companies, are defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price (AWP) for the drugs at issue. Most of these cases, both federal actions and state actions removed to federal court, have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in federal district court in Boston, Massachusetts. The plaintiffs in these cases include classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP. In the MDL proceeding in Boston, plaintiffs moved for class certification of all or some portion of their claims. On August 16, 2005, the trial judge certified Massachusetts only classes of private insurers providing "Medi-gap" insurance coverage and private payers for physician-administered drugs where payments were based on AWP. The judge also allowed plaintiffs to file a new complaint seeking to name proper parties to represent a national class of individuals who made co-payments for physician-administered drugs covered by Medicare. The Court of Appeals declined to allow an appeal of those issues and on January 19, 2006, at a hearing on class certification issues, the court indicated its intent to certify the national class as noted above.

#### **Other**

The New York State Attorney General's office (N.Y. AG) and the Federal Trade Commission issued subpoenas in January and February 2003 seeking documents relating to the marketing of sutures and endoscopic instruments by the Company's Ethicon and Ethicon Endo-Surgery subsidiaries. In February 2005, the N.Y. AG advised that it had closed its investigation. The Connecticut State Attorney General's office also issued a subpoena for the same documents. These subpoenas focus on the bundling of sutures and endoscopic instruments in contracts offered to group purchasing organizations and individual hospitals in which discounts are predicated on the hospital achieving specified market share targets for both categories of products. The operating companies involved have responded to the subpoenas.

In June 2003, the Company received a request for records and information from the U.S. House of Representatives' Committee on Energy and Commerce in connection with its investigation into pharmaceutical reimbursements and rebates under Medicaid. The Committee's request focuses on the drug REMICADE® (infliximab), marketed by the Company's Centocor, Inc. (Centocor) subsidiary. In July 2003, Centocor received a

request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Subsequent requests for documents have been received from the U.S. Attorney's Office. Both the Company and Centocor responded, or are in the process of responding, to these requests for documents and information.

In August 2003, the Securities and Exchange Commission (SEC) advised the Company of its informal investigation under the Foreign Corrupt Practices Act of allegations of payments to Polish governmental officials by U.S. pharmaceutical companies. In November 2003, the SEC advised the Company that the investigation had become formal and issued a subpoena for the information previously requested in an informal fashion, in addition to other background documents. The Company and its operating units in Poland have responded to these requests.

In December 2003, Ortho-McNeil received a subpoena from the United States Attorney's Office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX® (topiramate). Ortho-McNeil is cooperating in responding to the subpoena. In October 2004, the U.S. Attorney's Office in Boston asked attorneys for Ortho-McNeil to cooperate in facilitating the subpoenaed testimony of several present and former Ortho-McNeil employees before a grand jury in Boston. Cooperation in securing the testimony of additional witnesses before the grand jury has been requested and is being provided.

In January 2004, Janssen received a subpoena from the Office of the Inspector General of the United States Office of Personnel Management seeking documents concerning sales and marketing of, any and all payments to physicians in connection with sales and marketing of, and clinical trials for, RISPERDAL® (risperidone) from 1997 to 2002. Documents subsequent to 2002 have also been requested. An additional subpoena seeking information about marketing of and adverse reactions to RISPERDAL® was received from the United States Attorney's Office for the Eastern District of Pennsylvania in November 2005. Janssen is cooperating in responding to these subpoenas.

In April 2004, the Company's pharmaceutical companies were requested to submit information to the U.S. Senate Finance Committee on their use of the "nominal pricing exception" in calculating Best Price under the Medicaid Rebate Program. This request was sent to manufacturers for the top twenty drugs reimbursed under the Medicaid Program. The Company's pharmaceutical companies have responded to the request. In February 2005 a request for supplemental information was received from the Senate Finance Committee, which has been responded to by the Company's pharmaceutical companies.

In July 2004, the Company received a letter request from the New York State Attorney General's Office for documents pertaining to marketing, off-label sales and clinical trials for TOPAMAX® (topiramate), RISPERDAL® (risperidone), PROCREDIT® (Epoetin alfa), RAZADYNE™ (galantamine HBr), REMICADE® (infliximab) and ACIPHEX® (rabeprazole sodium). The Company has responded to the request.

In August 2004, Johnson & Johnson Health Care Systems, Inc. (HCS), a Johnson & Johnson subsidiary, received a sub-

poena from the Dallas, Texas U. S. Attorney's Office seeking documents relating to the relationships between the group purchasing organization Novation and HCS and other Johnson & Johnson subsidiaries. The Company's subsidiaries involved have responded to the subpoena.

In September 2004, Ortho Biotech Inc. (Ortho Biotech), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to sales and marketing of PROCREDIT® (Epoetin alfa) from 1997 to the present, as well as to dealings with U.S. Oncology Inc., a healthcare services network for oncologists. Ortho Biotech has responded to the subpoena.

In March 2005, DePuy Orthopaedics, Inc. (DePuy), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of New Jersey, seeking records concerning contractual relationships between DePuy and surgeons or surgeons in training involved in hip and knee replacement and reconstructive surgery. Other leading orthopaedic companies are known to have received the same subpoena. DePuy is responding to the subpoena.

In June 2005, The United States Senate Committee on Finance requested the Company to produce information regarding its use of educational grants. A similar request was sent to other major pharmaceutical companies. In July 2005, the Committee specifically requested information about educational grants in connection with the drug PROPULSID®. A follow up request was received from the Committee for additional information in January 2006. The Company is in the process of responding to the most recent request.

In July 2005, Scios Inc. (Scios), a Johnson & Johnson subsidiary, received a subpoena from the United States Attorney's Office, District of Massachusetts, seeking documents related to the sales and marketing of NATRECOR®. Scios is responding to the subpoena. In early August 2005, Scios was advised that the investigation will be handled by the United States Attorney's Office for the Northern District of California in San Francisco.

In September 2005, Johnson & Johnson received a subpoena from the United States Attorney's Office, District of Massachusetts, seeking documents related to sales and marketing of eight drugs to Omnicare, Inc., a manager of pharmaceutical benefits for long-term care facilities. The Johnson & Johnson subsidiaries involved are in the process of responding to the subpoena.

In January 2006, Janssen received a civil investigative demand from the Texas Attorney General seeking broad categories of documents related to sales and marketing of RISPERDAL®. Janssen is in the process of responding to the request.

In September 2004, plaintiffs in an employment discrimination litigation initiated against the Company in 2001 in Federal District Court in New Jersey moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the U.S., who were employed at any time from November 1997 to the present. Plaintiffs seek monetary damages for the period 1997 through the present (including punitive damages) and equitable relief. The Company filed its response to plaintiffs' class certification motion in



May 2005. The Company disputes the allegations in the lawsuit and is vigorously defending against them.

The Company, along with its wholly owned Ethicon and Ethicon Endo-Surgery subsidiaries, are defendants in three federal antitrust actions challenging suture and endo-mechanical contracts with group purchasing organizations and hospitals in which discounts are predicated on a hospital achieving specified market share targets for both categories of products. In each case, plaintiffs seek substantial monetary damages and injunctive relief. These actions are: Applied Medical v. Ethicon Inc. et al. (C.D.CA, filed September 5, 2003); Conmed v. Johnson & Johnson et al. (S.D.N.Y., filed November 6, 2003); and Genico v. Ethicon, Inc. et al. (E.D. TX, filed October 15, 2004). In December 2005, two purported class actions were filed on behalf of purchasers of endo-mechanical instruments. These actions, captioned Delaware Valley Surgical Supply Co., Inc. v. Johnson & Johnson et al. and Niagara Falls Memorial Medical Center v. Johnson & Johnson et al., were both filed in the federal district court for the Central District of California.

After a remand from the Federal Circuit Court of Appeals in January 2003, a partial retrial was commenced in October and concluded in November 2003 in Federal District Court in Boston, Massachusetts in the action Amgen, Inc. (Amgen) v. Transkaryotic Therapies, Inc. (TKT) and Aventis Pharmaceutical, Inc. (Aventis). The matter is a patent infringement action brought by Amgen against TKT, the developer of a gene-activated EPO product, and Aventis, which held marketing rights to the TKT product, asserting that TKT's product infringes various Amgen patent claims. TKT and Aventis dispute infringement and are seeking to invalidate the Amgen patents asserted against them. On October 15, 2004, the district court issued rulings that upheld its initial findings in 2001 that Amgen's patent claims were valid and infringed. An appeal to the Court of Appeals for the Federal Circuit was argued on December 7, 2005. The Amgen patents at issue in the case are exclusively licensed to Ortho Biotech in the U.S. for non-dialysis indications. Ortho Biotech is not a party to the action.

In November 2005, Amgen filed suit against Hoffmann-LaRoche, Inc. in the United States District Court for the District of Massachusetts seeking a declaration that the Roche product CERA, which Roche has indicated it will seek to introduce into the United States, infringes a number of Amgen patents concerning EPO. The suit is in its preliminary stages.

The Company is also involved in a number of other patent, trademark and other lawsuits incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be estimated with any certainty. However, in the Company's opinion, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities already accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company's results of operations and cash flows for that period.

## 19. EARNINGS PER SHARE

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the years ended January 1, 2006, January 2, 2005 and December 28, 2003:

(Shares in Millions)	2005	2004	2003
Basic net earnings per share	\$ 3.50	2.87	2.42
Average shares			
outstanding – basic	2,973.9	2,968.4	2,968.1
Potential shares exercisable			
under stock option plans	203.1	186.5	166.6
Less: shares repurchased			
under treasury stock method	(168.9)	(163.8)	(141.4)
Convertible debt shares	4.4	12.4	14.8
Adjusted average shares			
outstanding – diluted	3,012.5	3,003.5	3,008.1
Diluted net earnings per share	\$ 3.46	2.84	2.40

The diluted net earnings per share calculation includes the dilutive effect of convertible debt: a decrease in interest expense of \$11 million, \$14 million and \$15 million after tax for years 2005, 2004 and 2003, respectively.

Diluted net earnings per share excludes 45 million, 42 million and 47 million shares underlying stock options for 2005, 2004 and 2003, respectively, as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

## 20. CAPITAL AND TREASURY STOCK

Changes in treasury stock were:

(Amounts in Millions Except Treasury Stock Number of Shares in Thousands)	Treasury Stock	
	Shares	Amount
Balance at December 29, 2002	151,547	\$ 6,127
Employee compensation and stock option plans	(21,729)	(1,160)
Conversion of subordinated debentures	(83)	(4)
Repurchase of common stock	22,134	1,183
Balance at December 28, 2003	151,869	6,146
Employee compensation and stock option plans	(25,340)	(1,403)
Conversion of subordinated debentures	(2,432)	(123)
Repurchase of common stock	24,722	1,384
Balance at January 2, 2005	148,819	6,004
Employee compensation and stock option plans	(22,708)	(1,458)
Conversion of subordinated debentures	(7,976)	(501)
Repurchase of common stock	27,229	1,920
Balance at January 1, 2006	145,364	\$ 5,965

Shares of common stock issued were 3,119,842,000 shares at the end of 2005, 2004 and 2003.

Cash dividends paid were \$1.275 per share in 2005, compared with dividends of \$1.095 per share in 2004 and \$0.925 per share in 2003.

## 21. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for the years 2005 and 2004 are summarized below:

	2005				2004			
	First Quarter	Second Quarter <sup>(1)</sup>	Third Quarter	Fourth Quarter <sup>(2)</sup>	First Quarter	Second Quarter	Third Quarter <sup>(3)</sup>	Fourth Quarter <sup>(4)</sup>
(Dollars in Millions Except Per Share Data)								
Segment sales to customers								
Consumer	\$ 2,280	2,278	2,231	2,307	2,047	2,000	2,024	2,262
Pharmaceutical	5,755	5,628	5,457	5,482	5,376	5,427	5,485	5,840
Med Devices & Diagnostics	4,797	4,856	4,622	4,821	4,136	4,057	4,044	4,650
Total sales	\$12,832	12,762	12,310	12,610	11,559	11,484	11,553	12,752
Gross profit	9,350	9,254	8,970	8,986	8,192	8,322	8,366	9,046
Earnings before provision for taxes on income	4,062	3,402	3,554	2,638	3,504	3,435	3,274	2,625
Net earnings	2,927	2,676	2,625	2,183	2,493	2,458	2,341	1,217
Basic net earnings per share	\$ 0.98	0.90	0.88	0.74	0.84	0.83	0.79	0.41
Diluted net earnings per share	\$ 0.97	0.89	0.87	0.73	0.83	0.82	0.78	0.41

<sup>(1)</sup> The second quarter of 2005 includes an after-tax charge of \$353 million for In-Process Research and Development (IPR&D) and a \$225 million tax benefit, due to the reversal of a tax liability related to a technical correction associated with the American Jobs Creation Act of 2004.

<sup>(2)</sup> The fourth quarter of 2005 includes an after-tax charge of \$6 million for IPR&D. Shifts in sales to lower tax jurisdictions and expenditures to higher tax jurisdictions had a more significant impact on the fiscal fourth quarter's tax rate.

<sup>(3)</sup> The third quarter of 2004 includes an after-tax charge of \$12 million for IPR&D.

<sup>(4)</sup> The fourth quarter of 2004 includes \$789 million for taxes on the repatriation of unremitted foreign earnings associated with the American Jobs Creation Act of 2004.

## 22. SUBSEQUENT EVENTS

On January 25, 2006, the definitive agreement to acquire Guidant Corporation (Guidant) was terminated by Guidant in accordance with its terms. Pursuant to the terms of the agreement, Guidant paid the Company a fee of \$705 million on January 26, 2006.

During the fiscal fourth quarter of 2005, the Company announced its acquisition of Animas Corporation, a leading maker of insulin infusion pumps and related products. The purchase price, net of cash acquired, of the transaction is approximately \$518 million and closed in the fiscal first quarter of 2006.

During the fiscal first quarter of 2006, the Company completed the acquisition of Hand Innovations LLC, a privately held manufacturer of widely used fracture fixation products for the upper extremities.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Under Section 404 of The Sarbanes-Oxley Act of 2002, management is required to assess the effectiveness of the Company's internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether the Company's internal control over financial reporting is effective.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that

the degree of compliance with the policies or procedures may deteriorate.

The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of January 1, 2006. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting.

Based on the Company's processes and assessment, as described above, management has concluded that, as of January 1, 2006, the Company's internal control over financial reporting was effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 1, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

To the Shareholders and Board of Directors of  
Johnson & Johnson:

We have completed integrated audits of Johnson & Johnson's consolidated financial statements as of and for the years ended January 1, 2006 and January 2, 2005, and of its internal control over financial reporting as of January 1, 2006, and an audit of its consolidated financial statements for the year ended December 28, 2003, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

#### Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, statements of equity and statements of cash flows present fairly, in all material respects, the financial position of Johnson & Johnson and Subsidiaries (the "Company") at January 1, 2006 and January 2, 2005, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

#### Internal control over financial reporting

Also, in our opinion, management's assessment included in the accompanying, "Management's Report on Internal Control over Financial Reporting," that the Company maintained effective internal control over financial reporting as of January 1, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal

control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*PricewaterhouseCooper LLP*

New York, New York  
February 28, 2006

(Dollars in Millions Except Per Share Figures)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Sales to customers – U.S.	\$28,377	27,770	25,274	22,455	19,825	17,316	15,532	12,901	11,814	10,851	9,065
Sales to customers – International	22,137	19,578	16,588	13,843	12,492	11,856	11,825	10,910	10,708	10,536	9,472
<b>Total sales</b>	<b>50,514</b>	<b>47,348</b>	<b>41,862</b>	<b>36,298</b>	<b>32,317</b>	<b>29,172</b>	<b>27,357</b>	<b>23,811</b>	<b>22,522</b>	<b>21,387</b>	<b>18,537</b>
Cost of products sold	13,954	13,422	12,176	10,447	9,581	8,957	8,539	7,700	7,350	7,185	6,352
Selling, marketing and administrative expenses	16,877	15,860	14,131	12,216	11,260	10,495	10,065	8,525	8,185	7,848	6,950
Research expense	6,312	5,203	4,684	3,957	3,591	3,105	2,768	2,506	2,373	2,109	1,788
Purchased in-process research and development	362	18	918	189	105	66	–	298	108	–	–
Interest income	(487)	(195)	(177)	(256)	(456)	(429)	(266)	(302)	(263)	(196)	(151)
Interest expense, net of portion capitalized	54	187	207	160	153	204	255	186	179	176	184
Other (income) expense, net	(214)	15	(385)	294	185	(94)	119	565	248	122	70
	<b>36,858</b>	<b>34,510</b>	<b>31,554</b>	<b>27,007</b>	<b>24,419</b>	<b>22,304</b>	<b>21,480</b>	<b>19,478</b>	<b>18,180</b>	<b>17,244</b>	<b>15,193</b>
Earnings before provision for taxes on income	13,656	12,838	10,308	9,291	7,898	6,868	5,877	4,333	4,342	4,143	3,344
Provision for taxes on income	3,245	4,329	3,111	2,694	2,230	1,915	1,604	1,232	1,237	1,185	926
<b>Net earnings</b>	<b>10,411</b>	<b>8,509</b>	<b>7,197</b>	<b>6,597</b>	<b>5,668</b>	<b>4,953</b>	<b>4,273</b>	<b>3,101</b>	<b>3,105</b>	<b>2,958</b>	<b>2,418</b>
Percent of sales to customers	20.6	18.0	17.2	18.2	17.5	17.0	15.6	13.0	13.8	13.8	13.0
Diluted net earnings per share of common stock	\$ 3.46	2.84	2.40	2.16	1.84	1.61	1.39	1.02	1.02	.98	.84
Percent return on average shareholders' equity	29.9	29.0	29.0	28.1	25.4	26.5	27.0	22.2	24.6	27.2	27.6
<b>Percent increase over previous year:</b>											
Sales to customers	6.7	13.1	15.3	12.3	10.8	6.6	14.9	5.7	5.3	15.4	19.9
Diluted net earnings per share	21.8	18.3	11.1	17.4	14.3	15.8	36.3	–	4.1	16.7	21.7
<b>Supplementary expense data:</b>											
Cost of materials and services <sup>(1)</sup>	\$22,328	21,053	18,568	16,540	15,333	14,113	13,922	11,779	11,702	11,341	9,984
Total employment costs	11,824	11,074	10,005	8,450	7,749	7,085	6,537	5,908	5,586	5,447	4,849
Depreciation and amortization	2,093	2,124	1,869	1,662	1,605	1,592	1,510	1,335	1,117	1,047	886
Maintenance and repairs <sup>(2)</sup>	510	462	395	360	372	327	322	286	270	285	257
Total tax expense <sup>(3)</sup>	4,474	5,393	4,078	3,497	2,995	2,619	2,271	1,881	1,824	1,753	1,458
<b>Supplementary balance sheet data:</b>											
Property, plant and equipment, net	10,830	10,436	9,846	8,710	7,719	7,409	7,155	6,767	6,204	6,025	5,544
Additions to property, plant and equipment	2,632	2,175	2,262	2,099	1,731	1,689	1,822	1,610	1,454	1,427	1,307
Total assets	58,025	53,317	48,263	40,556	38,488	34,245	31,064	28,966	23,615	22,248	19,355
Long-term debt	2,017	2,565	2,955	2,022	2,217	3,163	3,429	2,652	2,084	2,347	2,702
Operating cash flow	11,877	11,131	10,595	8,176	8,864	6,903	5,920	5,106	4,210	4,001	3,436
<b>Common stock information</b>											
Dividends paid per share	\$ 1.275	1.095	.925	.795	.70	.62	.55	.49	.425	.368	.32
Shareholders' equity per share	\$ 12.73	10.71	9.05	7.65	7.95	6.77	5.70	4.93	4.51	4.07	3.46
Market price per share (year-end close)	\$ 60.10	63.42	50.62	53.11	59.86	52.53	46.63	41.94	32.44	25.25	21.38
Average shares outstanding (millions) – basic	2,973.9	2,968.4	2,968.1	2,998.3	3,033.8	2,993.5	2,978.2	2,973.6	2,951.9	2,938.0	2,820.1
– diluted	3,012.5	3,003.5	3,008.1	3,054.1	3,099.3	3,099.2	3,100.4	3,082.7	3,073.0	3,046.2	2,890.0
<b>Employees (thousands)</b>	<b>115.6</b>	<b>109.9</b>	<b>110.6</b>	<b>108.3</b>	<b>101.8</b>	<b>100.9</b>	<b>99.8</b>	<b>96.1</b>	<b>92.6</b>	<b>91.5</b>	<b>84.2</b>

<sup>(1)</sup> Net of interest and other income.

<sup>(2)</sup> Also included in cost of materials and services category.

<sup>(3)</sup> Includes taxes on income, payroll, property and other business taxes.

This table is provided to reconcile certain financial disclosures in the Letter to Shareholders, page 1.

(Dollars in Millions Except Per Share Data)	2005	2004	2003	'05 vs. '04 % Change	'04 vs. '03 % Change
Net Earnings – as reported	\$10,411	8,509	7,197	22.4%	18.2%
American Jobs Creation Act of 2004 (AJCA):					
Tax cost associated with repatriation of undistributed international earnings	–	789	–		
Tax gain associated with a technical correction	(225)	–	–		
In-process research & development (IPR&D)	359	12	915		
Net Earnings – as adjusted	\$10,545	9,310	8,112	13.3%	14.8%
Diluted net earnings per share – as reported	\$ 3.46	2.84	2.40	21.8%	18.3%
American Jobs Creation Act of 2004:					
Tax cost associated with repatriation of undistributed international earnings	–	0.26	–		
Tax gain associated with a technical correction	(0.08)	–	–		
In-process research & development	0.12	–	0.30		
Diluted net earnings per share – as adjusted	\$ 3.50	3.10	2.70	12.9%	14.8%

The Company believes investors gain additional perspective of underlying business trends and results by providing a measure of net earnings and diluted net earnings per share that excludes IPR&D and the tax cost associated with funds repatriated under, and the tax gain associated with a technical correction made to, the AJCA, in order to evaluate ongoing business operations.



ADVANCED STERILIZATION PRODUCTS®  
a Johnson & Johnson company  
Division of Ethicon, Inc.

[www.sterrad.com](http://www.sterrad.com)

Advanced Sterilization Products (ASP) Division of Ethicon, Inc. is a leading innovator of technologies in the areas of sterilization, high level disinfection, cleaning of medical devices, and hand hygiene. ASP markets STERRAD® Systems, the CIDEX® Family of Products, and PREVACARE® Antimicrobial Hand Gel. The company is focused on hospitals and surgery centers.



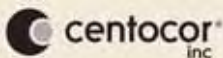
[www.alza.com](http://www.alza.com)

ALZA Corporation develops drug delivery-based pharmaceuticals, precisely controlling the targeting, timing and dosing of therapeutic compounds. ALZA technology has been incorporated in more than 30 commercialized products, including DURAGESIC® (fentanyl transdermal system) CII, CONCERTA® (methylphenidate HCl) CII, DITROPAN XL® (oxybutynin chloride) and DOXIL® (doxorubicin HCl liposome injection).



[www.babycenter.com](http://www.babycenter.com)

BabyCenter, L.L.C. is the leading online pregnancy and parenting resource, with the #1 Web sites in the U.S and U.K. and recently launched sites in Australia and Sweden. BabyCenter® also offers customized e-mail newsletters, an online baby store, online community, *BabyCenter*™ Magazine, *The BabyCenter*® *Essential Guide to Pregnancy and Birth*, and ParentCenter.com®.



[www.centocor.com](http://www.centocor.com)

Centocor, Inc. develops innovative biomedicines. The world leader in monoclonal antibody production and technology, Centocor has brought critical biologic therapies to patients suffering from debilitating immune disorders.



a Johnson & Johnson company

[www.cordis.com](http://www.cordis.com)

Cordis is the world's leading developer and manufacturer of interventional cardiology, radiology and electrophysiology products for circulatory disease management. The Cordis business includes the Cordis Cardiology and Cordis Endovascular divisions of Cordis Corporation; Cordis Neurovascular, Inc.; Biosense Webster, Inc.; and Nitinol Development Corporation.



a Johnson & Johnson company

[www.depuy.com](http://www.depuy.com)

DePuy, Inc. develops and markets products under the DePuy Orthopaedics, DePuy Spine, CODMAN® and MITEK® brands. DePuy Orthopaedics and DePuy Trauma and Extremities provide products for reconstructing damaged or diseased joints, and for repairing and reconstructing traumatic skeletal injuries. DePuy Spine facilitates fusion of the spine and correction of spinal deformities, including CHARITÉ™, the first artificial spinal disc. Codman provides for the surgical treatment of neurological and central nervous system disorders through products such as hydrocephalic shunt valve systems, implantable drug pumps and micro-surgical instrumentation. DePuy Mitek offers innovative devices in sports medicine for the treatment of soft tissue injuries.



a Johnson & Johnson company

[www.ethicon.com](http://www.ethicon.com)

Ethicon, Inc. develops and markets products for surgery, wound management and advanced wound care treatment. Products are marketed through four divisions: Ethicon Products for precise wound closure and tissue repair; Cardioventions for minimally invasive cardiac procedures; Ethicon Women's Health & Urology for minimally invasive women's health procedures; and Johnson & Johnson Wound Management for hemostasis and advanced wound care.



ETHICON  
ENDO-SURGERY, INC.  
a Johnson & Johnson company

[www.ethiconendo.com](http://www.ethiconendo.com)

Ethicon Endo-Surgery, Inc. develops and markets advanced medical devices for minimally invasive and open surgical procedures. The company focuses on procedure-enabling devices for the interventional diagnosis and treatment of conditions in general and bariatric surgery, gastrointestinal health, gynecology and surgical oncology. Products include: the ENDOPATH® XCEL™ Access System; CONTOUR™ Curved Cutter Stapler; HARMONIC™ ultrasonic cutting and coagulating surgical devices; and the MAMMOTOME® Breast Biopsy System for diagnosis of early-stage breast cancer.

## GREITER AG

[www.pizbuin.com](http://www.pizbuin.com)

Greiter AG offers a line of sunscreen, after-sun and self-tan products with its main brand, PIZ BUIN®. Products are sold throughout Europe, the Middle East, Africa and other markets.



[www.independencenow.com](http://www.independencenow.com)

Independence Technology, L.L.C. markets products and services that increase the independence of people with disabilities. Products include the INDEPENDENCE® iBOT® 4000 Mobility System.



[www.janssen-cilag.com](http://www.janssen-cilag.com)

The Janssen-Cilag companies, which operate outside the U.S., market prescription pharmaceuticals. Among these are VELCADE® (bortezomib) for injection in oncology; EPREX®/ERYPO® (Epoetin alfa) in hematology and nephrology; RISPERDAL® (risperidone) in psychiatry; DUROGESIC® (fentanyl transdermal system) for pain management; PARIET® (rabeprazole sodium) in gastroenterology; and SPORANOX® (itraconazole) for fungal infections.



[www.janssen.com](http://www.janssen.com)

Janssen, L.P. is focused on mental health and markets prescription medications that treat schizophrenia and bipolar mania. Leading products include RISPERDAL® (risperidone) and RISPERDAL® CONSTA® (risperidone) long-acting injection.



[www.johnsonsbaby.com](http://www.johnsonsbaby.com)

Johnson & Johnson Consumer Products Company Division of Johnson & Johnson Consumer Companies, Inc. develops and markets baby care, wound care and skin care products that address the needs of consumers and health care professionals and incorporate the latest innovations. The portfolio includes heritage brands JOHNSON'S® Baby and BAND-AID® Brand, as well as leading skin care brands such as AVEENO® and CLEAN & CLEAR®.



[www.jjdevcorp.com](http://www.jjdevcorp.com)

Johnson & Johnson Development Corporation (JJDC) makes equity investments in early-stage venture and publicly traded health care companies. Portfolio companies include those in the fields of pharmaceuticals, biotechnology, medical and surgical devices, health care information technology, diagnostics and consumer products. JJDC also leads and manages internal investments in selected promising technologies.



[www.jngateway.com](http://www.jngateway.com)

Johnson & Johnson Gateway, LLC develops and manages a Web-based resource of information created for health care professionals by Johnson & Johnson medical devices and diagnostics companies. Product information, clinical content, professional education and patient materials are available in a global Internet destination, which in many countries includes e-commerce transaction and inquiry capabilities.



[www.jngateway.com](http://www.jngateway.com)

Johnson & Johnson Health Care Systems Inc. provides account management and customer support services to key health care customers, including hospital systems and group purchasing organizations, leading health plans, pharmacy benefit managers, and government health care institutions. The company also provides contract management, logistics and supply chain functions for the major Johnson & Johnson franchises.



[www.jnj-merck.com](http://www.jnj-merck.com)

Johnson & Johnson • Merck Consumer Pharmaceuticals Co. is a U.S.-based 50/50 joint venture formed to develop and market nonprescription products derived primarily from Merck & Co., Inc. prescription medicines, as well as products licensed and acquired from outside sources. Current products include: Maximum Strength and Regular Strength PEPCID® AC Acid Controller, for both the prevention and relief of heartburn and acid indigestion; PEPCID® Complete, a combination acid controller and antacid; and anti-gas products MYLANTA® Antacid and Infants' MYLICON® Drops.



[www.jnjpharmarnd.com](http://www.jnjpharmarnd.com)

Johnson & Johnson Pharmaceutical Research & Development, L.L.C. develops treatments that improve the health and lifestyles of people worldwide. Research and development areas encompass novel targets in neurologic disorders, gastroenterology, oncology, infectious disease, diabetes, hematology, metabolic disorders, immunologic disorders, and reproductive medicine.



Johnson & Johnson Sales and Logistics Company, LLC provides sales, marketing and logistical services to U.S. retail customers on behalf of the U.S. consumer companies, and leadership for an emerging global customer base in the areas of transportation, enterprise-wide systems, business processes and global customer development.



[www.jnjvision.com](http://www.jnjvision.com)

The Vistakon Division of Johnson & Johnson Vision Care, Inc. specializes in disposable contact lenses, which it markets under such brand names as ACUVUE®, ACUVUE® ADVANCE™ with HYDRACLEAR™, ACUVUE® ADVANCE™ for ASTIGMATISM, ACUVUE® OASYS™ with HYDRACLEAR™ PLUS, ACUVUE® 2, 1-DAY ACUVUE® and ACUVUE® 2 COLOURS™. Vistakon Pharmaceuticals, LLC currently markets three prescription ophthalmic agents: QUIXIN® (levofloxacin ophthalmic solution) 0.5%, BETIMOL® (timolol ophthalmic solution) and ALAMAST® (pemirolast potassium ophthalmic solution).



[www.LifeScan.com](http://www.LifeScan.com)

LifeScan, Inc. is dedicated to improving the quality of life for people with diabetes by developing, manufacturing and marketing a wide range of glucose monitoring systems and software for use by people with diabetes and by health care providers. The ONETOUCH® Brand of consumer and institutional products includes portable electronic meters and disposable reagent test strips to provide accurate, less painful glucose readings and the software tools to transform this information into actionable health care decisions.

[www.tylenol.com](http://www.tylenol.com)

McNeil Consumer Healthcare Division of McNeil-PPC, Inc. markets a broad range of over-the-counter products around the globe. McNeil Consumer Healthcare is most widely recognized for the complete line of TYLENOL® acetaminophen products, the leading pain reliever brand in the adult and pediatric categories. The TYLENOL® product line consists of hundreds of products across a variety of pain categories. Other brands include IMODIUM® A-D anti-diarrheal, which is marketed in more than 60 countries, ST. JOSEPH® Adult Regimen Aspirin and MOTRIN® IB.



[www.splenda.com](http://www.splenda.com)

McNeil Nutritionals, LLC is a global marketer of nutritional products that give people the ability to actively manage their own health. Its major brands include SPLENDA® No Calorie Sweetener, SPLENDA® Sugar Blend for Baking, SPLENDA® Brown Sugar Blend, VIACTIV® Calcium and Multi-Vitamin Soft Chews, LACTAID® Milk and Dietary Supplements, and BENECOL® Spreads.



[www.neutrogena.com](http://www.neutrogena.com)

Neutrogena Corporation develops, manufactures and markets premium skin and hair care products sold worldwide and recommended by medical professionals. The product line includes bar and liquid cleansers, shampoo, hand cream, body lotion, facial moisturizers, sun protection and cosmetics, as well as other hair and skin care products. OrthoNeutrogena division of Ortho-McNeil Pharmaceutical, Inc. markets skin and hair care products recommended, used and prescribed by dermatologists.



[www.noramco.com](http://www.noramco.com)

Noramco, Inc. produces a variety of active pharmaceutical ingredients and is a major worldwide producer of medicinal analgesics, pharmaceutical intermediates and synthetic fine organic chemicals. It also produces monomers and polymers for pharmaceutical and medical devices.





[www.orthobiotech.com](http://www.orthobiotech.com)

Ortho Biotech Products, L.P. and its worldwide affiliates market PROCIT®/EPREX®/ERYPO® (Epoetin alfa), used to treat anemia associated with serious chronic conditions. The company also markets DOXIL® (doxorubicin HCl liposome injection) for the treatment of relapsed and refractory ovarian cancer; ORTHOCLONE OKT®3 (muromonab-CD3), a monoclonal antibody used to treat organ transplant rejection; and LEUSTATIN® (cladribine) to treat hairy cell leukemia.



[www.orthoclinical.com](http://www.orthoclinical.com)

Ortho-Clinical Diagnostics, Inc. provides in vitro diagnostic products to hospital, commercial and clinical laboratories, and blood donor centers. Its products include reagents and instrument systems used in blood typing and donor testing; clinical chemistry determinations and immunoassays for disease diagnosis and therapy management; as well as RhoGAM®, an injectable drug used to prevent hemolytic disease of the newborn.



[www.ortho-mcneil.com](http://www.ortho-mcneil.com)

Ortho-McNeil, Inc. provides innovative prescription medicines for primary care providers, hospitals and other health care facilities. PriCara, a Unit of Ortho-McNeil, Inc., is fully dedicated to serving the needs of primary care health care providers and their patients. Leading products include the anti-infective LEVAQUIN® (levofloxacin), ACIPHEX® (rabeprazole sodium) for acid reflux disease, and the pain treatments DURAGESIC® (fentanyl transdermal system) and ULTRAM® ER (tramadol HCl), which was launched in early 2006.



[www.topamax.com](http://www.topamax.com)

Ortho-McNeil Neurologics, Inc. focuses on providing solutions that improve neurological health and currently markets TOPAMAX® (topiramate) for epilepsy treatment and migraine prevention; AXERT® (almotriptan malate tablets) for acute migraine treatment; and RAZADYNE™ ER (galantamine hydrobromide) for mild to moderate Alzheimer's disease.



[www.orthowomenshealth.com](http://www.orthowomenshealth.com)

Ortho Women's Health & Urology Division of Ortho-McNeil Pharmaceutical, Inc. is a leader in the fields of women's health and urology and is committed to meeting the needs of providers and patients with products such as ORTHO EVRA® (norelgestromin/ethinyl estradiol), ORTHO TRI-CYCLEN® LO (norgestimate/ethinyl estradiol), DITROPAN XL® (oxybutynin chloride) and ELMIRON® (pentosan polysulfate sodium).



[www.itsmybody.com](http://www.itsmybody.com)

Personal Products Company Division of McNeil-PPC, Inc. is a leader in the consumer oral health market with REACH® toothbrushes, REACH® floss, REMBRANDT® tooth whitening products and ACT® rinse. ARESTIN® (minocycline HCl 1mg) is a technological advance for the adjunct treatment of periodontal disease. Personal Products is also in the women's health market with MONISTAT® vaginal yeast infection treatments and K-Y® Brand personal lubricants. The company's line of sanitary products includes CAREFREE® pantliners, o.b.® tampons and STAYFREE® maxi pads.



[www.sciosinc.com](http://www.sciosinc.com)

Scios Inc. develops novel treatments for cardiovascular and inflammatory diseases and cancer. Its disease-based technology platform integrates protein biology and computational and medicinal chemistry to identify targets and design small molecule compounds and peptides.

Specialty Pharmaceuticals Division of McNeil-PPC, Inc. markets prescription products, including CONCERTA® (methylphenidate HCl) for attention deficit hyperactivity disorder.



[www.therakos.com](http://www.therakos.com)

Therakos, Inc. specializes in extracorporeal immune cell therapies for the prevention and treatment of serious immune-mediated and neoplastic diseases. Therakos' proprietary procedures in photopheresis are used by physicians for the palliative treatment of the skin manifestations of cutaneous T-cell lymphoma.



[www.tibotec.com](http://www.tibotec.com)

Tibotec Pharmaceuticals Ltd. discovers and develops anti-retrovirals for the management of HIV/AIDS and anti-infectives. The company currently has anti-retrovirals in clinical development in both the non-nucleoside reverse transcriptase inhibitor and protease inhibitor classes. TIBOZOLE™ (miconazole nitrate 10 mg) is a muco-adhesive tablet containing miconazole for once daily topical treatment of oro-pharyngeal candidiasis, the most common opportunistic infection in people with HIV/AIDS in Africa.



[www.tibotectherapeutics.com](http://www.tibotectherapeutics.com)

Tibotec Therapeutics Division of Ortho Biotech Products, L.P. focuses on the U.S. sales and marketing of virology products. Its first product, TMC114, a protease inhibitor used in the treatment of HIV, is currently awaiting marketing approval from the U. S. Food and Drug Administration.



[www.veridex.com](http://www.veridex.com)

Veridex, LLC provides cancer diagnostic products that will enable earlier disease detection and more accurate staging, monitoring and therapeutic management of cancer patients. The company is initially commercializing two complementary product lines: CELLSEARCH™ assays that identify, enumerate and characterize circulating tumor cells directly from a single tube of blood; and GENESEARCH™ assays that use molecular technologies to diagnose, stage and more accurately characterize tumors.



[www.vircolab.com](http://www.vircolab.com)

Virco BVBA develops and provides innovative and practical diagnostic services for the management of HIV infection, including the VIRCO® TYPE HIV-1 and the ANTIVIROGRAM® for HIV drug resistance testing. The company's mission is to enhance the clinical management of viral infections by providing advanced diagnostic tools based on pharmacogenomic principles in order to improve patient care and quality of life.

## UNITED STATES

**Advanced Sterilization Products**

Division of Ethicon, Inc.  
Irvine, California  
D. W. Powell, Worldwide President

**ALZA Corporation**

Mountain View, California  
M. R. Jackson, President

**BabyCenter, L.L.C.**

San Francisco, California  
M. J. Baker, President

**Centocor, Inc.**

Commercial Operations  
Horsham, Pennsylvania  
J. McHugh, President

Centocor Research & Development, Inc.

Radnor, Pennsylvania  
J. P. Siegel, President

Global Biologics Supply Chain, LLC

Horsham, Pennsylvania  
R. J. Sheroff, President

**Cordis**

Cordis Cardiology  
Division of Cordis Corporation  
Miami, Florida  
R. Anderson, President

Cordis Endovascular

Division of Cordis Corporation  
Warren, New Jersey  
G. A. Kashuba, Worldwide President

Biosense Webster, Inc.

Diamond Bar, California  
R. T. Tanaka, Worldwide President

Cordis Neurovascular, Inc.

Miami, Florida  
J. Keltjens, General Manager

Nitinol Development Corporation

Fremont, California  
T. Duerig, President

**DePuy**

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Warsaw, Indiana  
T. J. Sullivan, President

DePuy Spine, Inc.

Raynham, Massachusetts  
G. P. Fischetti, President

Codman & Shurtleff, Inc.

Raynham, Massachusetts

DePuy Mitek, Inc.

Raynham, Massachusetts  
M. Paul, Worldwide President

**Ethicon, Inc.**

Somerville, New Jersey

Cardioventions

Division of Ethicon, Inc.

Closure Medical Corporation

Raleigh, North Carolina  
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Ethicon Products Worldwide

Division of Ethicon, Inc.

G. J. Pruden, President

Ethicon Women's Health & Urology

Division of Ethicon, Inc.

R. E. Selman, Worldwide President

Johnson & Johnson Wound Management

Division of Ethicon, Inc.

D. G. Wildman, Worldwide President

**Ethicon Endo-Surgery, Inc.**

Cincinnati, Ohio

R. Salerno, President

**Global Pharmaceutical Supply Group**

Unit of Ortho-McNeil Pharmaceutical, Inc.

and ALZA Corporation

Bridgewater, New Jersey

C. F. Austin, President

**Independence Technology, L.L.C.**

Warren, New Jersey

**Janssen, L.P.**

Titusville, New Jersey

J. S. Vergis, President

**Johnson & Johnson Consumer Companies, Inc.**

Skillman, New Jersey

G. Berechit, General Manager, Skin Care

B. P. Heller, Global President,

Baby, Kids and Wound Care

**Johnson & Johnson Development Corporation**

New Brunswick, New Jersey

D. P. Holveck, President

**Johnson & Johnson Gateway, LLC**

Piscataway, New Jersey

K. Ruffe, General Manager

**Johnson & Johnson Health Care Systems Inc.**

Piscataway, New Jersey

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D. J. Martin, President, Managed Markets

**Johnson & Johnson • Merck Consumer Pharmaceuticals Co.**

Fort Washington, Pennsylvania

R. Van den Hooff, President

**Johnson & Johnson Pharmaceutical Research & Development, L.L.C.**

Raritan, New Jersey

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Peninsula Pharmaceuticals, Inc.

Mountain View, California

**Johnson & Johnson Sales and Logistics Company, LLC**

Skillman, New Jersey

S. L. Grimes, General Manager

**LifeScan, Inc.**

Milpitas, California

P. B. Luther, President

**McNeil Consumer Healthcare**

Division of McNeil-PPC, Inc.

Fort Washington, Pennsylvania

C. F. Watts, President

**McNeil Nutritionals, LLC**

Fort Washington, Pennsylvania

D. A. Sandler, President

**Networking & Computing Services,**  
a Division of Johnson & Johnson  
Services, Inc.

Raritan, New Jersey

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**Neutrogena Corporation**

Los Angeles, California

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**Noramco, Inc.**

Athens, Georgia

R. E. Perkins, President

**Ortho Biotech Products, L.P.**

Bridgewater, New Jersey

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Tibotec Therapeutics

Division of Ortho Biotech Products, L.P.

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**Ortho-Clinical Diagnostics, Inc.**

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Rochester, New York

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**Ortho-McNeil Neurologics, Inc.**

Titusville, New Jersey

N. F. Fowler, President

**Ortho-McNeil, Inc.**

Raritan, New Jersey

J. N. Smith, President

**OrthoNeutrogena**

Division of Ortho-McNeil

Pharmaceutical, Inc.

Los Angeles, California

C. Dennis, Global President

**Ortho Women's Health & Urology**

Division of Ortho-McNeil

Pharmaceutical, Inc.

Raritan, New Jersey

M. Brennan, General Manager

**Personal Products Company**

Division of McNeil-PPC, Inc.

Skillman, New Jersey

R. E. Kirby, President

**Scios Inc.**

Fremont, California

J. Mitchell, President

**Specialty Pharmaceuticals**

Division of McNeil-PPC, Inc.  
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**Therakos, Inc.**

Exton, Pennsylvania

**Tibotec, Inc.**

Yardley, Pennsylvania  
R.J. Pomerantz, M.D., President

**TransForm Pharmaceuticals, Inc.**

Lexington, Massachusetts  
P. D. Goldenheim, President

**Veridex, LLC**

Raritan, New Jersey  
M. Myslinski, General Manager

**Vistakon**

Division of Johnson & Johnson  
Vision Care, Inc.  
Jacksonville, Florida  
N. G. Kelman, President, Vistakon  
Americas

**Vistakon Pharmaceuticals LLC**

Jacksonville, Florida  
R. W. Maiolo, Vice President

**CANADA**

Janssen-Ortho Inc.  
North York, Ontario

Johnson & Johnson Inc.  
Montreal, Quebec

Johnson & Johnson Medical Products  
Markham, Ontario

LifeScan Canada Ltd.  
Burnaby, British Columbia

McNeil Consumer Healthcare, Canada  
Guelph, Ontario

Ortho Biotech  
Toronto, Ontario

Ortho-Clinical Diagnostics  
Mississauga, Ontario

Vistakon  
Markham, Ontario

**LATIN AMERICA****Argentina**

Janssen-Cilag Farmaceutica  
Buenos Aires

Johnson & Johnson de  
Argentina S.A. C.e.l.  
Buenos Aires

Johnson & Johnson Medical S.A.  
Buenos Aires

**Brazil**

Janssen-Cilag Farmaceutica Ltda.  
São Paulo

Johnson & Johnson Indústria  
e Comércio Ltda.  
São Paulo

Johnson & Johnson Professional  
Products Ltda.  
São Paulo

**Chile**

Johnson & Johnson de Chile S.A.  
Santiago

**Colombia**

Janssen-Cilag Farmaceutica S.A.  
Bogota

Johnson & Johnson de Colombia S.A.  
Cali

Johnson & Johnson Medical Colombia  
Bogota

**Ecuador**

Johnson & Johnson del Ecuador, S.A.  
Guayaquil

**Mexico**

Janssen-Cilag Farmaceutica, S.A. de C.V.  
Mexico City

Johnson & Johnson de Mexico,  
S.A. de C.V.  
Mexico City

Johnson & Johnson Medical Mexico,  
S.A. de C.V.  
Mexico City

**Panama**

Johnson & Johnson Central America  
Panama City

**Paraguay**

Johnson & Johnson del Paraguay  
Asunsion

**Peru**

Johnson & Johnson del Peru S.A.  
Lima

**Puerto Rico**

Johnson & Johnson (Caribbean)  
Caguas

Johnson & Johnson Medical (Caribbean)  
Caguas

**Uruguay**

Johnson & Johnson de Uruguay S.A.  
Montevideo

**Venezuela**

Janssen-Cilag Farmaceutica C.A.  
Caracas

Johnson & Johnson de Venezuela, S.A.  
Caracas

**EUROPE****Austria**

Janssen-Cilag G.m.b.H.  
Vienna

Johnson & Johnson G.m.b.H.  
Hallein

Johnson & Johnson Medical G.m.b.H.  
Vienna

**Belgium**

Janssen-Cilag N.V.  
Antwerp

Janssen Pharmaceutica N.V.  
Beerse

Johnson & Johnson Consumer Benelux  
Brussels

LifeScan Benelux N.V.  
Beerse

Tibotec-Virco N.V.  
Mechelen

Tibotec BVBA  
Mechelen

Virco BVBA  
Mechelen

**Czech Republic**

Janssen-Cilag  
Prague

Johnson & Johnson spol. s.r.o.  
Prague

**Denmark**

Janssen-Cilag  
Birkerød

**England**

Cordis U.K. Limited  
South Ascot

DePuy International Limited  
Leeds

Ethicon Endo-Surgery U.K.  
Bracknell

Janssen-Cilag Limited  
High Wycombe

Johnson & Johnson Limited  
Maidenhead

LifeScan U.K.  
High Wycombe

Ortho-Clinical Diagnostics  
High Wycombe

Vistakon Europe  
Bracknell

**Finland**

Janssen-Cilag OY  
Espoo

**France**

Cordis S.A.  
Issy-Les-Moulineaux

DePuy France S.A.  
Lyon

Ethicon S.A.  
Issy-Les-Moulineaux

Ethicon Endo-Surgery S.A.  
Issy-Les-Moulineaux

Janssen-Cilag S.A.  
Issy-Les-Moulineaux

Johnson & Johnson  
Consumer France S.A.S.  
Issy-Les-Moulineaux

Johnson & Johnson Vision Care  
Issy-Les-Moulineaux

LifeScan  
Issy-Les-Moulineaux

Ortho-Clinical Diagnostics S.A.  
Issy-Les-Moulineaux

**Germany**

Cordis G.m.b.H.  
Langenfeld

DePuy Orthopädie G.m.b.H.  
Sulzbach

Ethicon G.m.b.H.  
Norderstedt

Ethicon Endo-Surgery  
(Europe) G.m.b.H.  
Norderstedt

Janssen-Cilag G.m.b.H.  
Rosellen

Johnson & Johnson G.m.b.H.  
Düsseldorf

Johnson & Johnson Vision Care  
Norderstedt

LifeScan G.m.b.H.  
Neckargemund

McNeil Europe  
Bad Honnef

Ortho-Clinical Diagnostics G.m.b.H.  
Neckargemund

**Greece**

Janssen-Cilag Pharmaceutical S.A.C.I.  
Athens

Johnson & Johnson Hellas S.A.  
Athens

Johnson & Johnson  
Medical Products S.A.  
Athens

**Hungary**

Janssen-Cilag Kft.  
Budapest

Johnson & Johnson Kft.  
Budapest

**Ireland**

DePuy Ireland  
Cork

Janssen-Cilag Pharmaceutical Limited  
Cork

Johnson & Johnson (Ireland) Limited  
Tallaght

Johnson & Johnson Medical  
Dublin

Johnson & Johnson Vision Care  
Limerick

**Italy**

Cordis S.p.A.  
Milan

DePuy Italy SRL  
Milan

Ethicon S.p.A.  
Rome

Ethicon Endo-Surgery  
Rome

Janssen-Cilag S.p.A.  
Milan

Johnson & Johnson S.p.A.  
Rome

LifeScan  
Milan

Ortho-Clinical  
Diagnostics S.p.A.  
Milan

Vistakon  
Rome

**The Netherlands**

Cordis Benelux  
Amersfoort

Janssen-Cilag B.V.  
Tilburg

Johnson & Johnson Consumer B.V.  
Almere

Johnson & Johnson Medical B.V.  
Zaventem

Johnson & Johnson Vision Care  
Amersfoort

**Norway**

Janssen-Cilag AS  
Oslo

**Poland**

Janssen-Cilag  
Warsaw

Johnson & Johnson Poland, Sp. z.o.o.  
Warsaw

**Portugal**

Janssen-Cilag Farmaceutica, Ltda.  
Queluz

Johnson & Johnson Limitada  
Queluz

Johnson & Johnson Professional  
Products, Limitada  
Queluz

**Russia**

Johnson & Johnson L.L.C.  
Moscow

**Scotland**

Ethicon Limited  
Edinburgh

**Slovenia**

Johnson & Johnson S.E.  
Ljubljana

**Spain**

Janssen-Cilag S.A.  
Madrid

Johnson & Johnson S.A.  
Madrid

Johnson & Johnson Medical  
Madrid

LifeScan  
Madrid

Ortho-Clinical Diagnostics  
Madrid

Johnson & Johnson Vision Care  
Madrid

**Sweden**

Janssen-Cilag AB  
Sollentuna

Johnson & Johnson AB  
Sollentuna

Johnson & Johnson Consumer  
Products  
Sollentuna

**Switzerland**

Cilag AG  
Schaffhausen

Greiter AG  
Zug

Janssen-Cilag  
Zug

Janssen-Cilag AG  
Baar

Johnson & Johnson AG  
Spreitenbach

Johnson & Johnson Medical  
Spreitenbach

LifeScan  
Zug

McNeil Consumer Nutritionals Europe  
Zug

#### **Turkey**

Johnson & Johnson Limited  
Istanbul

Janssen-Cilag  
Istanbul

### **ASIA-PACIFIC, AFRICA**

#### **Australia**

DePuy Australia Pty. Ltd.  
Notting Hill, Victoria

Janssen-Cilag Pty. Ltd.  
North Ryde

Johnson & Johnson Medical Pty. Ltd.  
North Ryde

Johnson & Johnson Pacific Pty. Limited  
Sydney

Johnson & Johnson Vision Care  
Sydney

Ortho-Clinical Diagnostics  
Mount Waverley, Victoria

Tasmanian Alkaloids Pty. Limited  
Westbury, Tasmania

#### **China**

Johnson & Johnson China Ltd.  
Shanghai

Johnson & Johnson Medical Ltd.  
Shanghai

Shanghai Johnson & Johnson Ltd.  
Shanghai

Shanghai Johnson & Johnson  
Pharmaceuticals Ltd.  
Shanghai

Xian-Janssen Pharmaceutical Ltd.  
Beijing

#### **Egypt**

Johnson & Johnson (Egypt) S.A.E.  
Cairo

#### **Hong Kong**

Janssen-Cilag  
Hong Kong

Johnson & Johnson (Hong Kong) Limited  
Hong Kong

Johnson & Johnson Medical Hong Kong  
Hong Kong

Vistakon  
Hong Kong

#### **India**

Janssen-Cilag  
Mumbai

Johnson & Johnson Limited  
Mumbai

Johnson & Johnson Professional  
Mumbai

#### **Indonesia**

Janssen-Cilag Pharmaceutica  
Jakarta

P.T. Johnson & Johnson Indonesia  
Jakarta

#### **Israel**

Biosense Europe  
Haifa

Janssen-Cilag  
Kibbutz Shefayim

Johnson & Johnson Medical  
Kibbutz Shefayim

#### **Japan**

DePuy Japan, Inc.  
Tokyo

Janssen Pharmaceutical K.K.  
Tokyo

Johnson & Johnson K.K.  
Tokyo

Johnson & Johnson Medical  
Tokyo

Ortho-Clinical Diagnostics K.K.  
Tokyo

Vistakon Japan  
Tokyo

#### **Korea**

Janssen-Cilag Korea, Ltd.  
Seoul

Johnson & Johnson Korea, Ltd.  
Seoul

Johnson & Johnson Medical Korea Ltd.  
Seoul

Johnson & Johnson Vision Care  
Seoul

#### **Malaysia**

Johnson & Johnson Sdn. Bhd.  
Selangor Darul Ehsan

#### **Morocco**

Johnson & Johnson Morocco S.A.  
Casablanca

#### **New Zealand**

DePuy New Zealand Ltd.  
Auckland

#### **Pakistan**

Johnson & Johnson Pakistan  
(Private) Limited  
Karachi

#### **Philippines**

Janssen-Cilag Philippines  
Metro Manila

Johnson & Johnson (Philippines), Inc.  
Metro Manila

#### **Saudi Arabia**

Johnson & Johnson Saudi Arabia  
Riyadh

#### **Singapore**

Janssen-Cilag Singapore/Malaysia  
Singapore

Johnson & Johnson Medical Singapore  
Singapore

Johnson & Johnson Pte. Ltd.  
Singapore

Johnson & Johnson Vision Care  
Singapore

Ortho-Clinical Diagnostics  
Singapore

#### **South Africa**

Janssen-Cilag (Pty.) Ltd.  
Sandton

Johnson & Johnson (Pty.) Limited  
East London

Johnson & Johnson Medical (Pty.) Ltd.  
Halfway House

#### **Taiwan**

Janssen-Cilag Taiwan  
Taipei

Johnson & Johnson Medical Taiwan  
Taipei

Johnson & Johnson Taiwan, Ltd.  
Taipei

#### **Thailand**

Janssen-Cilag Pharmaceutica Limited  
Bangkok

Johnson & Johnson Asean Limited  
Bangkok

Johnson & Johnson Medical Thailand  
Bangkok

#### **United Arab Emirates**

Johnson & Johnson (Middle East) Inc.  
Dubai

**Principal Office**

One Johnson & Johnson Plaza  
New Brunswick, New Jersey 08933  
(732) 524-0400

**Annual Meeting**

The Annual Meeting of Shareholders will take place April 27, 2006, at the Hyatt Regency New Brunswick, 2 Albany Street, New Brunswick, New Jersey. The meeting will convene at 10 a.m. All shareholders are cordially invited to attend. A formal Notice of Meeting, Proxy Statement and Proxy have been sent to shareholders.

**Corporate Governance**

Copies of the Company's 2005 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K to the Securities and Exchange Commission, and the Annual Report are available online at [www.jnj.com](http://www.jnj.com), or to shareholders without charge upon written request to the Secretary at the Company's principal address or by calling (800) 328-9033 or (781) 575-2718 (outside the U.S.).

In addition, on the Company's Corporate Governance Web site at [www.investor.jnj.com/governance](http://www.investor.jnj.com/governance), shareholders can see the Company's Principles of Corporate Governance, Charters of the Audit Committee, Compensation & Benefits Committee and Nominating & Corporate Governance Committee, the Policy on Business Conduct for employees and Code of Business Conduct & Ethics for Members of the Board of Directors and Executive Officers. Copies of these documents are available to shareholders without charge upon written request to the Secretary at the Company's principal address.

The Company is required to file as an Exhibit to its Form 10-K for each fiscal year certifications under Section 302 of the Sarbanes-Oxley Act signed by the Chief Executive Officer and the Chief Financial Officer. In addition, the Company is required to submit a certification signed by the Chief Executive Officer to the New York Stock Exchange within 30 days following the Annual Meeting of Shareholders. Copies of the certifications filed for the previous years are posted on the Company's Corporate Governance Web site and future certifications will be posted promptly upon filing.

**Common Stock**

Listed on New York Stock Exchange  
Stock Symbol JNJ

**Shareholder Relations Contact**

Michael H. Ullmann  
Corporate Secretary  
(732) 524-2455

**Investor Relations Contact**

Louise Mehrotra  
Vice President, Investor Relations  
(800) 950-5089  
(732) 524-6492

**Transfer Agent and Registrar**

Questions regarding stock holdings, certificate replacement/transfer, dividends and address changes should be directed to:

Computershare Trust Company, N.A.  
P. O. Box 43069  
Providence, Rhode Island 02940-3069  
(800) 328-9033 or  
(781) 575-2718 (outside the U.S.)  
Internet: (Computershare Home Page)  
<http://www.computershare.com/equiserve>

**Dividend Reinvestment Plan**

The Plan allows for full or partial dividend reinvestment, and additional monthly cash investments up to \$50,000 per year, in Johnson & Johnson common stock without brokerage commissions or service charges on stock purchases. If you are interested in joining the Plan and need an authorization form and/or more information, please call Computershare Trust Company, N.A. at (800) 328-9033 or (781) 575-2718 (outside the U.S.).

**Hearing Impaired**

Shareholders who have inquiries regarding stock-related matters can communicate directly with Computershare Trust Company, N.A. via a telecommunications device (TDD). The telephone number for this service is (800) 952-9245 or (781) 575-2692 (outside the U.S.).

**World Wide Web Site**

<http://www.jnj.com>

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This publication is printed on paper with at least 30% Post Consumer Content. The covers and pages 1 through 26 are printed on paper certified by the Forest Stewardship Council (FSC) and manufactured entirely with wind energy. Pages 27 through 76 of this publication are printed on paper certified by the Sustainable Forestry Initiative® (SFI) program.

# Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens – support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

The logo for Johnson & Johnson, featuring the company name in a red, cursive script font.

One Johnson & Johnson Plaza  
New Brunswick, New Jersey 08933