Organization and Business Segments

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

Johnson & Johnson and its subsidiaries (the Company) have approximately 117,900 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 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, thrombosis, vaccines and infectious diseases. 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 Cardiovascular Care's electrophysiology and 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; Diabetes Care's blood glucose monitoring and insulin delivery 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 strategic 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 locally and globally, 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 2011 sales. In 2011, $7.5 billion, or 11.6% 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 achieve 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

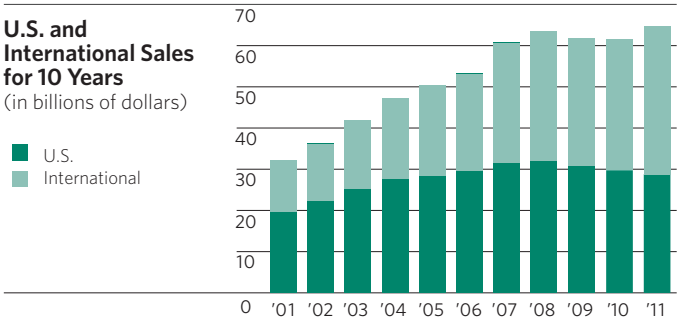
ANALYSIS OF CONSOLIDATED SALES

In 2011, worldwide sales increased 5.6% to $65.0 billion, compared to decreases of 0.5% in 2010 and 2.9% in 2009. These sales changes consisted of the following:

Sales (decrease)/increase due to:	2011	2010	2009
Volume	3.1%	(0.5)	(0.2)
Price	(0.3)	(0.8)	(0.1)
Currency	2.8	0.8	(2.6)
Total	**5.6%**	**(0.5)**	**(2.9)**

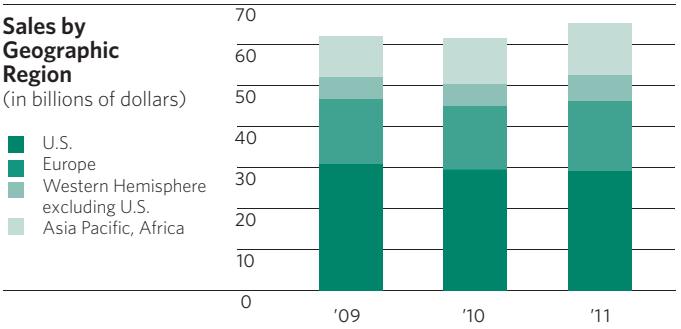
Sales by U.S. companies were $28.9 billion in 2011, $29.5 billion in 2010 and $30.9 billion in 2009. This represents decreases of 1.8% in 2011, 4.7% in 2010 and 4.4% in 2009. Sales by international companies were $36.1 billion in 2011, $32.1 billion in 2010 and $31.0 billion in 2009. This represents an increase of 12.4% in 2011, an increase of 3.6% in 2010 and a decrease of 1.4% in 2009.

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%, (0.6)% and 8.9%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 7.2%, 3.8% and 11.2%, respectively.

Sales by Geographic Region
(in billions of dollars)



Sales in Europe achieved growth of 10.4% as compared to the prior year, including operational growth of 5.3% and a positive impact from currency of 5.1%. Sales in the Western Hemisphere (excluding the U.S.) achieved growth of 15.6% as compared to the prior year, including operational growth of 12.2% and a positive impact from currency of 3.4%. Sales in the Asia-Pacific, Africa region achieved growth of 13.5% as compared to the prior year, including operational growth of 6.6% and a positive impact from currency of 6.9%.

In 2011, 2010 and 2009, the Company did not have a customer that represented 10% or more of total consolidated revenues.

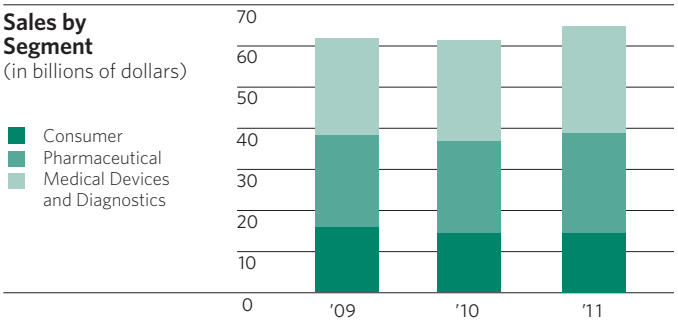
The 2009 results benefited from the inclusion of a 53rd week. (See Note 1 to the Consolidated Financial Statements for Annual Closing Date details). The Company estimated that the fiscal year 2009 growth rate was enhanced by approximately 0.5% due to the 53rd week.

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 in March 2010. The 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. Additionally, in 2011, discounts were provided on the Company's brand-name drugs to patients who fall within the Medicare Part D coverage gap "donut hole." The impact was an increase in sales rebates reducing sales revenue by approximately $425 million and $400 million in 2011 and 2010, respectively.

In 2011, companies that sell branded prescription drugs to specified U.S. Government programs paid 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 2011 full year impact to selling, marketing and administrative expenses was $140 million. Under the current law, 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. The 2013 tax is estimated to be between $200–$250 million and will be recorded in selling, marketing and administrative expenses.

Sales by Segment
(in billions of dollars)



Analysis of Sales by Business Segments

CONSUMER SEGMENT

Consumer segment sales in 2011 were $14.9 billion, an increase of 2.0% from 2010, a 0.7% operational decline was offset by a positive currency impact of 2.7%. U.S. Consumer segment sales were $5.2 billion, a decrease of 6.7%. International sales were $9.7 billion, an increase of 7.3%, which included 2.9% operational growth and a positive currency impact of 4.4%.

The Over-the-Counter (OTC) Pharmaceuticals and Nutritionals franchise sales were $4.4 billion, a decrease of 3.2% from 2010. Sales in the U.S. were negatively impacted by the suspension of production at McNeil Consumer Healthcare's Fort Washington, Pennsylvania facility as well as the impact on production volumes related to ongoing efforts to enhance quality and manufacturing systems at its other manufacturing sites.

During the fiscal first quarter of 2011, a consent decree was signed with the U.S. Food and Drug Administration (FDA), which governs certain McNeil Consumer Healthcare manufacturing operations. The consent decree identifies procedures that will help provide additional assurance of product quality to the FDA. McNeil continues to

Major Consumer Franchise Sales:

(Dollars in Millions)	2011	2010	2009	% Change '11 vs. '10	% Change '10 vs. '09
OTC Pharmaceuticals & Nutritionals	$ 4,402	4,549	5,630	(3.2)%	(19.2)
Skin Care	3,715	3,452	3,467	7.6	(0.4)
Baby Care	2,340	2,209	2,115	5.9	4.4
Women's Health	1,792	1,844	1,895	(2.8)	(2.7)
Oral Care	1,624	1,526	1,569	6.4	(2.7)
Wound Care/Other	1,010	1,010	1,127	0.0	(10.4)
Total	**$14,883**	**14,590**	**15,803**	**2.0%**	**(7.7)**

operate the manufacturing facilities in Las Piedras, Puerto Rico and Lancaster, Pennsylvania, however production volumes from these facilities have been impacted due to the additional review and approval processes required. Regarding the products previously produced at the Fort Washington facility, McNeil continues to work on the re-siting of these products to other facilities. McNeil is making progress on the validations at these alternative sites and a modest amount of products returned to the market in the fourth quarter of 2011. Products will continue to be reintroduced throughout 2012 and 2013.

The Skin Care franchise achieved sales of $3.7 billion in 2011, a 7.6% increase as compared to the prior year primarily due to growth in the NEUTROGENA®, DABAO®, JOHNSON'S® Adult and LE PETIT MARSEILLAIS® product lines. The Baby Care franchise sales grew by 5.9% to $2.3 billion in 2011, primarily due to growth in cleansers, wipes and haircare. The Women's Health franchise sales were $1.8 billion, a decrease of 2.8% primarily impacted by the divestiture of certain brands. The Oral Care franchise sales grew by 6.4% to $1.6 billion in 2011, primarily due to increased sales of LISTERINE® products. The Wound Care/Other franchise sales were $1.0 billion in 2011, flat as compared to the prior year.

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%.

PHARMACEUTICAL SEGMENT

The Pharmaceutical segment achieved sales of $24.4 billion in 2011, representing an increase of 8.8% over the prior year, with operational growth of 6.2% and a positive currency impact of 2.6%. U.S. sales were $12.4 billion, a decrease of 1.1%. International sales were $12.0 billion, an increase of 21.3%, which included 15.5% operational growth and a positive currency impact of 5.8%.

REMICADE® (infliximab), a biologic approved for the treatment of a number of immune mediated inflammatory diseases, achieved sales of $5.5 billion in 2011, with growth of 19.1% over the prior year. On a combined basis, U.S. export and international sales of REMICADE® increased nearly 50% due to the impact of the agreement with Merck & Co., Inc. (Merck), complemented by international market growth. On April 15, 2011, the Company announced it reached an agreement with Merck which included distribution rights to REMICADE® and SIMPONI® (golimumab) whereby, effective July 1, 2011, certain territories were relinquished to the Company. On July 1, 2011, the Company began to record sales of product, previously recorded by Merck, from certain territories, including Canada, Brazil, Australia and Mexico, which were previously supplied by Merck.

PROCRIT® (Epoetin alfa) and EPREX® (Epoetin alfa) had combined sales of $1.6 billion in 2011, a decline of 16.1% compared to the prior year. Lower sales of PROCRIT® and EPREX® were primarily due to a declining market for Erythropoiesis Stimulating Agents (ESAs) and increased competition for EPREX®.

RISPERDAL® CONSTA® (risperidone), a long-acting injectable antipsychotic, achieved sales of $1.6 billion in 2011, representing an increase of 5.5% as compared to the prior year due to international growth. Total U.S. sales of the Company's long-acting injectables, including RISPERDAL® CONSTA® and INVEGA® SUSTENNA® (paliperidone palmitate), increased by strong double digits versus a year ago due to an increase in the Company's combined market share in the antipsychotic market.

VELCADE® (bortezomib), a product for the treatment of multiple myeloma, for which the Company has commercial rights in markets outside the U.S., achieved sales of $1.3 billion in 2011, representing an increase of 18.0% primarily due to strong growth in Asia and Latin America.

CONCERTA® (methylphenidate HCl) sales were $1.3 billion, a decline of 3.9% compared to the prior year. The U.S. supply and distribution agreement with Watson Laboratories, Inc. to distribute an authorized generic version of CONCERTA® became effective May 1, 2011. All regions outside the U.S. achieved sales growth.

PREZISTA® (darunavir), a protease inhibitor for the treatment of HIV, achieved sales of $1.2 billion in 2011, representing an increase of 41.3% as compared to the prior year primarily due to market share growth.

ACIPHEX®/PARIET® (rabeprazole sodium) sales were $1.0 billion, a decline of 3.1% versus the prior year due to increased competition from generics in the category.

LEVAQUIN® (levofloxacin)/FLOXIN® (ofloxacin) sales were $0.6 billion, a decline of 54.1% versus the prior year due to the loss of market exclusivity in the U.S. in June 2011. LEVAQUIN® sales will continue to decline in the first half of 2012 versus the first half of 2011.

In 2011, Other Pharmaceutical sales were $10.3 billion, representing growth of 18.2% over the prior year. Contributors to the increase were sales of newly acquired products from Crucell N.V. (Crucell) and newly approved products including ZYTIGA® (abiraterone acetate) and INCIVO® (telaprevir). Additional contributors to the growth were STELARA® (ustekinumab), INVEGA® SUSTENNA® (paliperidone palmitate), SIMPONI® (golimumab), NUCYNTA® (tapentadol), and INTELENCE® (etravirine). This growth was partially offset by lower sales of DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system), and TOPAMAX® (topiramate) due to continued generic competition.

Major Pharmaceutical Product Sales*:

(Dollars in Millions)	2011	2010	2009	% Change '11 vs. '10	% Change '10 vs. '09
REMICADE® (infliximab)	$ 5,492	4,610	4,304	19.1%	7.1
PROCRIT®/EPREX® (Epoetin alfa)	1,623	1,934	2,245	(16.1)	(13.9)
RISPERDAL® CONSTA® (risperidone)	1,583	1,500	1,425	5.5	5.3
VELCADE® (bortezomib)	1,274	1,080	933	18.0	15.8
CONCERTA® (methylphenidate HCl)	1,268	1,319	1,326	(3.9)	(0.5)
PREZISTA® (darunavir)	1,211	857	592	41.3	44.8
ACIPHEX®/PARIET® (rabeprazole sodium)	975	1,006	1,096	(3.1)	(8.2)
LEVAQUIN®/FLOXIN® (levofloxacin/ofloxacin)	623	1,357	1,550	(54.1)	(12.5)
Other Pharmaceuticals	10,319	8,733	9,049	18.2	(3.5)
Total	**$24,368**	**22,396**	**22,520**	**8.8%**	**(0.6)**

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

During 2011, the Company received several regulatory approvals including: U.S. approval for two indications for XARELTO® (rivaroxaban), an anti-coagulant co-developed with Bayer HealthCare, the first one for the prevention (prophylaxis) of deep vein thrombosis (DVT) which may lead to a pulmonary embolism (PE) in people undergoing knee or hip replacement surgery, and the second one to reduce the risk of stroke and systemic embolism in patients with non-valvular atrial fibrulation; EDURANT® (rilpivirine), in both the U.S. and the European Union (EU), for HIV in treatment-naïve patients; INCIVO® (telaprevir), in the EU for the treatment of hepatitis C virus; and ZYTIGA® (abiraterone acetate), in the U.S. and EU, for the treatment of metastic castration-resistant prostate cancer. In addition, the FDA approved additional indications for REMICADE® (infliximab), for the treatment of moderately to severely active ulcerative colitis in pediatric patients, and NUCYNTA®ER (tapentadol) extended-release tablets, an oral analgesic, for the management of moderate to severe chronic pain in adults.

The Company submitted New Drug Applications (NDAs) to the FDA seeking approval for the use of XARELTO® (rivaroxaban), an oral anticoagulant, to reduce the risk of thrombotic cardiovascular events in patients with Acute Coronary Syndrome, and for NUCYNTA®ER (tapentadol) extended-release tablets, an oral analgesic, for the management of neuropathic pain associated with diabetic peripheral neuropathy in adults.

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%.

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

The Medical Devices and Diagnostics segment achieved sales of $25.8 billion in 2011, representing an increase of 4.8% over the prior year, with operational growth of 1.7% and a positive currency impact of 3.1%. U.S. sales were $11.4 billion, a decrease of 0.4% as compared to the prior year. International sales were $14.4 billion, an increase of 9.2% over the prior year, with operational growth of 3.4% and a positive currency impact of 5.8%.

The DePuy franchise achieved sales of $5.8 billion in 2011, a 4.0% increase over the prior year. This growth was primarily due to sales of Mitek sports medicine and trauma product lines, and newly acquired products from Micrus. The growth was partially offset by lower sales of knees and hips in the U.S. due to increased competition, continued pricing pressure, a softer market and the impact of the DePuy ASR™ Hip recall.

The Ethicon Endo-Surgery franchise achieved sales of $5.1 billion in 2011, a 6.8% increase over the prior year. Growth was attributable to increased sales of Advanced Sterilization and HARMONIC® product lines, and outside the U.S., the Endo Mechanical product line. Additionally, sales of newly acquired products from SterilMed contributed to the growth. Total growth was negatively impacted by the divestiture of the Breast Care business in the third quarter of 2010.

The Ethicon franchise achieved sales of $4.9 billion in 2011, an 8.2% increase over the prior year. Emerging market growth in sutures, newly launched products ETHICON PHYSIOMESH® and ETHICON SECURESTRAP™, and growth in the biosurgical, Women's Health and Urology and Acclarent product lines contributed to the increase in sales.

The Vision Care franchise achieved sales of $2.9 billion in 2011, an 8.8% increase over the prior year. Contributors to the growth were 1-DAY ACUVUE® and astigmatism lenses.

The Diabetes Care franchise achieved sales of $2.7 billion in 2011, a 7.4% increase over the prior year. The growth was primarily due to sales in the OneTouch® product line.

Sales in the Cardiovascular Care franchise were $2.3 billion, a decline of 10.3% versus the prior year. Sales were impacted by the Company's decision to exit the drug-eluting stent market and lower sales of endovascular products due to increased competition. Sales for drug-eluting stents were approximately 11% and 25% of the total Cardiovascular Care franchise sales in 2011 and 2010, respectively. The decline in sales was partially offset by strong growth in Biosense Webster, the Company's electrophysiology business.

The Ortho-Clinical Diagnostics franchise achieved sales of $2.2 billion in 2011, a 5.4% increase over the prior year. The growth was primarily attributable to the strength of the VITROS® 5600 and 3600 Analyzers, partially offset by lower sales in donor screening.

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%.

Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income decreased by $4.5 billion to $12.4 billion in 2011 as compared to $16.9 billion in 2010, a decrease of 27.1%. The decrease was primarily due to costs associated with product liability and litigation expenses, the impact of the OTC and DePuy ASR™ Hip recalls and the restructuring expense related to the Cardiovascular Care business. Additionally, investment spending, the fee on branded pharmaceutical

Major Medical Devices and Diagnostics Franchise Sales:

(Dollars in Millions)	2011	2010	2009	% Change '11 vs. '10	% Change '10 vs. '09
DEPUY®	$ 5,809	5,585	5,372	4.0%	4.0
ETHICON ENDO-SURGERY®	5,080	4,758	4,492	6.8	5.9
ETHICON®	4,870	4,503	4,122	8.2	9.2
Vision Care	2,916	2,680	2,506	8.8	6.9
Diabetes Care	2,652	2,470	2,440	7.4	1.2
Cardiovascular Care*	2,288	2,552	2,679	(10.3)	(4.7)
ORTHO-CLINICAL DIAGNOSTICS®	2,164	2,053	1,963	5.4	4.6
Total	**$25,779**	**24,601**	**23,574**	**4.8%**	**4.4**

** Previously referred to as CORDIS®*

products incurred due to the U.S. health care reform legislation, and the integration costs, including an inventory step-up charge, associated with the acquisition of Crucell contributed to the decrease in earnings. This was partially offset by gains from divestitures.

The 2010 increase of 7.6% as compared to 2009 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 net selling prices in the Pharmaceutical business due to U.S. health care reform legislation and price reductions in certain Medical Devices and Diagnostics businesses. The 2009 decrease of 6.9% as compared to 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. As a percent to sales, consolidated earnings before provision for taxes on income in 2011 was 19.0% versus 27.5% in 2010.

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	2011	2010	2009
Cost of products sold	31.3%	30.5	29.8
Percent point increase over the prior year	0.8	0.7	0.7
Selling, marketing and administrative expenses	32.3	31.5	32.0
Percent point increase/(decrease) over the prior year	0.8	(0.5)	(1.7)

In 2011, cost of products sold as a percent to sales increased compared to the prior year. This was primarily attributable to ongoing remediation costs in the Consumer OTC business and inventory write-offs due to the restructuring of the Cardiovascular Care business. In addition, lower margins and integration costs, including an inventory step-up charge, associated with the acquisition of Crucell negatively impacted cost of products sold. Percent to sales of selling, marketing and administrative expenses increased in 2011 compared to the prior year primarily due to investment spending, as well as the fee on branded pharmaceutical products incurred due to the U.S. health care reform legislation.

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 legislation 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 legislation 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 certain 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.

Research and Development expense by segment of business was as follows:

	2011		2010		2009	
(Dollars in Millions)	Amount	% of Sales*	Amount	% of Sales*	Amount	% of Sales*
Consumer	$ 659	4.4%	609	4.2	632	4.0
Pharmaceutical	5,138	21.1	4,432	19.8	4,591	20.4
Medical Devices and Diagnostics	1,751	6.8	1,803	7.3	1,763	7.5
Total research and development expense	$7,548	11.6%	6,844	11.1	6,986	11.3
Percent increase/(decrease) over the prior year	10.3%		(2.0)		(7.8)	

** 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 processes of discovering, testing and developing new products, improving existing products, as well as ensuring product efficacy and regulatory compliance prior to launch. The Company remains committed to investing in research and development with the aim of delivering high quality and innovative products. In 2011, worldwide costs of research and development activities increased by 10.3% compared to 2010. The increase in the Pharmaceutical segment was primarily due to higher levels of spending to advance the Company's Pharmaceutical pipeline. The decrease in the Medical Devices and Diagnostics segment was due to the discontinuation of its clinical development program for the NEVO™ Sirolimus-Eluting Coronary Stent.

Restructuring: In 2011, Cordis Corporation, a subsidiary of Johnson & Johnson, announced the discontinuation of its clinical development program for the NEVO™ Sirolimus-Eluting Coronary Stent and cessation of the manufacture and marketing of CYPHER® and CYPHER SELECT® Plus Sirolimus-Eluting Coronary Stents by the end of 2011. The Company will focus on other cardiovascular therapies where significant patient needs exist. In the fiscal second quarter of 2011, the Company recorded a pre-tax charge of $676 million, of which $87 million is included in cost of products sold.

In 2009, the Company announced global restructuring initiatives expected to generate pre-tax, annual cost savings of approximately $1.5 billion when fully implemented. 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.

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. In 2011, the unfavorable change of $3.5 billion in other (income) expense, net, was primarily due to litigation expenses of $1.7 billion in 2011 as compared to a $1.0 billion net gain from litigation settlements in 2010. Additionally, 2011 as compared to 2010 included higher expenses of $1.0 billion related to product liability, $0.2 billion for costs related to the DePuy ASR™ Hip recall program and an adjustment of $0.5 billion to the value of the currency option and deal costs related to the planned acquisition of Synthes, Inc. Included in 2011 were higher gains on the divestitures of businesses of $0.6 billion as compared to 2010.

In 2010, the favorable change of $0.2 billion in other (income) expense, net as compared to 2009, was primarily due to a net gain from litigation settlements and gains 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.

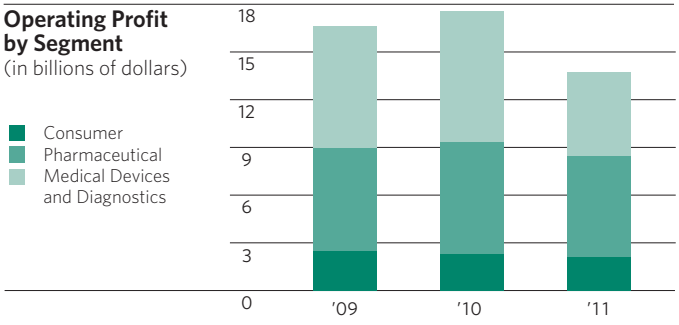
OPERATING PROFIT BY SEGMENT

Operating profits by segment of business were as follows:

			Percent of Segment Sales	
(Dollars in Millions)	2011	2010	2011	2010
Consumer	$ 2,096	2,342	14.1%	16.1
Pharmaceutical	6,406	7,086	26.3	31.6
Medical Devices and Diagnostics	5,263	8,272	20.4	33.6
Total [1]	13,765	17,700	21.2	28.7
Less: Expenses not allocated to segments [2]	1,404	753		
Earnings before provision for taxes on income	$12,361	16,947	19.0%	27.5

[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. Included in 2011, was a $0.5 billion expense for the adjustment to the value of the currency option related to the planned acquisition of Synthes, Inc.



Consumer Segment: In 2011, Consumer segment operating profit decreased 10.5% from 2010. The primary drivers of the decline in operating profit were unfavorable product mix and remediation costs associated with the recall of certain OTC products partially offset by the gain on the divestiture of MONISTAT®. 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.

Pharmaceutical Segment: In 2011, Pharmaceutical segment operating profit decreased 9.6% from 2010. The primary drivers of the decrease in the operating profit margin were higher litigation expenses recorded in 2011, the impact of the U.S. health care reform fee, and lower margins and integration costs, including an inventory step-up charge, associated with the Crucell acquisition. This was partially offset by gains on the divestitures of the Animal Health Business and Ortho Dermatologics, the gain related to the Company's earlier investment in Crucell, and lower manufacturing costs. 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.

Medical Devices and Diagnostics Segment: In 2011, Medical Devices and Diagnostics segment operating profit decreased 36.4% from 2010. The primary drivers of the decline in the operating profit margin in the Medical Devices and Diagnostics segment were product liability and litigation expenses, costs associated with the DePuy ASR™ Hip recall program, restructuring expense, costs incurred related to the planned acquisition of Synthes, Inc. and increased investment spending. 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.

Interest (Income) Expense: Interest income in 2011 decreased by $16 million as compared to the prior year due to lower rates of interest earned despite higher average cash balances. Cash, cash equivalents and marketable securities totaled $32.3 billion at the end of 2011, and averaged $30.0 billion as compared to the $23.6 billion average cash balance in 2010. The increase in the average cash balance was primarily due to cash generated from operating activities and net cash proceeds from divestitures.

Interest expense in 2011 increased by $116 million as compared to 2010 due to a higher average debt balance. The total debt balance at the end of 2011 was $19.6 billion as compared to $16.8 billion at the end of 2010. The higher average debt balance of $18.2 billion in 2011 versus $15.7 billion in 2010 was due to increased borrowings. The Company increased borrowings, capitalizing on favorable terms in the capital markets. The proceeds of the borrowings were used for general corporate purposes.

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 borrowings 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 Common Stock repurchase program announced on July 9, 2007.

Provision for Taxes on Income: The worldwide effective income tax rate was 21.8% in 2011, 21.3% in 2010 and 22.1% in 2009. The 2011 tax rate increased as compared to 2010 due to certain U.S. expenses which are not fully tax deductible and higher U.S. state taxes partially offset by increases in taxable income in lower tax jurisdictions relative to higher tax jurisdictions. 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.

Liquidity and Capital Resources

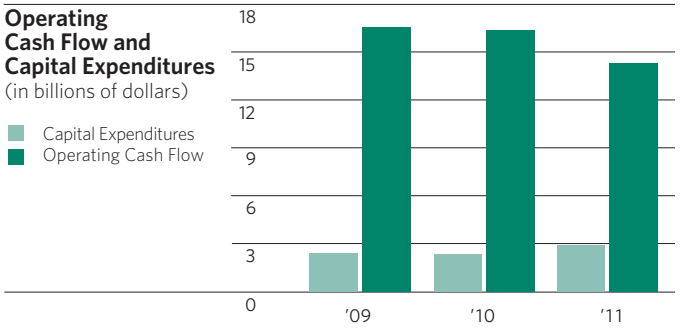
LIQUIDITY & CASH FLOWS

Cash and cash equivalents were $24.5 billion at the end of 2011 as compared with $19.4 billion at the end of 2010. The primary sources of cash that contributed to the $5.1 billion increase versus the prior year were $14.3 billion of cash generated from operating activities, $3.0 billion net proceeds from long and short-term debt, $1.3 billion proceeds from the disposal of assets and proceeds from net investment sales of $0.5 billion. The major uses of cash were dividends to shareholders of $6.2 billion, capital spending of $2.9 billion, acquisitions of $2.8 billion, the repurchase of Common Stock, net of proceeds from the exercise of options of $1.3 billion and other of $0.8 billion primarily related to intangible assets.

Cash flows from operations were $14.3 billion in 2011. The major sources of cash flow were net income of $9.7 billion, adjusted for non-cash charges for depreciation and amortization, stock based compensation and deferred tax provision of $2.9 billion. The remaining change to operating cash flow of $1.7 billion was primarily due to an increase in other current and non-current liabilities related to accruals recorded for litigation matters, product liability and employee benefit plans.

In 2011, 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 2012.



CONCENTRATION OF CREDIT RISK

Global concentration of credit risk with respect to trade accounts receivables continues to be limited due to the large number of customers globally and adherence to internal credit policies and credit limits. Recent economic challenges in Italy, Spain, Greece and Portugal (the Southern European Region) have impacted certain payment patterns, which have historically been longer than those experienced in the U.S. and other international markets. The total net trade accounts receivable balance in the Southern European Region was approximately $2.4 billion as of January 1, 2012 and approximately $2.3 billion as of January 2, 2011. Approximately $1.4 billion as of January 1, 2012 and approximately $1.3 billion as of January 2, 2011 of the Southern European Region net trade accounts receivable balance related to the Company's Consumer, Vision Care and Diabetes Care businesses as well as certain Pharmaceutical and Medical Devices and Diagnostics customers which are in line with historical collection patterns.

The remaining balance of net trade accounts receivable in the Southern European Region has been negatively impacted by the timing of payments from certain government owned or supported health care customers as well as certain distributors of the Pharmaceutical and Medical Devices and Diagnostics local affiliates. The total net trade accounts receivable balance for these customers were approximately $1.0 billion at January 1, 2012 and January 2, 2011. The Company continues to receive payments from these customers and in some cases late payment premiums. For customers where payment is expected over periods of time longer than one year, revenue and trade receivables have been discounted over the estimated period of time for collection. Allowances for doubtful accounts have been increased for these customers, but have been immaterial to date. The Company will continue to work closely with these customers, monitor the economic situation and take appropriate actions as necessary.

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 1, 2012 market rates would increase the unrealized value of the Company's forward contracts by $235 million. Conversely, a 10% depreciation of the U.S. Dollar from the January 1, 2012 market rates would decrease the unrealized value of the Company's forward contracts by $287 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 $232 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 counter-parties to these contracts are major financial institutions and there is no significant concentration of exposure with any one counter-party. Management believes the risk of loss is remote.

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2011, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates $10 billion, which expires September 20, 2012. 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 2011 and 2010 were $19.6 billion and $16.8 billion, respectively. The increase in borrowings between 2011 and 2010 was a result of financing for general corporate purposes. In 2011, net cash (cash and current marketable securities, net of debt) was $12.6 billion compared to net cash of $10.9 billion in 2010. Total debt represented 25.6% of total capital (shareholders' equity and total debt) in 2011 and 22.9% of total capital in 2010. Shareholders' equity per share at the end of 2011 was $20.95 compared with $20.66 at year-end 2010, an increase of 1.4%.

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 1, 2012 (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
2012	$ 616	560	61	188	1,425
2013	1,545	527	62	162	2,296
2014	1,816	508	64	131	2,519
2015	—	501	69	104	674
2016	898	496	77	82	1,553
After 2016	8,710	4,765	455	65	13,995
Total	**$13,585**	**7,357**	**788**	**732**	**22,462**

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 Company repurchased an aggregate of 158.3 million shares of Johnson & Johnson Common Stock at a cost of $10.0 billion and the stock repurchase program was completed. 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 2011 for the 49th consecutive year. Cash dividends paid were $2.25 per share in 2011 compared with dividends of $2.11 per share in 2010, and $1.93 per share in 2009. The dividends were distributed as follows:

	2011	2010	2009
First quarter	$0.54	0.49	0.46
Second quarter	0.57	0.54	0.49
Third quarter	0.57	0.54	0.49
Fourth quarter	0.57	0.54	0.49
Total	**$2.25**	**2.11**	**1.93**

On January 3, 2012, the Board of Directors declared a regular quarterly cash dividend of $0.57 per share, payable on March 13, 2012, to shareholders of record as of February 28, 2012. 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 returns reserves are accounted for in accordance with the U.S. GAAP guidance for revenue recognition when right of return exists. Sales returns 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 2011, 2010 and 2009.

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 that 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 1, 2012 and January 2, 2011.

CONSUMER SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Credits	Balance at End of Period
2011				
Accrued rebates [1]	$131	346	(350)	127
Accrued returns	145	103	(134)	114
Accrued promotions	294	1,520	(1,574)	240
Subtotal	$570	1,969	(2,058)	481
Reserve for doubtful accounts	57	3	(17)	43
Reserve for cash discounts	21	226	(225)	22
Total	**$648**	**2,198**	**(2,300)**	**546**
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**

[1] Includes reserve for customer rebates of $34 million at January 1, 2012 and $50 million at January 2, 2011, recorded as a contra asset.

PHARMACEUTICAL SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Credits	Balance at End of Period
2011				
Accrued rebates [1][2]	$1,520	4,732	(4,661)	1,591
Accrued returns	294	105	(15)	384
Accrued promotions	83	187	(187)	83
Subtotal	$1,897	5,024	(4,863)	2,058
Reserve for doubtful accounts	145	20	(8)	157
Reserve for cash discounts	54	392	(401)	45
Total	**$2,096**	**5,436**	**(5,272)**	**2,260**
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**

[1] Includes reserve for customer rebates of $298 million at January 1, 2012 and $320 million at January 2, 2011, recorded as a contra asset.

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

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Credits	Balance at End of Period
2011				
Accrued rebates [1]	$495	3,253	(3,251)	497
Accrued returns	201	352	(369)	184
Accrued promotions	50	67	(44)	73
Subtotal	$746	3,672	(3,664)	754
Reserve for doubtful accounts	138	54	(31)	161
Reserve for cash discounts	35	342	(345)	32
Total	**$919**	**4,068**	**(4,040)**	**947**
2010				
Accrued rebates [1][2]	$454	3,271	(3,230)	495
Accrued returns	220	334	(353)	201
Accrued promotions	73	111	(134)	50
Subtotal	$747	3,716	(3,717)	746
Reserve for doubtful accounts	143	33	(38)	138
Reserve for cash discounts	32	484	(481)	35
Total	**$922**	**4,233**	**(4,236)**	**919**

[1] Includes reserve for customer rebates of $324 million at January 1, 2012 and $331 million at January 2, 2011, recorded as a contra asset.

[2] Accruals and Payments/Credits for 2010 have been revised by $908 million to appropriately reflect non-cash credits/adjustments, consistent with current year presentation related to the Ethicon franchise, previously reported net in the Accruals column.

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.

At January 1, 2012 and January 2, 2011, the cumulative amounts of undistributed international earnings were approximately $41.6 billion and $37.0 billion, respectively. At January 1, 2012 and January 2, 2011, the Company's foreign subsidiaries held balances of cash and cash equivalents in the amounts of $24.5 billion and $18.7 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.

See Note 8 to the Consolidated Financial Statements for further information regarding income taxes.

Legal and Self Insurance Contingencies: The Company records accruals for various contingencies including legal proceedings and product liability claims 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 1, 2012.

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 2001–2011, 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 and 2011, as the prior three-year cumulative inflation rate 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 2011 would have increased or decreased the translation of foreign sales by approximately $350 million and income by $75 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 of health care products.

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

Johnson & Johnson and certain of its subsidiaries are involved in various lawsuits and claims regarding product liability, intellectual property, commercial and other matters; governmental investigations; and other legal proceedings that arise from time to time in the ordinary course of business.

The Company records accruals for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. The Company has accrued for certain litigation matters and continues to monitor each related legal issue and adjust accruals for new information and further developments in accordance with ASC 450-20-25. For these and other litigation and regulatory matters currently disclosed for which a loss is probable or reasonably possible, the Company is unable to determine an estimate of the possible loss or range of loss beyond the amounts already accrued. These matters can be affected by various factors, including whether damages sought in the proceedings are unsubstantiated or indeterminate; scientific and legal discovery has not commenced or is not complete; proceedings are in early stages; matters present legal uncertainties; there are significant facts in dispute; or there are numerous parties involved.

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 accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position. However, the resolution in any reporting period of one or more of these matters, either alone or in the aggregate, may have a material adverse effect 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 2011 and 2010 were:

	2011		2010	
	High	Low	High	Low
First quarter	$63.54	57.50	65.95	61.89
Second quarter	67.37	59.25	66.20	57.55
Third quarter	68.05	59.08	62.70	56.86
Fourth quarter	66.32	60.83	64.92	61.25
Year-end close	$65.58		61.85	

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 health care cost containment; increased scrutiny of the health care industry by government agencies; changes in behavior and spending patterns of purchasers of health care products and services; financial instability of international economies and sovereign risk; disruptions due to natural disasters; 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 1, 2012 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.