Organization and Business Segments

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

Johnson & Johnson and its subsidiaries (the "Company") have approximately 114,000 employees worldwide engaged in the research and development, 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 with the primary focus 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 includes a broad range of products used in the baby care, skin care, oral care, wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products and wellness and prevention platforms. These products are marketed to the general public and sold both to retail outlets and distributors throughout the world. The Pharmaceutical segment includes products in the following areas: anti-infective, antipsychotic, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management and virology. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use. The Medical Devices and Diagnostics segment includes a broad range of products distributed to wholesalers, hospitals and retailers used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Biosense Webster's electrophysiology products; Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction, spinal care, neurological and sports medicine products; Ethicon's surgical care, aesthetics and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products and advanced sterilization products; LifeScan's blood glucose monitoring and insulin delivery products; Ortho-Clinical Diagnostics' professional diagnostic products and Vistakon'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.

In all of its product lines, the Company competes with companies both local and global, located throughout the world. Competition exists 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 innovative 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 in maintaining sales forces. In addition, the development and maintenance of customer demand for the Company's consumer products involves significant expenditures for advertising and promotion.

MANAGEMENT'S OBJECTIVES

The Company manages within a strategic framework aimed at achieving sustainable 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 areas through the development of high quality, innovative products and services. New products introduced within the past five years accounted for approximately 25% of 2010 sales. In 2010, $6.8 billion, or 11.1% of sales, was invested in research and development. This investment reflects management's commitment to the importance of ongoing development of new and differentiated products and services to sustain long-term growth.

With more than 250 operating companies located in 60 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 anticipate and 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.

Our Credo unifies the management team and the Company's dedicated employees in achieving these objectives, and provides a common set of values that serve 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

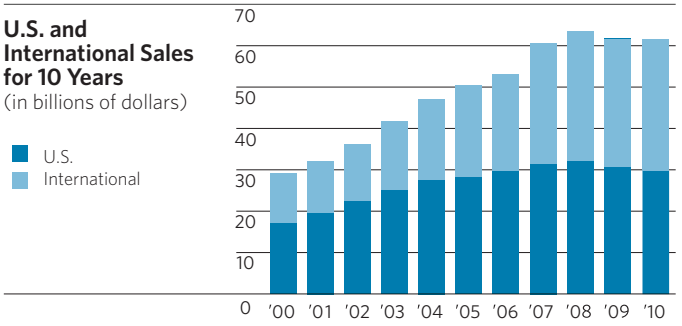
ANALYSIS OF CONSOLIDATED SALES

In 2010, worldwide sales decreased 0.5% to $61.6 billion, compared to a decrease of 2.9% in 2009 and an increase of 4.3% in 2008. These sales changes consisted of the following:

Sales (decrease)/increase due to:	2010	2009	2008
Volume	(0.5)%	(0.2)	1.1
Price	(0.8)	(0.1)	0.8
Currency	0.8	(2.6)	2.4
Total	**(0.5)%**	**(2.9)**	**4.3**

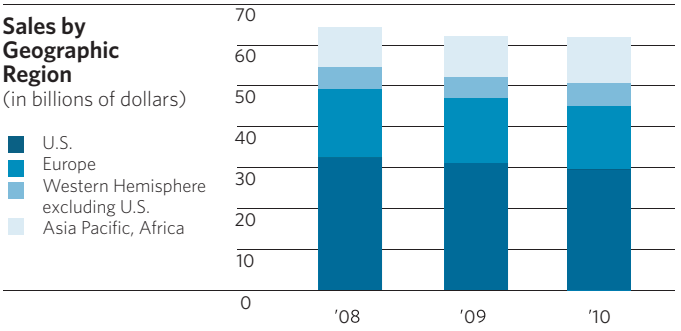
Sales by U.S. companies were $29.5 billion in 2010, $30.9 billion in 2009 and $32.3 billion in 2008. This represents a decrease of 4.7% in 2010, a decrease of 4.4% in 2009 and a decrease of 0.4% in 2008. Sales by international companies were $32.1 billion in 2010, $31.0 billion in 2009 and $31.4 billion in 2008. This represents an increase of 3.6% in 2010, a decrease of 1.4% in 2009 and an increase of 9.7% in 2008.

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 4.0%, 0.7% and 7.7%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 7.8%, 5.5% and 10.5%, respectively.

Sales by Geographic Region
(in billions of dollars)



Sales in Europe experienced a decline of 2.7% including operational growth of 0.5% and a negative impact from currency of 3.2%. Sales in the Western Hemisphere (excluding the U.S.) achieved growth of 7.6% including an operational decline of 0.5% and an increase of 8.1% related to the positive impact of currency. Sales in the Asia-Pacific, Africa region achieved growth of 11.7%, including operational growth of 5.5% and an increase of 6.2% related to the positive impact of currency.

In 2010, 2009 and 2008, the Company did not have a customer that represented 10% or more of total consolidated revenues.

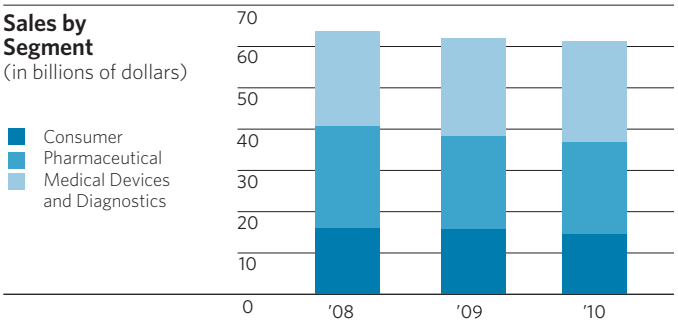
2009 results benefited from the inclusion of a 53rd week. (See Note 1 to the Consolidated Financial Statements for Annual Closing Date details). The Company estimated that the fiscal year 2009 growth rate was enhanced by approximately 0.5% due to the 53rd week.

U.S. HEALTH CARE REFORM

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law during March 2010. The newly enacted health care reform legislation included an increase in the minimum Medicaid rebate rate from 15.1% to 23.1% and also extended the rebate to drugs provided through Medicaid managed care organizations. The 2010 impact was an increase in sales rebates reducing sales revenue by approximately $400 million. The 2011 full year impact to sales of the legislation is estimated to be $400–$500 million.

Beginning in 2011, companies that sell branded prescription drugs to specified U.S. Government programs will pay an annual non-tax deductible fee based on an allocation of the company's market share of total branded prescription drug sales from the prior year. The estimate of the impact on the Company in 2011 is $150–$200 million. Beginning in 2013, the Company will be required to pay a tax deductible 2.3% excise tax imposed on the sale of certain medical devices.

Sales by Segment
(in billions of dollars)



Analysis of Sales by Business Segments

CONSUMER SEGMENT

Consumer segment sales in 2010 were $14.6 billion, a decrease of 7.7% from 2009, with 8.9% of this change due to an operational decline partially offset by positive currency impact of 1.2%. U.S. Consumer segment sales were $5.5 billion, a decrease of 19.3%. International sales were $9.1 billion, an increase of 1.2%, with an operational decline of 1.0% offset by positive currency impact of 2.2%.

The Over-the-Counter (OTC) Pharmaceuticals and Nutritionals franchise sales were $4.5 billion, a decrease of 19.2% from 2009. Sales were negatively impacted by the voluntary recalls of certain OTC products announced earlier in the year and suspension of production at McNeil Consumer Healthcare's Fort Washington, Pennsylvania facility. McNeil's recalls of products manufactured at both Las Piedras and Fort Washington facilities impacted the total year sales by approximately $900 million.

Alternate supplies of products are planned to be available in the latter half of 2011. McNeil Consumer Healthcare submitted its Comprehensive Action Plan (CAP) to the U.S. Food and Drug Administration (FDA) on July 15, 2010, which encompasses, among other items, training, resources and capital investments in quality and manufacturing systems across the McNeil organization. The

Major Consumer Franchise Sales:

(Dollars in Millions)	2010	2009	2008	% Change '10 vs. '09	% Change '09 vs. '08
OTC Pharmaceuticals & Nutritionals	$ 4,549	5,630	5,894	(19.2)%	(4.5)
Skin Care	3,452	3,467	3,381	(0.4)	2.5
Baby Care	2,209	2,115	2,214	4.4	(4.5)
Women's Health	1,844	1,895	1,911	(2.7)	(0.8)
Oral Care	1,526	1,569	1,624	(2.7)	(3.4)
Wound Care/Other	1,010	1,127	1,030	(10.4)	9.4
Total	**$14,590**	**15,803**	**16,054**	**(7.7)%**	**(1.6)**

Company continues to communicate with the FDA on remediation actions and is on schedule with the commitments made in the CAP.

The Skin Care franchise sales were $3.5 billion, a decline of 0.4% compared to the prior year due in part to a temporary reduction in shipments of Neutrogena products due to product supply constraints partially offset by growth in the AVEENO®, JOHNSON's® Adult, LE PETIT MARSEILLAIS® and DABAO® skin care lines. The Baby Care franchise sales grew by 4.4% to $2.2 billion in 2010, primarily due to growth in the Asia Pacific region partially offset by the impact of the economic situation in Venezuela. The Women's Health franchise sales were $1.8 billion, a decrease of 2.7% primarily due to increased competitive pressures and the impact of the economic situation in Venezuela. The Oral Care franchise sales were $1.5 billion, a decrease of 2.7% primarily due to the divestiture of the EFFERDENT®/Effergrip® brands in the fiscal fourth quarter of 2009 and lower sales of mouth rinses and toothbrushes in the United States. The Wound Care/Other franchise sales were $1.0 billion, a decrease of 10.4% primarily due to private label competition and slower category growth.

Consumer segment sales in 2009 were $15.8 billion, a decrease of 1.6% from 2008, with 2.0% of this change due to operational growth and negative currency impact of 3.6%. U.S. Consumer segment sales were $6.8 billion, a decrease of 1.4%. International sales were $9.0 billion, a decrease of 1.7%, with growth of 4.7% achieved by operations and a decrease of 6.4% resulting from the negative impact of currency fluctuations.

PHARMACEUTICAL SEGMENT

Pharmaceutical segment sales in 2010 were $22.4 billion, a decrease of 0.6% from 2009, with an operational decline of 1.0% and a positive currency impact of 0.4%. U.S. sales were $12.5 billion, a decrease of 4.0%. International sales were $9.9 billion, an increase of 4.2%, which included 3.4% operational growth and a positive currency impact of 0.8%. Pharmaceutical segment sales in 2010 were reduced by approximately $400 million as a result of U.S. health care reform legislation.

REMICADE® (infliximab), a biologic approved for the treatment of a number of immune mediated inflammatory diseases, achieved sales of $4.6 billion in 2010, with growth of 7.1% over the prior year. U.S. export sales grew 24.3% versus the prior year primarily driven by market growth. REMICADE® is competing in a market that is experiencing increased competition due to new entrants, including the successful launches of STELARA® (ustekinumab) and SIMPONI® (golimumab) and the expansion of indications for existing competitors.

PROCRIT® (Epoetin alfa) and EPREX® (Epoetin alfa) had combined sales of $1.9 billion in 2010, a decline of 13.9% compared to the prior year. Lower sales of PROCRIT® and EPREX® were primarily due to the declining markets for Erythropoiesis Stimulating Agents (ESAs). EPREX® also experienced increased competition.

RISPERDAL® CONSTA® (risperidone), a long-acting injectable antipsychotic, achieved sales of $1.5 billion in 2010, representing an increase of 5.3% as compared to the prior year. Solid growth of 16.4% was achieved outside the U.S., with very strong growth in Japan. In the U.S. the successful launch of INVEGA® SUSTENNA™ (paliperidone palmitate) also increased the growth of the long-acting injectable antipsychotic market.

LEVAQUIN® (levofloxacin)/FLOXIN® (ofloxacin) sales were $1.4 billion, a decline of 12.5% versus the prior year primarily due to the decline in the market and increased penetration of generics. Market exclusivity in the U.S. expires in June 2011. The expiration of a product's market exclusivity is likely to result in a significant reduction in sales.

CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder (ADHD), achieved sales of $1.3 billion in 2010, a decrease of 0.5% compared to the prior year. Sales growth in the U.S. was impacted by lower market share and the health care reform legislation enacted in March 2010 resulting from changes to rebates to Medicaid managed care organizations. On November 1, 2010, the Company entered into a U.S. supply and distribution agreement with Watson Laboratories, Inc. to distribute an authorized generic version of CONCERTA® beginning May 1, 2011. This authorized generic launch is likely to result in a significant reduction in CONCERTA® sales.

VELCADE® (bortezomib), a product for the treatment for multiple myeloma, for which the Company has commercial rights in Europe and the rest of the world outside the U.S., achieved sales of $1.1 billion in 2010, representing an increase of 15.8% as compared to the prior year.

ACIPHEX®/PARIET® (rabeprazole sodium) sales were $1.0 billion, a decline of 8.2% versus the prior year due to increased competition from generics in the category.

TOPAMAX® (topiramate), experienced a sales decline of 53.3% compared to the prior year. Market exclusivity for TOPAMAX® expired in March 2009 in the U.S. and in September 2009 in most European countries. Multiple generics have entered the market. Loss of market exclusivity for the TOPAMAX® patent has resulted in the significant reduction of sales in the U.S. and Europe.

In 2010, Other Pharmaceutical sales were $9.1 billion, representing a growth of 6.6% over the prior year. Contributors to the increase were sales of STELARA® (ustekinumab), SIMPONI® (golimumab),

Major Pharmaceutical Product Revenues*:

(Dollars in Millions)	2010	2009	2008	% Change '10 vs. '09	% Change '09 vs. '08
REMICADE® (infliximab)	$ 4,610	4,304	3,748	7.1%	14.8
PROCRIT®/EPREX® (Epoetin alfa)	1,934	2,245	2,460	(13.9)	(8.7)
RISPERDAL® CONSTA® (risperidone)	1,500	1,425	1,309	5.3	8.9
LEVAQUIN®/FLOXIN® (levofloxacin/ofloxacin)	1,357	1,550	1,591	(12.5)	(2.6)
CONCERTA® (methylphenidate HCl)	1,319	1,326	1,247	(0.5)	6.3
VELCADE® (bortezomib)	1,080	933	787	15.8	18.6
ACIPHEX®/PARIET® (rabeprazole sodium)	1,006	1,096	1,158	(8.2)	(5.4)
TOPAMAX® (topiramate)	538	1,151	2,731	(53.3)	(57.9)
Other Pharmaceuticals	9,052	8,490	9,536	6.6	(11.0)
Total	**$22,396**	**22,520**	**24,567**	**(0.6)%**	**(8.3)**

** Prior year amounts have been reclassified to conform to current presentation.*

PREZISTA® (darunavir), INTELENCE® (etravirine), NUCYNTA® (tapentadol) and INVEGA SUSTENNA® (paliperidone palmitate). This growth was partially offset by lower sales of DURAGESIC®/ Fentanyl Transdermal (fentanyl transdermal system) and RISPERDAL®/risperidone oral due to continued generic competition.

During 2010, several new compounds were filed for regulatory approval. These included abiraterone acetate, an investigational agent for the treatment of metastatic, advanced prostate cancer which was granted priority review in the U.S. and accepted for accelerated assessment in Europe, and telaprevir, developed in collaboration with Vertex Pharmaceuticals Incorporated, for hepatitis C which was filed and accepted for accelerated assessment in Europe. TMC 278 (rilpivirine) for HIV in treatment-naïve patients was filed in both the U.S. and Europe. Rivaroxaban, an anti-coagulant co-developed with Bayer HealthCare, has been filed in the U.S. for the prevention of stroke in patients with atrial fibrulation. The Company also responded to the FDA complete response letter for its review of the rivaroxaban filing for preventing deep vein thrombosis and pulmonary embolism following total knee and hip replacement surgery.

Pharmaceutical segment sales in 2009 were $22.5 billion, a decrease of 8.3% from 2008, with an operational decline of 6.1% and the remaining 2.2% due to the negative impact of currency fluctuations. U.S. sales were $13.0 billion, a decrease of 12.1%. International sales were $9.5 billion, a decrease of 2.6%, which included 3.0% operational growth and a decrease of 5.6% resulting from the negative impact of currency fluctuations.

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

The Medical Devices and Diagnostics segment achieved sales of $24.6 billion in 2010, representing an increase of 4.4% over the prior year, with operational growth of 3.4% and a positive currency impact of 1.0%. U.S. sales were $11.4 billion, an increase of 3.6% over the prior year. International sales were $13.2 billion, an increase of 5.0% over the prior year, with growth of 3.0% from operations and a positive currency impact of 2.0%.

The DePuy franchise achieved sales of $5.6 billion in 2010, a 4.0% increase over the prior year. This growth was primarily due to an increase in the knee and Mitek sports medicine product lines, and outside the U.S., growth of the hip product line. Pressure on pricing continued as a result of economic trends, however new product launches and incremental sales of newly acquired products from Micrus Endovascular Corporation have mitigated some of the impact. In August 2010, DePuy Orthopaedics, Inc. (DePuy) announced a worldwide voluntary recall of its ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System used in hip replacement surgery, principally sold between 2003 and 2009.

The Ethicon Endo-Surgery franchise achieved sales of $4.8 billion in 2010, a 5.9% increase over the prior year. This was attributable to growth in the endoscopy, Advanced Sterilization, HARMONIC®, SurgRx and ENSEAL® product lines. The growth was partially offset by the divestiture of the Breast Care business in the third quarter of 2010.

The Ethicon franchise achieved sales of $4.5 billion in 2010, a 9.2% increase over the prior year. The growth was attributable to sales of newly acquired products from Acclarent, Inc. in addition to growth in the sutures, Mentor, biosurgical, Women's Health and Urology, and mesh product lines.

The Vision Care franchise achieved sales of $2.7 billion in 2010, a 6.9% increase over prior year primarily driven by 1-DAY ACUVUE® TruEye™, ACUVUE® OASYS™ for Astigmatism, and 1-DAY ACUVUE® MOIST®, partially offset by lower sales of reusable lenses. During 2010, the Company and Novartis AG, CIBA VISION Corporation and CIBA VISION AG agreed to resolve all pending patent litigation on a worldwide basis enabling the Company to reenter the markets in France and the Netherlands.

Sales in the Cordis franchise were $2.6 billion, a decline of 4.7% versus the prior year. The decline reflects lower sales of the CYPHER® Sirolimus-eluting Coronary Stent due to increased global competition. The decline was partially offset by strong growth of the Biosense Webster business.

Sales in the Diabetes Care franchise were $2.5 billion in 2010, a 1.2% increase over the prior year. This was primarily attributable to growth in the U.S. and Asia Pacific region partially offset by a sales decline in Europe.

The Ortho-Clinical Diagnostics franchise achieved sales of $2.1 billion in 2010, a 4.6% increase over the prior year. Growth was primarily attributable to sales of the VITROS® 5600 and 3600 analyzers partially offset by lower sales in donor screening primarily due to more selective screening for Chagas testing in the U.S.

The Medical Devices and Diagnostics segment achieved sales of $23.6 billion in 2009, representing an increase of 1.9% over the prior year, with operational growth of 4.2% and a negative currency impact of 2.3%. U.S. sales were $11.0 billion, an increase of 4.5% over the prior year. International sales were $12.6 billion, a decrease of 0.2%, with growth of 4.0% from operations and a decrease of 4.2% resulting from the negative impact of currency fluctuations.

Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income increased by $1.1 billion to $16.9 billion in 2010 as compared to the $15.8 billion earned in 2009, an increase of 7.6%. The increase was primarily related to lower selling, marketing and administrative expenses due to cost containment actions resulting from the restructuring plan initiated and implemented in 2009, income from litigation settlements and the gain on the divestiture of the Breast Care business of Ethicon Endo-Surgery, Inc. This was partially offset by costs associated with product liability expense and the impact of the OTC and DePuy ASR™ Hip recalls. Additional offsets were lower

Major Medical Devices and Diagnostics Franchise Sales:

				% Change	
(Dollars in Millions)	2010	2009	2008	'10 vs. '09	'09 vs. '08
DEPUY®	$ 5,585	5,372	5,136	4.0%	4.6
ETHICON ENDO-SURGERY®	4,758	4,492	4,286	5.9	4.8
ETHICON®	4,503	4,122	3,840	9.2	7.3
Vision Care	2,680	2,506	2,500	6.9	0.2
CORDIS®	2,552	2,679	2,988	(4.7)	(10.3)
Diabetes Care	2,470	2,440	2,535	1.2	(3.7)
ORTHO-CLINICAL DIAGNOSTICS®	2,053	1,963	1,841	4.6	6.6
Total	**$24,601**	**23,574**	**23,126**	**4.4%**	**1.9**

net selling prices in the Pharmaceutical business due to U.S. health care reform and price reductions in certain Medical Devices and Diagnostics businesses. The 2009 decrease of 6.9% as compared to $16.9 billion in 2008 was primarily related to lower sales, the negative impact of product mix, lower interest income due to lower rates of interest earned and restructuring charges of $1.2 billion. This was partially offset by lower selling, marketing and administrative expenses due to cost containment efforts across all the businesses. The 2008 earnings included purchased in-process research and development (IPR&D) charges of $0.2 billion and increased investment spending in selling, marketing and administrative expenses utilized from the proceeds associated with the divestiture of the Professional Wound Care business of Ethicon, Inc. As a percent to sales, consolidated earnings before provision for taxes on income in 2010 was 27.5% versus 25.4% in 2009.

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	2010	2009	2008
Cost of products sold	30.5%	29.8	29.1
Percent point increase over the prior year	0.7	0.7	—
Selling, marketing and administrative expenses	31.5	32.0	33.7
Percent point (decrease)/increase over the prior year	(0.5)	(1.7)	0.2

In 2010, cost of products sold as a percent to sales increased compared to the prior year primarily due to costs associated with the impact of the OTC recall and remediation efforts in the Consumer business, lower net selling prices in the Pharmaceutical business due to U.S. health care reform and price reductions in certain Medical Devices and Diagnostics businesses. Additionally, unfavorable product mix attributable to the loss of market exclusivity for TOPAMAX® contributed to the increase. There was a decrease in the percent to sales of selling, marketing and administrative expenses in 2010 compared to the prior year primarily due to cost containment initiatives principally resulting from the restructuring plan implemented in 2009. The decrease was partially offset by lower net selling prices in the Pharmaceutical business due to U.S. health care reform and price reductions in certain Medical Devices and Diagnostics businesses.

In 2009, cost of products sold as a percent to sales increased compared to the prior year primarily due to the continued negative impact of product mix and inventory write-offs associated with the restructuring activity. Additionally, 2008 included some non-recurring positive items. There was a decrease in the percent to sales of selling, marketing and administrative expenses in 2009 compared to the prior year primarily due to cost containment efforts across all the businesses and the annualized savings recognized from the 2007 restructuring program. In addition, in 2008 the Company utilized the proceeds associated with the divestiture of the Professional Wound Care business of Ethicon, Inc. to fund increased investment spending.

In 2008, cost of products sold as a percent to sales remained flat to the prior year. The change in the mix of businesses, with higher sales growth in the Consumer business and a slight sales decline in the Pharmaceutical business, had a negative impact on the cost of products sold as a percent to sales. In 2008, this was offset by manufacturing efficiencies and non-recurring positive items in 2008 and negative items in 2007. There was an increase in the percent to sales of selling, marketing and administrative expenses in 2008 primarily due to the change in the mix of businesses, whereby a greater proportion of sales were attributable to the Consumer segment, which has higher selling, marketing and administrative spending. Additionally, in 2008 the Company utilized the gain associated with the divestiture of the Professional Wound Care business of Ethicon, Inc. to fund increased investment spending. This was partially offset by ongoing cost containment efforts.

Research and Development expense (excluding purchased in-process research and development charges) by segment of business was as follows:

	2010		2009		2008	
(Dollars in Millions)	Amount	% of Sales*	Amount	% of Sales*	Amount	% of Sales*
Consumer	$ 609	4.2%	632	4.0	624	3.9
Pharmaceutical	4,432	19.8	4,591	20.4	5,095	20.7
Medical Devices and Diagnostics	1,803	7.3	1,763	7.5	1,858	8.0
Total research and development expense	$6,844	11.1%	6,986	11.3	7,577	11.9
Percent (decrease)/increase over the prior year	(2.0)%		(7.8)		(1.3)	

** As a percent to segment sales*

Research and Development Expense: Research and development 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. The Company remains committed to investing in research and development with the aim of delivering high quality and innovative products.

Restructuring: In 2009, the Company announced global restructuring initiatives that are expected to generate pre-tax, annual cost savings of approximately $1.5 billion when fully implemented in 2011. The associated savings has provided additional resources to invest in new growth platforms; ensure the successful launch of the Company's many new products and continued growth of the core businesses; and provide flexibility to adjust to the changed and evolving global environment. In the fiscal fourth quarter of 2009, the Company recorded a pre-tax charge of $1.2 billion, of which $113 million was included in cost of products sold.

See Note 22 to the Consolidated Financial Statements for additional details related to the restructuring.

Purchased In-Process Research and Development: Beginning in 2009, in accordance with U.S. GAAP for business combinations, purchased in-process research and development (IPR&D) is no longer expensed but capitalized and tested for impairment. The Company capitalized approximately $0.2 billion of IPR&D in 2010, primarily associated with the acquisitions of Acclarent, Inc., RespiVert Ltd. and Micrus Endovascular Corporation. The Company capitalized $1.7 billion of IPR&D in 2009, primarily associated with the acquisitions of Cougar Biotechnology, Inc. and substantially all of the assets and rights of Elan related to its Alzheimer's Immunotherapy Program.

In 2008, the Company recorded a charge for IPR&D of $181 million before and after tax related to the acquisitions of Amic AB, SurgRx, Inc., HealthMedia, Inc. and Omrix Biopharmaceuticals, Inc. HealthMedia, Inc., a privately held company that creates web-based behavior change interventions, accounted for $7 million before tax of the IPR&D charges and was included in the operating profit of the Consumer segment. The IPR&D charges for all of the following acquisitions were included in the operating profit of the Medical Devices and Diagnostics segment. Amic AB, a Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings (outside the physical facilities of the clinical laboratory), accounted for $40 million before tax of the IPR&D charges. SurgRx, Inc., a privately held developer of the advanced bipolar tissue sealing system used in the ENSEAL® family of devices, accounted for $7 million before tax of the IPR&D charges. Omrix Biopharmaceuticals, Inc., a fully integrated biopharmaceutical company that develops and markets biosurgical and immunotherapy products, accounted for $127 million before tax of the IPR&D charges.

Other (Income) Expense, Net: Other (income) expense, net includes royalty income; 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; non-controlling interests; and litigation settlements. The favorable change of $0.2 billion in other (income) expense, net, in 2010 as compared to 2009, was primarily due to a net gain from litigation settlements and the gain on the divestiture of businesses partially offset by product liability expense.

In 2009, other (income) expense, net included net litigation settlements of $0.4 billion. In 2008, other (income) expense, net included income from net litigation settlements and awards of $0.5 billion and a gain of $0.5 billion from the divestiture of the Professional Wound Care business of Ethicon, Inc.

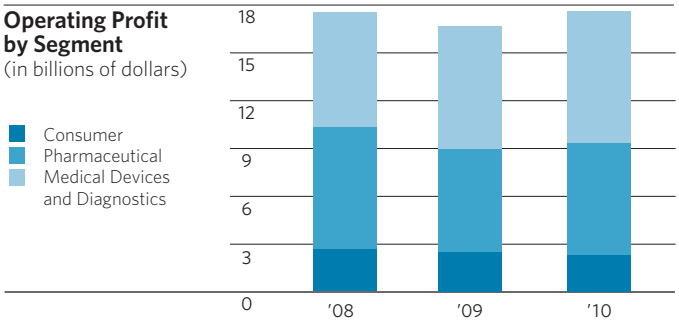
OPERATING PROFIT BY SEGMENT

Operating profits by segment of business were as follows:

			Percent of Segment Sales	
(Dollars in Millions)	2010	2009	2010	2009
Consumer	$ 2,342	2,475	16.1%	15.7
Pharmaceutical	7,086	6,413	31.6	28.5
Medical Devices and Diagnostics	8,272	7,694	33.6	32.6
Total [1]	17,700	16,582	28.7	26.8
Less: Expenses not allocated to segments [2]	753	827		
Earnings before provision for taxes on income	$16,947	15,755	27.5%	25.4

[1] *See Note 18 to the Consolidated Financial Statements for more details.*

[2] *Amounts not allocated to segments include interest (income) expense, non-controlling interests, and general corporate (income) expense.*



Consumer Segment: In 2010, Consumer segment operating profit decreased 5.4% from 2009. The primary reasons for the decrease in the operating profit were lower sales and higher costs associated with the recall of certain OTC products and the suspension of production at McNeil Consumer Healthcare's Fort Washington, Pennsylvania facility. In 2009, Consumer segment operating profit decreased 7.4% from 2008. The primary reasons for the decrease in operating profit were $369 million of restructuring charges, partially offset by cost containment initiatives in 2009.

Pharmaceutical Segment: In 2010, Pharmaceutical segment operating profit increased 10.5% from 2009. The primary reasons for the increase in operating profit were lower manufacturing costs, the gain on a divestiture, and benefits from cost improvement initiatives related to the restructuring plan implemented in 2009, partially offset by $333 million of expense related to litigation matters, increased product liability expense and the impact of the newly enacted U.S. health care reform legislation. In 2009, Pharmaceutical segment operating profit decreased 15.7% from 2008. The primary reasons for the decrease in operating profit were $496 million of restructuring charges, $92 million of litigation expense and negative product mix due to the loss of market exclusivity for TOPAMAX® and RISPERDAL® oral.

Medical Devices and Diagnostics Segment: In 2010, Medical Devices and Diagnostics segment operating profit increased 7.5% from 2009. The improved operating profit was due to a gain of $1.3 billion from net litigation matters and the gain on the divestiture of the Breast Care business recorded in 2010. This was partially offset by increased product liability expense, $280 million of costs associated with the DePuy ASR™ Hip recall program and price reductions in certain Medical Devices and Diagnostics businesses. In 2009, the operating profit in the Medical Devices and Diagnostics segment increased 6.5% from 2008. The improved operating profit was due to a $478 million gain from net litigation settlements, favorable product mix, manufacturing efficiencies and cost containment initiatives related to selling, marketing and administrative expenses. This was partially offset by $321 million in restructuring charges.

Interest (Income) Expense: Interest income in 2010 increased by $17 million over the prior year due to higher average cash balances. Cash, cash equivalents and marketable securities totaled $27.7 billion at the end of 2010, and averaged $23.6 billion as compared to the $15.6 billion average cash balance in 2009. The increase in the average cash balance was primarily due to cash generated from operating activities and net cash proceeds from litigation matters and divestitures.

Interest expense in 2010 was relatively flat as compared to 2009 due to a lower average rate despite a higher debt balance. The total debt balance at the end of 2010 was $16.8 billion as compared to $14.5 billion at the end of 2009. The higher average debt balance of $15.7 billion in 2010 versus $13.5 billion in 2009 was due to increased borrowings. The Company increased borrowings, capitalizing on favorable terms in the capital markets. The proceeds of the notes were used for general corporate purposes.

Interest income in 2009 decreased by $271 million as compared to 2008 due to lower rates of interest earned despite higher average cash balances. The cash balance, including marketable securities, was $19.4 billion at the end of 2009, and averaged $15.6 billion as compared to the $12.2 billion average cash balance in 2008. The increase in the average cash balance was primarily due to cash generated from operating activities.

Interest expense in 2009 increased by $16 million as compared to 2008 due to a higher debt balance. The net debt balance at the end of 2009 was $14.5 billion as compared to $11.9 billion at the end of 2008. The higher average debt balance of $13.5 billion in 2009

versus $12.9 billion in 2008 was primarily related to funding acquisitions and investments and the purchase of the Company's Common Stock under the ongoing Common Stock repurchase program announced on July 9, 2007.

Interest income in 2008 decreased by $91 million as compared to 2007 due to lower rates of interest earned despite higher average cash balances. The cash balance, including marketable securities, was $12.8 billion at the end of 2008, and averaged $12.2 billion as compared to the $6.6 billion average cash balance in 2007. The increase in the average cash balance was primarily due to cash generated from operating activities.

Interest expense in 2008 increased by $139 million as compared to 2007 due to a higher debt balance. In the second half of 2007, the Company converted some of its short-term debt to fixed long-term debt at higher interest rates. The net debt balance at the end of 2008 was $11.9 billion as compared to $9.5 billion at the end of 2007. The higher debt balance in 2008 was primarily due to the purchase of the Company's Common Stock under the ongoing Common Stock repurchase program announced on July 9, 2007 and to fund acquisitions.

Provision for Taxes on Income: The worldwide effective income tax rate was 21.3% in 2010, 22.1% in 2009 and 23.5% in 2008. The 2010 tax rate decreased as compared to 2009 due to decreases in taxable income in higher tax jurisdictions relative to taxable income in lower tax jurisdictions and certain U.S. tax adjustments. The 2009 tax rate decreased as compared to 2008 due to increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions.

Liquidity and Capital Resources

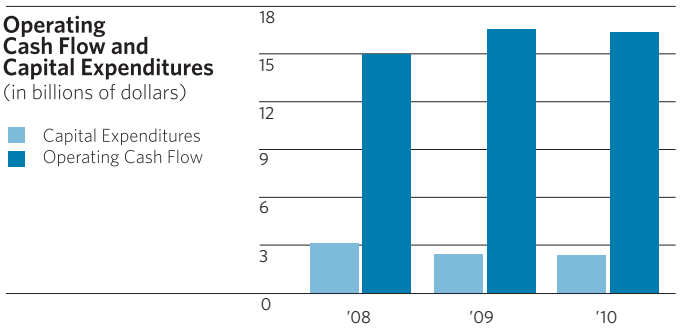
LIQUIDITY & CASH FLOWS

Cash and cash equivalents were $19.4 billion at the end of 2010 as compared with $15.8 billion at the end of 2009. The primary sources of cash that contributed to the $3.6 billion increase versus the prior year were $16.4 billion of cash generated from operating activities, $2.4 billion net proceeds from long and short-term debt and $0.5 billion proceeds from the disposal of assets. The major uses of cash were capital spending of $2.4 billion, acquisitions of $1.3 billion, net investment purchases of $4.7 billion, dividends to shareholders of $5.8 billion, and the repurchase of Common Stock, net of proceeds from the exercise of options, of $1.6 billion.

Cash flows from operations were $16.4 billion in 2010. The major sources of cash flow were net income of $13.3 billion, adjusted for non-cash charges for depreciation, amortization, stock based compensation and deferred tax provision of $3.9 billion. The remaining changes to operating cash flow were increases in accounts receivable, inventories and other assets.

In 2010, the Company continued to have access to liquidity through the commercial paper market. For additional details on borrowings, see Note 7 to the Consolidated Financial Statements.

The Company anticipates that operating cash flows, existing credit facilities and access to the commercial paper markets will provide sufficient resources to fund operating needs in 2011.



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 certain foreign currency assets and liabilities and to hedge future foreign currency transactions primarily related to 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 2, 2011 market rates would increase the unrealized value of the Company's forward contracts by $239 million. Conversely, a 10% depreciation of the U.S. Dollar from the January 2, 2011 market rates would decrease the unrealized value of the Company's forward contracts by $292 million. In either scenario, the gain or loss on the forward contract would be offset by the gain or loss on the underlying transaction, and therefore, would have no impact on future anticipated 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 $212 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 anticipated cash flows.

The Company does not enter into 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.

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2010, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates $10 billion, which expires September 22, 2011. Interest charged on borrowings under the credit line agreement is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreement are not material.

Total borrowings at the end of 2010 and 2009 were $16.8 billion and $14.5 billion, respectively. The increase in borrowings between 2010 and 2009 was a result of financing for general corporate purposes and the continuation of the Company's Common Stock repurchase program announced in 2007. In 2010, net cash (cash and current marketable securities, net of debt) was $10.9 billion compared to net cash of $4.9 billion in 2009. Total debt represented 22.9% of total capital (shareholders' equity and total debt) in 2010 and 22.3% of total capital in 2009. Shareholders' equity

per share at the end of 2010 was $20.66 compared with $18.37 at year-end 2009, an increase of 12.5%.

A summary of borrowings can be found in Note 7 to the Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company's contractual obligations are primarily for leases, debt 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 2, 2011 (see Notes 7, 10 and 16 to the Consolidated Financial Statements for further details):

(Dollars in Millions)	Long-term Debt Obligations	Interest on Debt Obligations	Unfunded Retirement Plans	Operating Leases	Total
2011	$ 13	528	54	182	777
2012	644	507	55	159	1,365
2013	509	457	59	130	1,155
2014	9	444	62	106	621
2015	—	444	69	89	602
After 2015	7,994	5,180	428	74	13,676
Total	**$9,169**	**7,560**	**727**	**740**	**18,196**

For tax matters, see Note 8 to the Consolidated Financial Statements.

SHARE REPURCHASE AND DIVIDENDS

On July 9, 2007, the Company announced that its Board of Directors approved a stock repurchase program authorizing the Company to buy back up to $10.0 billion of the Company's Common Stock. As of January 2, 2011, the current stock repurchase program has been completed. The Company repurchased an aggregate of 158.3 million shares of Johnson & Johnson Common Stock at a cost of $10.0 billion. The Company funded the share repurchase program through a combination of available cash and debt. In addition, the Company has an annual program to repurchase shares for use in employee stock and incentive plans.

The Company increased its dividend in 2010 for the 48th consecutive year. Cash dividends paid were $2.110 per share in 2010, compared with dividends of $1.930 per share in 2009 and $1.795 per share in 2008. The dividends were distributed as follows:

	2010	2009	2008
First quarter	$0.490	0.460	0.415
Second quarter	0.540	0.490	0.460
Third quarter	0.540	0.490	0.460
Fourth quarter	0.540	0.490	0.460
Total	**$2.110**	**1.930**	**1.795**

On January 3, 2011, the Board of Directors declared a regular quarterly cash dividend of $0.540 per share, payable on March 15, 2011, to shareholders of record as of March 1, 2011. 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. (GAAP). 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, 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 contractual 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.

Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The returns reserve is based on historical return trends by product and by market as a percent to gross sales. In accordance with the Company's accounting policies, the Company generally issues credit to customers for returned goods. The Company's sales return reserves are accounted for in accordance with the U.S. GAAP guidance for revenue recognition when right of return exists. Sales return reserves are recorded at full sales value. Sales returns in the Consumer and Pharmaceutical segments are almost exclusively not resalable. Sales returns for certain franchises in the Medical Devices and Diagnostics segment are typically resalable but are not material. The Company rarely exchanges products from inventory for returned products. The sales returns reserve for the total Company has ranged between 1.0% and 1.2% of annual net trade sales during the prior three fiscal reporting years 2008–2010.

Promotional programs, such as product listing allowances and cooperative advertising arrangements, are recorded in the year incurred. Continuing promotional programs include coupons and volume-based sales incentive programs. The redemption cost of consumer coupons is based on historical redemption experience by product and value. Volume-based incentive programs are based on estimated sales volumes for the incentive period and are recorded as products are sold. 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. These arrangements are evaluated to determine the appropriate amounts to be deferred.

In addition, the Company enters into collaboration arrangements, which contain multiple revenue generating activities. The revenue for these arrangements is recognized as each activity is performed or delivered, based on the relative fair value. Upfront fees received as part of these arrangements are deferred and recognized as revenue earned over the obligation period. See Note 1 to

the Consolidated Financial Statements for additional disclosures on collaborations.

Reasonably likely changes to assumptions used to calculate the accruals for rebates, returns and promotions are not anticipated to have a material effect on the financial statements. The Company currently discloses the impact of changes to assumptions in the quarterly or annual filing in which there is a material financial statement impact.

Below are tables that show the progression of accrued rebates, returns, promotions, reserve for doubtful accounts and reserve for cash discounts by segment of business for the fiscal years ended January 2, 2011 and January 3, 2010.

CONSUMER SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2010				
Accrued rebates [1]	$121	361	(351)	131
Accrued returns	127	156	(138)	145
Accrued promotions	272	2,418	(2,396)	294
Subtotal	$520	2,935	(2,885)	570
Reserve for doubtful accounts	107	6	(56)	57
Reserve for cash discounts	21	249	(249)	21
Total	**$648**	**3,190**	**(3,190)**	**648**
2009				
Accrued rebates [1]	$131	380	(390)	121
Accrued returns	115	134	(122)	127
Accrued promotions	202	1,996	(1,926)	272
Subtotal	$448	2,510	(2,438)	520
Reserve for doubtful accounts	110	23	(26)	107
Reserve for cash discounts	22	285	(286)	21
Total	**$580**	**2,818**	**(2,750)**	**648**

[1] *Includes reserve for customer rebates of $50 million at January 2, 2011 and $46 million at January 3, 2010, recorded as a contra asset.*

PHARMACEUTICAL SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2010				
Accrued rebates [1][2]	$1,064	4,768	(4,312)	1,520
Accrued returns	342	27	(75)	294
Accrued promotions	84	135	(136)	83
Subtotal	$1,490	4,930	(4,523)	1,897
Reserve for doubtful accounts	83	91	(29)	145
Reserve for cash discounts	48	379	(373)	54
Total	**$1,621**	**5,400**	**(4,925)**	**2,096**
2009				
Accrued rebates [1]	$1,261	3,975	(4,172)	1,064
Accrued returns	490	147	(295)	342
Accrued promotions	107	330	(353)	84
Subtotal	$1,858	4,452	(4,820)	1,490
Reserve for doubtful accounts	48	37	(2)	83
Reserve for cash discounts	23	462	(437)	48
Total	**$1,929**	**4,951**	**(5,259)**	**1,621**

[1] *Includes reserve for customer rebates of $320 million at January 2, 2011 and $372 million at January 3, 2010, recorded as a contra asset.*

[2] *Includes additional sales rebates to Medicaid managed care organizations as a result of health care reform legislation.*

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2010				
Accrued rebates [1]	$454	2,363	(2,322)	495
Accrued returns	220	334	(353)	201
Accrued promotions	73	111	(134)	50
Subtotal	$747	2,808	(2,809)	746
Reserve for doubtful accounts	143	33	(38)	138
Reserve for cash discounts	32	484	(481)	35
Total	**$922**	**3,325**	**(3,328)**	**919**
2009				
Accrued rebates [1]	$416	2,229	(2,191)	454
Accrued returns	189	74	(43)	220
Accrued promotions	47	120	(94)	73
Subtotal	$652	2,423	(2,328)	747
Reserve for doubtful accounts	109	50	(16)	143
Reserve for cash discounts	34	416	(418)	32
Total	**$795**	**2,889**	**(2,762)**	**922**

[1] *Includes reserve for customer rebates of $331 million at January 2, 2011 and $311 million at January 3, 2010, recorded as a contra asset.*

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 tax reporting, 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 have a material effect on the Company's results of operations, cash flows or financial position.

In 2007, in accordance with U.S. GAAP, the Company adopted the standard related to accounting for uncertainty in income taxes. The Codification prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Codification also provides guidance on derecognition, classification and other matters. See Note 8 to the Consolidated Financial Statements for further information regarding income taxes.

At January 2, 2011 and January 3, 2010, the cumulative amounts of undistributed international earnings were approximately $37.0 billion and $32.2 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 with respect to 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 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.

The Company follows the provisions of U.S. GAAP when recording litigation related contingencies. A liability is recorded when a loss is probable and can be reasonably estimated. The best estimate of a loss within a range is accrued; however, if no estimate in the range is better than any other, the minimum amount is accrued.

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.

Employee Benefit Plans: The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, which 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 10 to the Consolidated Financial Statements for further details on these rates and the effect a rate change would have on the Company's results of operations.

Stock Based Compensation: The Company recognizes compensation expense associated with the issuance of equity instruments to employees for their services. The fair value of each award is estimated on the date of grant using the Black-Scholes option valuation model and is expensed in the financial statements over the vesting period. The input assumptions used in determining fair value are the expected life, expected volatility, risk-free rate and the dividend yield. See Note 17 to the Consolidated Financial Statements for additional information.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 to the Consolidated Financial Statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of January 2, 2011.

ECONOMIC AND MARKET FACTORS

The Company 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, the Company has a long-standing policy of pricing products responsibly. For the period 2000–2010, in the United States, the weighted average compound annual growth rate of the Company's 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 continue to have an effect on worldwide economies and, consequently, on the way companies operate. The Company accounted for operations in Venezuela as highly inflationary in 2010, as the prior three-year cumulative inflation rate has surpassed 100%. 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 is exposed to fluctuations in currency exchange rates. A 1% change in the value of the U.S. Dollar as compared to all foreign currencies in which the Company had sales, income or expense in 2010 would have increased or decreased the translation of foreign sales by approximately $300 million and income by $65 million.

The Company faces various worldwide health care changes that may continue to result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

Changes in the behavior and spending patterns of purchasers of health care products and services, including delaying medical procedures, rationing prescription medications, reducing the frequency of physician visits and foregoing health care insurance coverage, as a result of the current global economic downturn, may continue to impact the Company's businesses.

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 (ANDAs) 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 ANDA 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 21 to the Consolidated Financial Statements.

LEGAL PROCEEDINGS

The Company is involved in numerous product liability cases in the United States, many of which concern alleged 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 in most cases product liability will be substantially covered by existing amounts accrued in the Company's balance sheet under its self-insurance program.

The Company is also involved in a number of patent, trademark and other lawsuits, as well as investigations, 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 reasonably estimated. 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 be material to the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a material impact on the Company's results of operations and cash flows for that period.

See Note 21 to the Consolidated Financial Statements 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 2010 and 2009 were:

	2010		2009	
	High	Low	High	Low
First quarter	$65.95	61.89	61.00	46.25
Second quarter	66.20	57.55	56.65	50.12
Third quarter	62.70	56.86	62.47	55.71
Fourth quarter	64.92	61.25	65.41	58.78
Year-end close	$61.85		64.41	

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 such as "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 does not undertake to update any forward-looking statements as a result of new information or future events or developments.

Risks and uncertainties include, but are not limited to, general industry conditions and competition; economic factors, 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; significant litigation adverse to the Company; impact of business combinations; financial distress and bankruptcies experienced by significant customers and suppliers; changes to governmental laws and regulations and U.S. and foreign health care reforms; trends toward healthcare cost containment; increased scrutiny of the healthcare industry by government agencies; changes in behavior and spending patterns of purchasers of healthcare products and services; manufacturing difficulties or delays; 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 2, 2011 includes, in Exhibit 99, 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.