
Johnson & Johnson
OUR PASSION TRANSFORMS
Annual Report 2006

IF THERE'S ONE THING ALL 122,200 OF OUR EMPLOYEES SHARE, IT'S PASSION.

For 120 years, the passion in our people has powered every invention, every product, every breakthrough we've brought to human health. This year was an extraordinary testament to this fact.

Passion is part of who we are: the people of the Johnson & Johnson Family of Companies. It's in our DNA. It's what compels us to work for a corporation devoted to improving the health and well-being of people the world over.

Our passion is further inspired by the values embodied in Our Credo, which the employees of the Johnson & Johnson Family of Companies have practiced, treasured and handed down for generations.

Our Credo underscores our personal responsibility to put the needs and well-being of the people we serve first. It liberates our passion and deepens our commitment to delivering meaningful health innovations.

At Johnson & Johnson we take pride in knowing that our daily work makes a difference in the world.

Now and for years to come, our passion continues to transform human health.

ON THE COVER For Olga Vasukova, like so many of her colleagues at Johnson & Johnson, LLC in Moscow, supporting her government's initiative to modernize health care is a personal call to action. It's reinforced by the smile on her father's face and the obvious joy in her daughter Sasha's heart each time "Papa" pays a visit. For more on their story, see page 10.

CHAIRMAN'S LETTER

To Our Shareholders

Improving the health and well-being of people around the world is a vital and important business. It is perhaps the world's most meaningful business and, for that reason, attracts exceptional people who are capable, skilled, and possess a genuine passion for making a difference in people's lives. As the world's most comprehensive and broadly based health care company, Johnson & Johnson is privileged to play a role in helping millions of people be well . . . and stay well.

In 2006, thanks to the passion, hard work and ingenuity of our people, we introduced hundreds of significant new products and line extensions across the enterprise. Many advances were discovered or invented by Johnson & Johnson scientists and further developed by our R&D organizations. Among them: new NEUTROGENA® and AVEENO® skin care products featuring a patented breakthrough in long-lasting protection against the sun's harmful UVA rays . . . a new diagnostic test from Veridex, LLC that allows doctors to know, during breast cancer surgery, whether a woman's cancer has spread to her lymph nodes . . . new implant technology from DePuy Orthopaedics, Inc. that enables adults previously considered too young for hip replacement to preserve bone and return to active lives . . . and a new medicine from Tibotec Therapeutics Division of Ortho Biotech Products, LP that offers hope to many treatment-experienced HIV patients who thought they were running out of options. And this is just a small sampling of the new products introduced in 2006.

At the same time, our focus on growing our broad base in human health care led to significant acquisitions across the enterprise, including Pfizer Consumer Healthcare, which solidified our position as the world's premier consumer health care company. Six key acquisitions in medical technology further strengthened our position as the world's largest and

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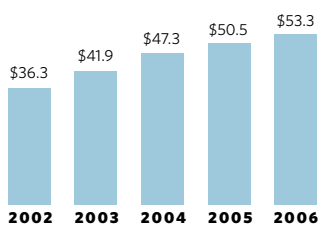
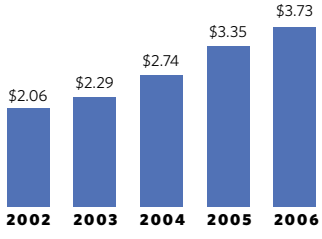
WILLIAM C. WELDON
Chairman, Board of Directors, and Chief Executive Officer

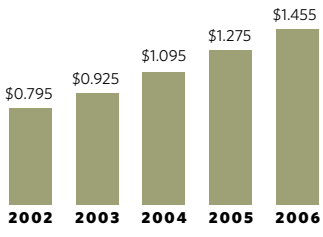
NET SALES
(in billions of dollars)



DILUTED EARNINGS PER SHARE
(in dollars)



DIVIDENDS PAID PER SHARE
(in dollars)



most broadly based medical devices and diagnostics company, where we hold the No. 1 or No. 2 position in most of our major franchises.

In pharmaceuticals, we strengthened our virology business with the U.S. launch of PREZISTA™ (darunavir) for patients diagnosed with treatment-resistant HIV and continue to build a pipeline of products targeting some of the world's most difficult-to-treat diseases. We also signed several important licensing agreements that position us for growth in therapeutic areas—such as oncology, diabetes and hepatitis C—where serious unmet needs exist and where the science is rapidly evolving.

Thanks to the dedication of our people in advancing human health and well-being, Johnson & Johnson delivered solid 2006 financial results while taking aggressive steps to position the corporation for future growth. Worldwide sales grew to a record $53.3 billion, a growth rate of 5.6 percent with operational growth of 5.3 percent.

Net earnings as adjusted of $11.1 billion grew by 9.2[1] percent, once again outpacing sales growth. We achieved solid earnings growth in a year of slower sales growth by continued focus on productivity and cost management.

Adjusted earnings per share of $3.76 grew by 10.9[1] percent, a higher rate than earnings due to completion of our $5 billion share repurchase program announced in March 2006.

STRONG GROWTH OPPORTUNITIES There has never been a more exciting time to be the world's most comprehensive and broadly based health care company. Our products and services bring high value; they are in increasing demand; and the progress of science is opening new horizons for improving human health and well-being.

Demographic and geographic trends will drive even stronger demand for all categories of health care products in the years ahead. Much of the developed world's population is aging, with an expectation of maintaining a full and active life. Furthermore, the rapid growth in demand for health products and services in developing nations is creating a global expansion opportunity, especially for companies like ours that have the capacity to execute in many markets. Our products are sold in over 175 countries, making us ideally suited to capitalize on this trend.

Equally important, the science of health and well-being is evolving rapidly, thanks in part to the wealth of information flowing from sequencing of the human genome. Moreover, scientific breakthroughs outside of biology—in materials science, electronics, computer science and other technologies that underpin science-based health care solutions—are also advancing at an unprecedented pace. This means that opportunity for scientific innovation—including innovation through technology convergence—has never been more promising, especially for broadly based companies with the capacity to adopt and commercialize new technologies quickly.

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Of course, systemic increases in demand create countervailing social forces, including pressure on health care budgets, political pressure for access to and affordability of health care services and products, demand for low-cost alternatives, increasing competition and challenges to intellectual property. These forces impact virtually all participants in the health care marketplace.

Our approach to addressing these underlying challenges is to find the right path with all of our stakeholders to sustainable long-term growth. At Johnson & Johnson, for over 60 years Our Credo has focused our people on our responsibilities to a wide range of stakeholders: customers, patients, family members, employees, communities and shareholders. We have been long acquainted with the need to find win-win propositions with stakeholders all around the world. We also understand that solid financial returns will come from doing this well.

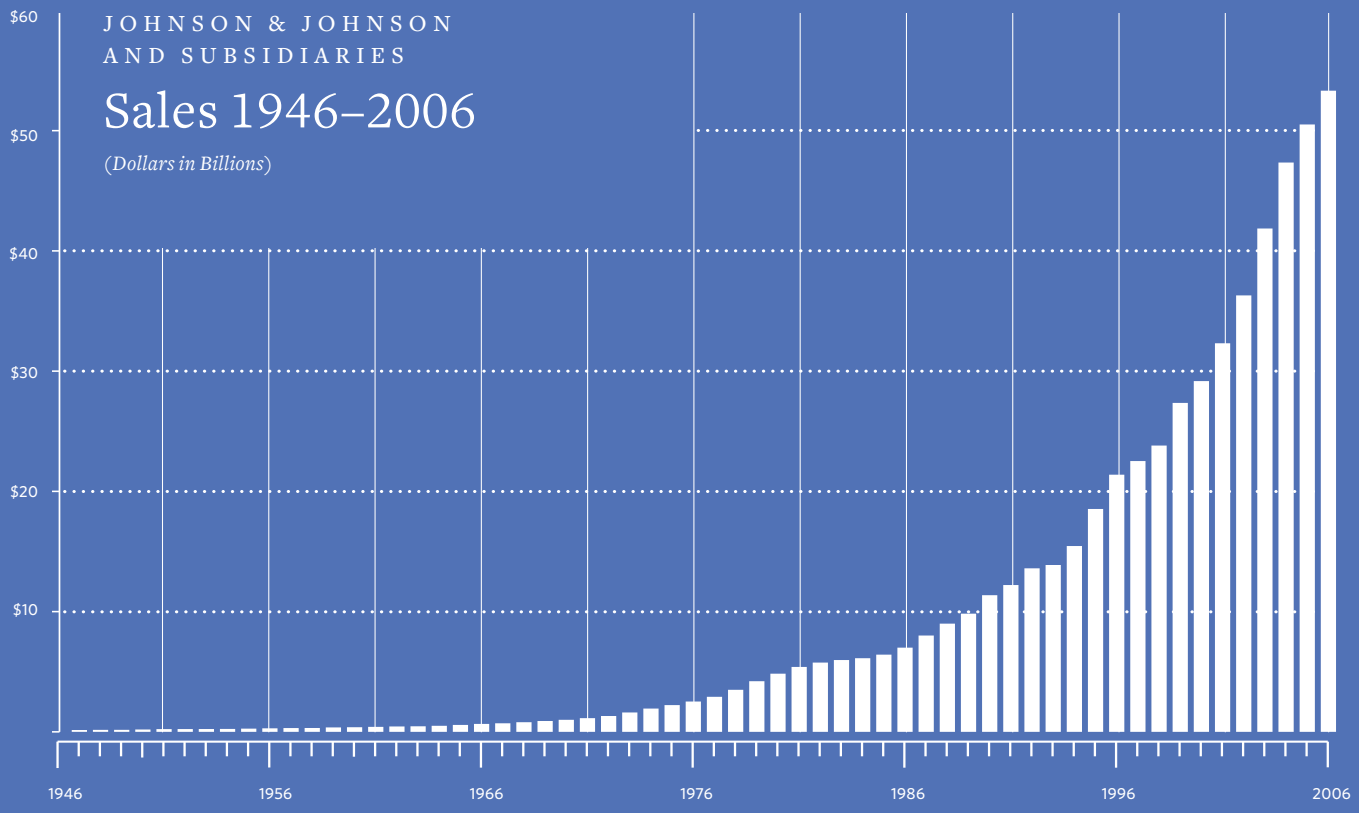
A WINNING FORMULA FOR GROWTH Johnson & Johnson is a unique company. And in a world in which change is the only constant, Johnson & Johnson is an enduring company.

Our uniqueness goes well beyond the exceptional long-term financial results we have delivered for many decades. It derives from management philosophies that define our unique business model and have guided us through extraordinary changes in the science and economics of human health over much of the past century. We are:

- Founded on shared values embodied in Our Credo.
- Broadly based in human health care.
- Decentralized in the way we operate the business.
- Managed for the long term.

Followed over time, these strategic principles are the source of our enduring strength and our ability to adapt and flourish in a dynamic, ever-evolving industry. They encourage successful operation of our businesses for *both* the near and the long term.

The chart on the next page shows the exceptionally consistent sales growth we have attained over the longer term. In 2006, we logged our 74th consecutive year of sales increases, our 23rd consecutive year of earnings increases adjusted for special charges and our 44th consecutive year of dividend increases. This is a record matched by very few, if any, companies in history.



	2006	2005	2004	% CHANGE 2006	% CHANGE 2005
Sales to customers (*in millions*)	$53,324	$50,514	$47,348	5.6%	6.7%
Net earnings (*in millions*)	$11,053	$10,060	$8,180	9.9%	23.0%
Percent return on average shareholders' equity	28.3%	28.2%	27.3%	–	–
Diluted net earnings per share	$3.73	$3.35	$2.74	11.3%	22.3%
Cash dividends paid per share	$1.455	$1.275	$1.095	14.1%	16.4%
Market price (year-end close)	$66.02	$60.10	$63.42	9.9%	(5.2%)

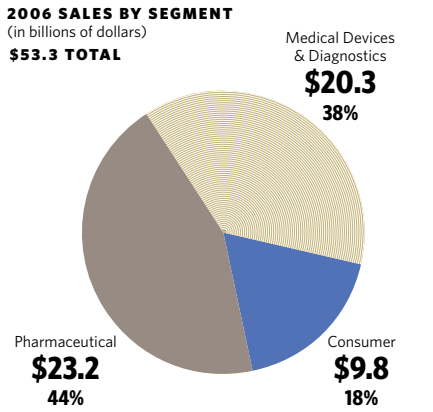
We believe that our strategic principles, which have served us well in the past, are even more relevant to our future growth prospects as we look ahead to the strengths that will be required in an environment characterized by historic levels of rising demand and increasing economic and political complexity.

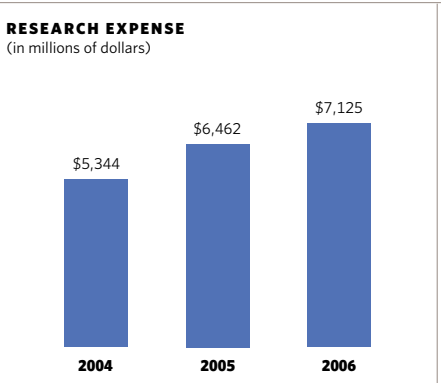
OUR CREDO: OUR STRATEGIC FOUNDATION The foundation of our principles is a deeply held common set of values embodied in a 64-year-old document called Our Credo (see back cover). Robert Wood Johnson II wrote Our Credo just before Johnson & Johnson became a publicly traded company, and since that time it has guided the actions of Johnson & Johnson people at all levels and in all parts of the world.

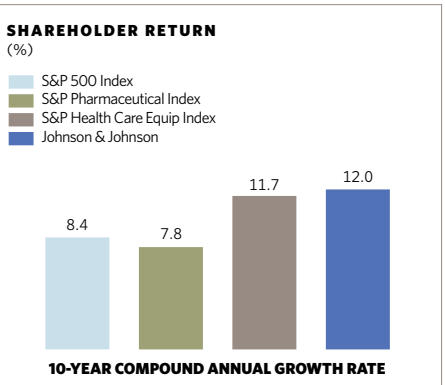
Put simply, Our Credo challenges employees to put the needs and well-being of the people they serve first. It asks supervisors and colleagues to treat fellow employees with respect and dignity. It spotlights our responsibilities to the communities in which we live and work as well as to the world community of which we are a part. It says that our final responsibility is to our stockholders and concludes by saying that when we operate our business according to the responsibilities embodied in Our Credo, "the stockholders should realize a fair return."

Our Credo is the connective tissue that allows us to manage this broadly based, highly decentralized company for the long term. With Our Credo as the *foundation*, our three other strategic principles give us many distinct advantages.

STRENGTH IN OUR BREADTH Since the 1920s, when we began to diversify beyond hospital products, Johnson & Johnson has been fully committed to being broadly based in human health care. Today, we have leadership presence in three distinct segments of the health care industry: consumer health care; medical devices and diagnostics; and pharmaceuticals. Being broadly based in three diverse segments of health care has helped us sustain consistently superior performance for Johnson & Johnson shareholders through the years. When one portion of our business has experienced strong growth, another may require stepped-up investment for future







growth. A downturn in economic conditions in one health care segment may be offset by growth in another segment.

Even more important, our breadth offers four key advantages that enable us to *elevate* our performance.

First, because of our closeness to customers—our strong partnerships with scientists and professionals across so many fields within human health and across so many geographies—we can identify and rapidly capitalize on the most attractive business opportunities emerging in human health. When we spot an emerging opportunity, our breadth enables us to quickly deploy the necessary resources to develop it.

Second, breadth allows for strategic transfer of knowledge, new technology, talent and capabilities internally across business platforms and across business segments. Several examples of strategic transfer of knowledge across business platforms and business segments are highlighted in the following pages in the stories about the people behind some of the innovative products introduced in 2006.

Third, our breadth also gives us a clear advantage in converging technologies. Increasingly, breakthrough innovations in new or adjacent markets are enabled by careful integration of multiple technologies. Our people are accustomed to working within and across our business segments to incorporate technological breakthroughs that achieve important innovations for customers. It's like having access to the know-how, proprietary information and technology resources of many companies, but all within our own corporation.

Finally, our breadth also allows us to leverage scale in an increasingly competitive global environment. Through efficient application and deployment of resources around the globe, we've been able to optimize our cost infrastructure, particularly in areas such as manufacturing, finance, procurement and information technology.

STRENGTH IN A DECENTRALIZED APPROACH The decentralized manner in which we operate our businesses marries the best qualities of smaller companies—an entrepreneurial drive for growth and close proximity to customers—with the resources, know-how and investment capital of a Fortune 50 company.

This strategic approach gives us many advantages over a centralized operation. One is a strong sense of ownership, entrepreneurship, agility and accountability seldom seen in large multinational corporations. The leadership and employees of our 250 operating companies around the world are intensely competitive. We look to the leaders of our decentralized businesses to grow their businesses faster than their competitors. They are driven to innovate . . . to bring greater value to the marketplace through internal discoveries, application of new science, technology, in-licensing and acquisition.

We believe our decentralized approach to running the business yields better decisions—in the long run—for patients, health professionals and other customers, because the decision-makers are close to their customers and are in a better position to understand their needs.

Finally, our decentralized approach to managing the business is a tremendous magnet for talent, because it gives people room to grow and room to explore new ideas, thus developing their own skills and careers.

STRENGTH IN A FOCUS ON THE LONG TERM We manage our business as a marathon, rather than a sprint. This too is a source of enduring financial strength.

Managing our business for the long term keeps us focused on the *underlying performance of our business*. While conscious of ongoing performance in all time frames, we focus on keeping our businesses healthy for the long term.

This forces us to anticipate and capitalize on change, to look at the future of our businesses through many different lenses—through the eyes of new customers, new markets, new technologies and new fiscal realities. A desire to capitalize on changes in the global health care environment that favor consumer-driven health care was part of our rationale for acquiring Pfizer Consumer Healthcare.

Managing our business for the long term leads us to intensify investments as needed to maintain our leadership positions in key growth markets.

A long-term view enables us to take prudent risks on innovative ideas and completely new ways of doing things—new and better products and alternative therapeutic approaches, novel technologies, new and better manufacturing processes. Some of these long-term investments—such as our investment in Veridex's fledgling cellular- and molecular-level diagnostics platform—have the power to potentially transform the practice of medicine (see page 14), just as our initial investment in Ethicon Endo-Surgery, Inc. over 15 years ago led a revolution in minimally invasive surgery.

Managing for the long term enables us to make smarter acquisitions that deliver *long-term* shareholder value. We are willing to take on important, challenging work, often requiring sustained efforts, in order to achieve significant—and possibly

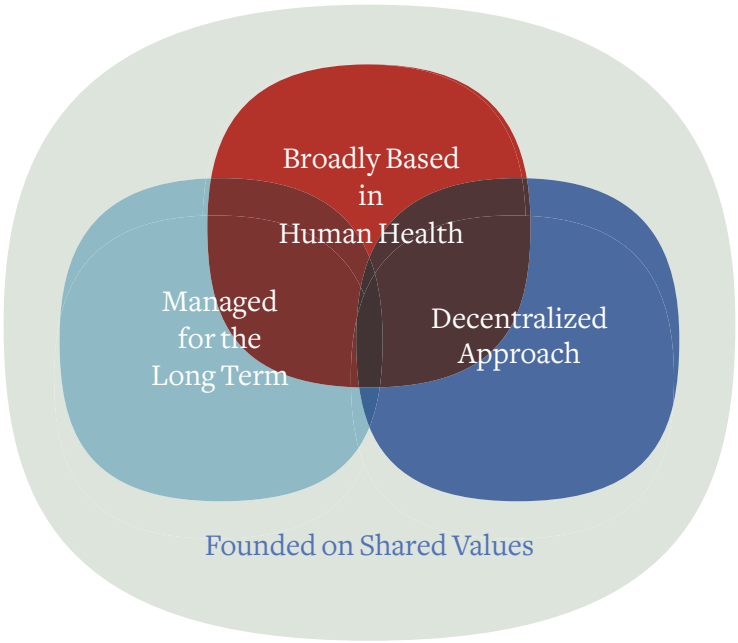
transformational—outcomes. The long view also gives us the courage to walk away from the negotiating table when we believe the price tag on an acquisition will not deliver a strong long-term return on the shareholder's investment.

Managing for the long term also entails careful evaluation of the long-term prospects for each of our businesses. We regularly evaluate our business and product portfolios; we make tough decisions to curtail projects and sometimes divest entire businesses.

Finally, managing for the long term—along with our shared value system—has helped earn us a reputation as a company that is worthy of trust. Being trusted opens doors to opportunities and growth. It opens doors to prospective business partners with new product ideas and new technologies . . . doors to research institutions working on the health advances of tomorrow. It opens doors to policy makers and advocacy groups who want to hear our perspective on improving the health care system in their countries (see stories on pages 10 and 22).

Managing our business for the long term allows us to focus on shaping our future rather than simply reacting to change.

OUR FOUR STRATEGIC PRINCIPLES



Founded on Shared Values The foundation of our strategic principles is a deeply held, common set of values embodied in a 64-year-old document called Our Credo. (See page 3.)

Broadly Based in Human Health Being broadly based in three diverse segments of health care has helped us sustain a consistent superior performance for Johnson & Johnson shareholders through the years. Even more important, our breadth offers four key advantages that enable us to elevate our performance. (See page 3.)

Decentralized Approach The decentralized manner in which we operate our businesses marries the best qualities of smaller companies with the resources, know-how and investment capital of a Fortune 50 company. (See page 4.)

Managed for the Long Term Managing our business for the long term keeps us focused on the underlying performance of our business. While conscious of ongoing performance in all time frames, we focus on keeping our businesses healthy for the long term. (See page 4.)

CONSUMER HEALTH CARE HIGHLIGHTS 2006 was a momentous year for our consumer health care businesses. The completion of the acquisition of Pfizer Consumer Healthcare (PCH) in December solidified our position as the world's premier consumer health care company, extending our leadership from 13 to 22 consumer health categories. We have the world's most diverse consumer health portfolio of large and sustainable platforms for growth.

With approximately half of PCH sales outside the U.S., the acquisition also expands our reach into attractive high-growth markets. It brings us growing and enduring brand names that complement our own portfolio of strong and iconic brands. It broadens our oral health care business into a significant franchise with more than $1 billion in sales. Further, it transforms our over-the-counter (OTC) business, nearly doubling its size and solidifying our position as the worldwide leader in non-prescription medicines. The acquisition substantially diversifies our OTC portfolio and provides entry into high-potential categories such as smoking cessation.

Strategically, this acquisition is vitally important, as the market for consumer health care products becomes increasingly attractive. Several demographic and social shifts favor increased demand for consumer health products. Consumers are taking greater interest in and responsibility for their own health and well-being. Throughout the world, they are turning to OTC medicines and other non-prescription solutions to meet their health needs. Higher levels of disposable income in developing nations are creating increased demand for consumer health products in regions with large populations.

Over and above the PCH acquisition, it was another good year for our consumer health care businesses, which reached nearly $10 billion in sales. In total, our consumer health businesses introduced more than 400 new products and significant line extensions, helping to drive total sales growth of 7.5 percent (see 2006 Year in Review: Consumer Health Care on pages 24–25).

We believe the PCH acquisition, along with our access to scientific knowledge and technologies flowing from our pharmaceuticals and medical devices and diagnostics

businesses, will position us to continue as the world's leader in scientifically based, professionally endorsed consumer health care products.

PHARMACEUTICALS HIGHLIGHTS The overall environment for the pharmaceutical industry continues to be challenging throughout the world, as downward pressures on pricing and reimbursement continue and patents on multibillion-dollar products—including some of our own—face expiration in the coming years. Nevertheless, 2006 was a good year for our pharmaceuticals businesses. Actions we took early in the decade to strengthen our pipeline are starting to pay off. New drug approvals and a strong near-term pipeline have positioned us to mitigate some of the impact of patent expirations through the remainder of the decade.

"Our shared values help us to earn trust and respect. Both are essential to a company devoted to improving the health and well-being of people the world over."
CHRISTINE A. POON
Vice Chairman, Board of Directors

Total sales growth of our pharmaceuticals segment was 4.2 percent, and we continued to build for future growth. We had many significant accomplishments in this business segment in 2006 (see 2006 Year in Review: Pharmaceuticals, pages 26–28).

In 2006, we received regulatory approvals to market four new products—INVEGA™ (paliperidone) Extended Release Tablets, JURNISTA® Prolonged-Release Tablets (hydromorphone HCl), PREZISTA™ (darunavir) and IONSYS™ (fentanyl iontophoretic transdermal system). We also received approval for several significant line extensions for key products in major markets, including RISPERDAL® (risperidone) in the U.S. for the treatment of irritability associated with autism and REMICADE® (infliximab) in the U.S. for the treatment of chronic severe plaque psoriasis and for pediatric Crohn's disease. In addition, we received authorization from the European health authorities to restore subcutaneous administration of EPREX® (epoetin alfa)/ERYPO® (epoetin alfa) for anemia in patients with chronic kidney diseases.

In mid-2005, we communicated to the investment community plans to file or secure approval of between 10 and 13 new prescription medicines by the end of 2007. I'm pleased to report that we remain on track to meet that goal.

We fortified our pharmaceutical pipeline—already more robust than at any point in our history—by adding four new compounds through strategic licensing agreements. These include two potential insulin sensitizers for treatment of diabetes, an oncology compound and a novel protease inhibitor for treatment of hepatitis C.

During 2006, we reorganized our pharmaceuticals business to create three franchises: one focused on diseases of the central nervous system (CNS) and internal medicine (IM), a second focused on biotech, immunology and oncology (B.I.O.), and a third focused on virology. The CNS/IM business is responsible for sustaining our leadership positions in CNS and pain management while building new global growth platforms in antibacterials and cardiovascular disease. The B.I.O. business is responsible for further strengthening our global leadership in immune-mediated inflammatory disorders and anemia management while expanding our emerging global growth platform in oncology. And, as indicated previously, our virology business is working toward building leadership positions in a range of virologic diseases with high unmet medical needs.

MEDICAL DEVICES AND DIAGNOSTICS HIGHLIGHTS Our medical devices and diagnostics (MD&D) segment performed well in 2006. Solid organic growth coupled with strategic acquisitions across the segment position us for future growth in MD&D (see 2006 Year in Review: Medical Devices & Diagnostics, pages 29–31).

Total sales grew 6.2 percent, bringing our MD&D businesses to over $20 billion in annual revenue. We continue to be the largest and most globally diverse medical devices and diagnostics business in the world.

Innovation continues to drive the strong organic growth of our MD&D businesses. In 2006, some 40 percent of our MD&D sales came from products introduced in the past five years.

Since the beginning of 2006, we have acquired six strategically important medical device companies. Several are examples of our focus on complementary growth. Hand Innovations, LLC, a leader in plating technology for wrist and hand fractures, is an important addition to the fast-growing trauma business within our DePuy Orthopaedics, Inc. franchise. The acquisition of Animas Corporation, a leader in insulin delivery systems, will enable LifeScan, Inc., a world leader in

diabetes monitoring devices, to enter the diabetes treatment market. Even more important, this acquisition is an initial step in LifeScan's plan to develop integrated solutions for total management of a patient's disease.

Future Medical Systems, SA, a company that develops, manufactures and markets arthroscopic systems, adds strength to DePuy's fast-growing sports medicine business with an emphasis on minimally invasive procedures. The acquisition of Vascular Control Systems, Inc. by Ethicon, Inc. adds momentum to Ethicon's women's health portfolio with the addition of less invasive treatment options for uterine fibroids and related symptoms.

Two acquisitions add critical mass to our cardiovascular businesses. Ensure Medical adds complementary post-catheterization closure technology for the femoral artery, but just as important, it brings critical mass to Cordis Corporation's R&D talent pool with a premier advanced research and development facility for interventional cardiology near San Francisco. Conor Medsystems has a unique controlled drug-delivery technology that will be explored across a range of therapeutic categories. It immediately contributes to the development of next-generation technologies aimed at advancing the standard of care in treatment of cardiac and vascular diseases.

We believe the impressive number of new product introductions, the many exciting products in our MD&D pipeline and the acquisitions we made in 2006—many of which bring us unique competitive advantages—will enable us to remain the world's leader in medical technology and accelerate our growth in this exciting health care segment.

OUR THANKS Before concluding, I'd like to take a moment to acknowledge two retiring Board members for their exceptional contributions to our Company.

First, I wish to recognize Ann Jordan, who will retire from our Board of Directors in April 2007. Mrs. Jordan was elected to our Board 26 years ago and has brought her deep experience in health care and social services to bear in helping guide our Company, especially in her roles as chairman of the Nomination & Corporate Governance Committee, member of the Compensation & Benefits Committee and past chairman of the Public Policy Advisory Committee.

I also wish to thank our recently retired Vice Chairman, Board of Directors, and Chief Financial Officer, Robert J. Darretta, for his 39 years of commitment to Johnson & Johnson and his steady hand at the financial helm of this corporation during the past decade. Bob has been instrumental in helping us deliver consistent sustainable, superior performance and has been a visible and vocal proponent of our enduring strategic principles.

Our management philosophy, anchored in the value system embodied in Our Credo, allows us to deal with the complexities of balancing short-term and long-term growth.

OUR COMMITMENT TO YOU As you read the "stories behind the stories" of some of our key 2006 business developments on the following pages, I trust you'll see why we believe human health is such an exceptional business and why the type of people attracted to this business—and specifically to Johnson & Johnson—are driven by more than an ordinary desire to serve and succeed in business.

We remain highly optimistic about future growth prospects for our business of improving human health and well-being, based on unprecedented demographic, geographic and social trends.

As the most broadly based and comprehensive company in this field—one with a well-balanced portfolio of businesses in consumer health care, medical devices and diagnostics, and pharmaceuticals—we will harness the benefits of increasing demand while continuing to work closely with various stakeholders throughout the health care system.

Our management philosophy, anchored in the value system embodied in Our Credo, allows us to deal with the complexities of balancing short-term and long-term growth.

Based on the outlook for growth in health care and our confidence in our strategic approach—including the unique benefits of our broadly based health care businesses—we are committed to delivering capital-efficient, profitable growth by:

- Participating in the fastest-growing segments of human health care
- Building and sustaining leadership positions based on superior science and innovation
- Managing our businesses to achieve superior rates of return for our shareholders

The real strength of this corporation is and always has been our people . . . their talent, their drive, their passion and their aspirations to make a difference in this world. These traits enable us to bring forward innovations that improve the lives and well-being of people all over the world. These same traits—embodied in the character and quality of our people—have also helped us deliver superior performance to our shareholders and will continue to be the source of our enduring success in the future.

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

March 14, 2007

[1] Excludes in-process research and development and the Guidant acquisition agreement termination fee. See Reconciliation of Non-GAAP Financial Measures, page 80.

OUR STORIES

Behind every new product that our family of companies introduces—behind every one of our partnerships to advance the health and well-being of people around the world—stands a team of people, their passion and a story. The stories behind our 2006 accomplishments reveal much about the character of our people and the aims of our company. As you read these stories, we hope you'll see how our strategic principles play out in reality—how they liberate our people to pursue a consumer research insight, solve a scientific puzzle, pursue a big, bold vision and collaborate with colleagues half a world away to make a real difference in people's lives.

OUR PASSION TRANSFORMS:

Fun in the Sun

Many years of bicoastal cooperation between two skin care scientists, working in two different Johnson & Johnson companies, have resulted in a remarkable sun-protection breakthrough: a patented advanced sunscreen system with stronger, more effective and longer-lasting protection against the most dangerous kind of damage the sun's rays can inflict on human skin.

Dermatologists are calling it one of the biggest sun-protection innovations in the last 20 years—a paradigm-transforming technology that provides stable, broad protection against the dangerous UVA rays that penetrate deeply into skin layers, reducing collagen and elastin. UVA rays have been clinically implicated in sun-induced aging of the skin as well as skin cancer.

"Incidental exposure to sun is cumulative," explains Curtis Cole, a Ph.D. photobiologist and Senior Director of Skin Care Technology at Johnson & Johnson Consumer Products Company Division of Johnson & Johnson Consumer Companies, Inc. in Skillman, N.J. "At any time, a single tiny photon of sunlight on unprotected skin could become the tipping point for cancer."

Evidence of UVA damage—which can include wrinkling, sagging and mottling—may not reveal itself until years after unprotected skin has been exposed to the sun. In contrast, UVB rays—which attack the skin's uppermost layers—can cause sunburn in a matter of minutes.

BICOASTAL TEAMWORK Curtis Cole, Ph.D. (left), and Rick Woodin have collaborated for 10 years.

TEN YEARS OF RESEARCH It took 10 years of research and development work for Dr. Cole and his West Coast partner—Rick Woodin, a photochemist and Director of Product Development at Neutrogena Corporation—to crack the UVA protection code, then to help franchise-level marketers develop a portfolio of skin care products with unparalleled sun protection under the NEUTROGENA® and AVEENO® trademarks.

Recalls Dr. Cole: "In the mid-'80s, the American Academy of Dermatology launched an intensive public-education program about skin cancer. It raised consciousness around the world about the link to sun exposure and the consequent need for protection. Manufacturers of skin care products began adding new sun protection into a remarkably wide range of skin care products. Before long, the 'SPF'—or sun protection factor—became a price of market entry, not just an added benefit, for every new skin care product."

But consumers were getting a false sense of security from high SPF numbers in their sunscreen products, even those containing the UVA filter avobenzone: "On its own, avobenzone—the most effective broad-spectrum filter blocking UVA rays—breaks apart at the molecular level after it absorbs energy from sunlight. As early as 1987, my lab team and I tried to photo-stabilize avobenzone by adding another chemical. After many years of effort, we found that a chemical called DEHN would help stabilize avobenzone, but only to 40 percent—and we wanted a higher level of stability."

THE SOLUTION ARRIVES "When we added a third ingredient—oxybenzone—we saw an interesting chemical mechanism of action: DEHN accepts the excess energy absorbed by avobenzone, then transfers it to oxybenzone, which converts the UV light to harmless red light without sacrificing avobenzone's ability to absorb incoming photons.

"This was what we had been seeking for years," adds Cole. "Finally, we had a remarkably long-lasting sunscreen that would not break down in sunlight and would block the most harmful rays. As a final touch, we added some conventional UVB filters to fortify the SPF to provide people true broad-spectrum protection."

SOARING SUCCESS The NEUTROGENA® and AVEENO® advanced sunscreen products are flying off retail shelves. Light textured and easily absorbed, they provide maximum protection against the sun's most damaging rays. Dr. Curtis Cole, Ph.D., a photobiologist and Senior Director of Skin Care Technology at Johnson & Johnson Consumer Products Company, advises: "It's important for people to remember to reapply sun protection after a swim and for parents to remember to reapply it to children's skin when they take a break from the water."

Explains Woodin: "Curt was then able to write a Johnson & Johnson patent for a new synergistic technology affording intellectual property protection within current regulatory guidelines. This enabled rapid product deployment in the U.S. marketplace. But an idea is only as good as its execution—so we worked hard to give consumers the most delightful aesthetic experience possible with the new technology."

GO-TO-MARKET STRATEGIES In 2006, both NEUTROGENA® and AVEENO® successfully launched new lines of skin care products containing the newly patented advanced sunscreen technology. NEUTROGENA®, which rolled out five new consumer products and a special one for dermatologists to dispense, calls the new technology HELIOPLEX™.

AVEENO® launched five new advanced sunscreen products with natural ingredients clinically proven to even out skin tone and improve blotchiness and discoloration caused by previous sun exposure. The AVEENO® products contain the patented Total Soy Complex (a natural moisturizer) and vitamin E, a strong antioxidant that slows the UVA-induced "free radical" chain reaction thought to cause wrinkling in otherwise-youthful skin. AVEENO® calls the new patented technology ACTIVE PHOTOBARRIER COMPLEX™.

WHAT'S NEXT? "Curt and I will be working together, as we have for a decade, on exciting new exponentially transformative projects," says Woodin. "That's why people become scientists—to break barriers, to bring forward new inventions and to advance the boundaries of technology."

Dr. Derrick Artis and Dr. Cristina Schnider

American Optometric Association Recognizes Vistakon's UV-Blocking Lenses

Cristina Schnider, Director, Medical Affairs at Vistakon division of Johnson & Johnson Vision Care, Inc., was pleased to oversee efforts to secure for the ACUVUE® ADVANCE™ and ACUVUE® OASYS™ Brand Contact Lenses the first-ever Seal of Acceptance for Ultraviolet Absorbing Contact Lenses from the American Optometric Association's (AOA) Commission on Ophthalmic Standards.

"Not all contact lens lines offer UV protection, and of those that do, not all provide similar absorption levels," explains Dr. Schnider. "ACUVUE® ADVANCE™ and ACUVUE® OASYS™ Brand Contact Lenses are the only contact lenses to meet the highest UV-blocking standards."

Dr. Derrick Artis, Director, Customer Development, who also played a role in securing the AOA Seal, adds, "Our hope is to generate awareness of the potential for these lenses to help reduce some of the cumulative effects of UV radiation that have been shown to increase the chance of developing eye problems later in life."

OUR PASSION TRANSFORMS:

Social Responsibility

For Olga Vasukova, it's personal ... the responsibilities she feels, as an employee of Johnson & Johnson, LLC in Moscow, to support her government's initiative to modernize health care. Given what happened to her father, how could it *not* be personal?

While Olga was studying at Harvard Business School in 2003, her "Papa," Nikolay Vasukov, came from Russia for a visit. One night after dinner, Nikolay felt chest pain.

"I phoned for an ambulance," recalls Vasukova, who is now Strategic Affairs Director of Johnson & Johnson, LLC, Medical Russia, headquartered in Moscow. "They took Papa to the hospital. The doctors said narrowing of the blood vessels was restricting the blood flow through his coronary arteries. They performed a coronary artery catheterization and inserted a bare-metal stent in one artery to keep it open. The stent was made by Cordis Corporation."

Today, Nikolay, a vigorous 61-year-old, visits Vasukova and his 6-year-old granddaughter, Sasha, often. "My daughter has energy to burn, and Papa keeps right up with her," says Vasukova.

Several years ago, interventional cardiologists inserted a Cordis bare-metal stent in one of Nikolay Vasukov's coronary arteries. Today, he enjoys visits with his daughter Olga and his energetic granddaughter Sasha.

WOULDN'T IT BE WONDERFUL?

So when the Kremlin recently issued a directive calling for comprehensive upgrades in the Russian health care system, it became a personal call to action. "Wouldn't it be wonderful if every Russian grandfather could get the kind of medical care my Papa received?" asks Vasukova.

The Russian government couldn't agree more. In speeches supporting the Kremlin's directive, Russian President Vladimir Putin declared he wants to see "decisive yet prudent steps" taken in "every city, town and village" to modernize health care throughout Russia and the entire Commonwealth of Independent States (CIS).

In the eyes of the more than 1,000 employees of the Johnson & Johnson Family of Companies serving Russia and the CIS, the Russian government's new initiative is nothing less than a challenge to improve the health of their friends, their loved ones. "Not surprisingly, our people undertake this mission with a results-driven mix of professional commitment, youthful vigor and intense personal interest," says Naira Adamian, Country Manager, Janssen-Cilag Russia.

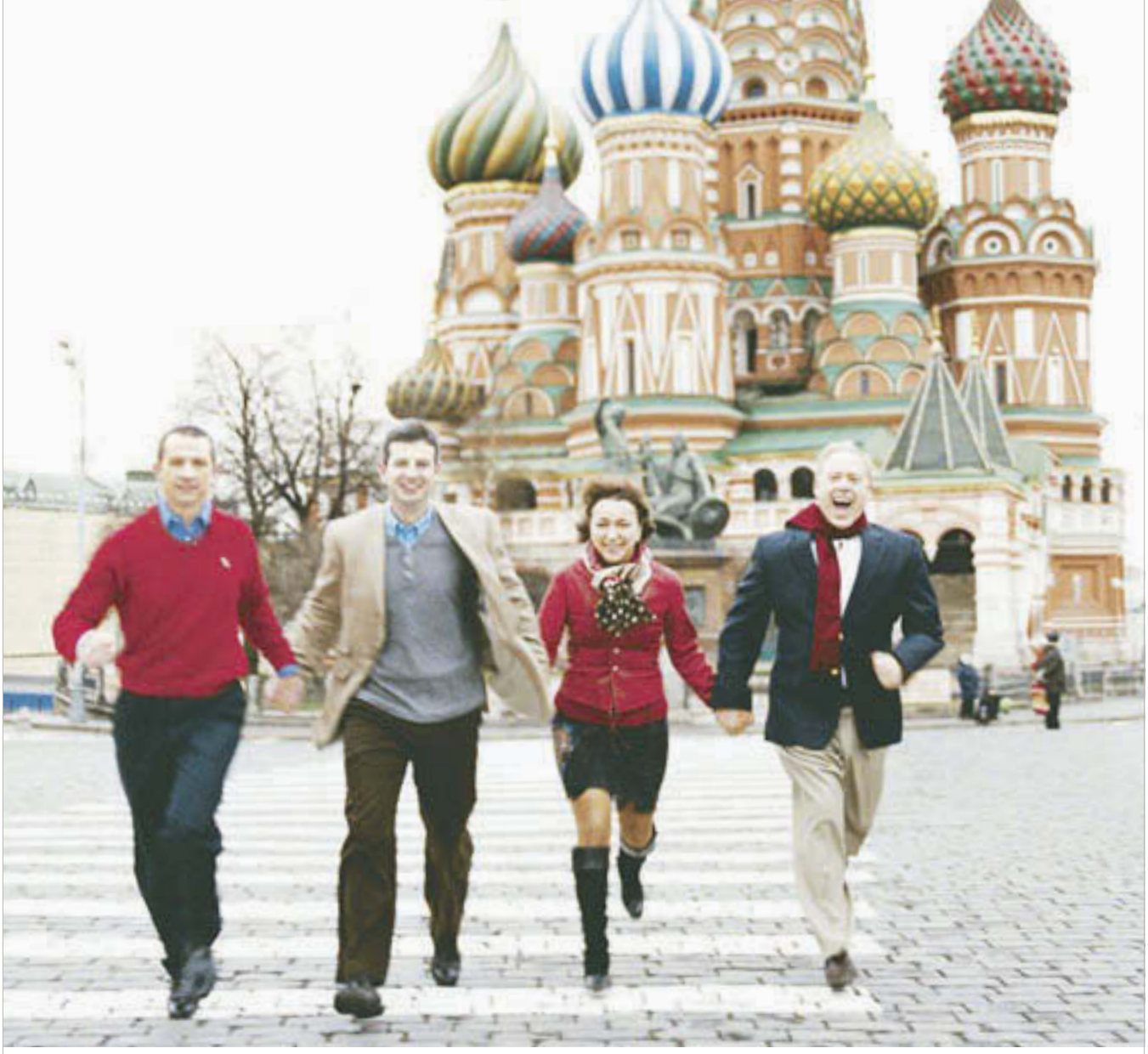
2005: FIRST-EVER AWARD FOR CIVIC INITIATIVES

Throughout Russia and the CIS, the local Johnson & Johnson companies support training programs for medical professionals and underwrite other educational and philanthropic efforts that advance the new health care agenda.

In 2005, the Russian government recognized these contributions by presenting Johnson & Johnson with its inaugural Annual Corporate Social Responsibility Award. On the selection committee for the award were leading representatives of three sectors of Russian society—politicians, scientists and artists. The award cited many Johnson & Johnson civic initiatives, including:

- The contribution of more than $100,000 to victims of the terrorist attack on a school in Beslan, Chechnya.
- Support of children with cerebral palsy, congenital heart disease, leukemia and blindness.
- Support of major HIV/AIDS philanthropic programs.

GOOD CORPORATE CITIZENSHIP Throughout Russia, the Johnson & Johnson Family of Companies supports educational and philanthropic efforts that advance the nation's new health care agenda. In 2005, the Russian government recognized these contributions by presenting the company with its inaugural Annual Corporate Social Responsibility Award (top).



TOGETHERNESS Joining hands for a run across Moscow's Red Square are Johnson & Johnson, LLC employees (left to right) Igor Nemchenko, Managing Director, Consumer Group Russia; Vladimir Makatsaria, Managing Director, Johnson & Johnson Medical Russia/CIS; Naira Adamian, Country Manager, Janssen-Cilag Russia; and Sandy McIntire, Managing Director, Consumer Group Ukraine, Cilag GmbH International.

SERIOUS RESPONSIBILITIES "By taking very seriously the responsibilities outlined in Our Credo, Johnson & Johnson, LLC became, in 2006, the largest health care company in Russia," says Vladimir Makatsaria, Managing Director, Johnson & Johnson Medical Russia/CIS. "In other words, we see this business milestone as a positive side effect of our wholehearted effort to support the government as it seeks to provide affordable, good-quality health care for every Russian adult and child."

In June, Johnson & Johnson, LLC opened a new 8,500-square-meter office in the heart of Moscow to bring all local employees under one roof for the first time. The first sight that greets them each day is Our Credo etched in a large glass panel.

Having won a national award for corporate social responsibility the previous year, Johnson & Johnson, LLC received the 2006 Moscow Employer of the Year Award from *Human Resources Management*, a respected Russian business journal. Explains Makatsaria: "This is tantamount to a second national award, in that 99 percent of all companies with a presence in Russia are headquartered in Moscow."

Furthermore, some of the consumer company brands were recognized in 2006 with the prestigious Effie Gold and Effie "Most Trusted Brand" awards for the awareness and trust they've earned among Russian consumers. Says Igor Nemchenko, Managing Director, Consumer Group Russia: "We strive to bring more science into consumer health products. That's a very important contribution to the health and well-being of the people we serve here in Russia … and everywhere."

AN ACTIVE PARTNER "We are an active partner with the Russian government in supporting health care reform and education," says Adamian. "Health and science policy makers have sought our counsel on a range of best practices, and we've been able to draw upon knowledge of colleagues throughout the Johnson & Johnson Family of Companies. Our employees are playing a positive role in the future of Russian health care. And they're playing this role with remarkable passion and conviction, because it has such personal dimensions."

OUR PASSION TRANSFORMS:

Vision, Beautifully

Once in a while, the success of a new product exceeds even its creators' expectations. A case in point is a new line of ACUVUE® Brand Contact Lenses designed specifically to enhance the attractiveness of dark Asian eyes.

In fact, the new line of disposable contact lenses adds a literal layer of meaning to the saying "Beauty is in the eye of the beholder." The lens features a dark outer ring embedded within the lens that makes the wearer's iris appear larger—an extremely subtle effect that many female (and even some male) Asian contact lens wearers, notably in Korea and Japan, find particularly desirable.

The latest addition to the line, *1-DAY* ACUVUE® DEFINE™ Vivid Style Cosmetic Contact Lenses, was launched in Korea, Singapore, China and Japan in the fall of 2006. This style offers a dramatic option for those who want a more vibrant iris-enhancing effect.

LENS AFTER LENS The new *1-DAY* ACUVUE® DEFINE™ is only the latest in a strong pipeline of Vision Care products launched over the past two years.

For example, in 2005, the ACUVUE® ADVANCE™ Brand Contact Lenses *for ASTIGMATISM* made its debut as the first silicone hydrogel daily wear contact lens for people with astigmatism—a vision condition common to millions of children, teenagers and adults. In addition, *1-DAY* ACUVUE® MOIST™ Brand Contact Lenses—with breakthrough LACREON™ technology—were launched that year in Europe, Middle East and Africa with considerable success. In Japan, *1-DAY* ACUVUE® MOIST™ has become the fastest-growing product in that category.

The new iris-enhancing product, *1-DAY* ACUVUE® DEFINE™ Brand Contact Lenses—including the first-launched Accent Style and the new Vivid Style—has already proved wildly popular in the Asia-Pacific region. The new brand, which was developed in response to Asian customer research insights, has helped *1-DAY* ACUVUE® become a market leader there. Many of those involved in developing the new brand are pleased the product has exceeded expectations. But one Korean-born employee of Johnson & Johnson Vision Care, Inc., Karren Koo, was confident from the outset that this iris-enhancing concept would strike a responsive chord with contact lens wearers in Asia.

A TALE OF TWO "KARENS" In 2003, Koo—at the time a Johnson & Johnson Vision Care, Inc. marketing manager based in Seoul, Korea—detected a consistent response in her market focus groups. "Asian women kept saying they wanted a lens that would make their eyes appear bigger and more distinctive," Koo recalls. "This kept coming up in the research, time and again.

"Additional research showed our customers wanted an effect that was beautiful yet subtle and natural, as if they were born with it. In other words, the lenses needed to be their beauty secret," Koo adds. "I felt certain that they would respond favorably if we could combine a subtle, beauty-driven iris enhancement along with the outstanding health benefits of our popular *1-DAY* ACUVUE® lenses."

In meeting after meeting, Koo pressed her new-product idea with her colleagues in marketing and R&D. Her gentle persistence was finally rewarded when she was invited to partner with "another Karen," half a world away. A native

ABOVE Dr. Karin McCarthy (left), Karren Koo

At right: The dark outer ring embedded within the lens of the *1-DAY* ACUVUE® DEFINE™ makes the iris appear larger.

of Denmark, Dr. Karin McCarthy is Manager of Cosmetics Development, a cosmetic-tints platform in the Research and Development Center of Vistakon, a division of Johnson & Johnson Vision Care, Inc. in Jacksonville, Fla.

Koo's won't-be-denied competitive spirit found its kin in Dr. McCarthy, a former Olympian who represented Denmark in swimming events. Says Dr. McCarthy: "Our mutual friends in the company agreed that Karren and I, along with our market research partners, were a perfect professional tag team, able to hand off to each other the market-based and science-based issues that might arise as we developed this exciting new beauty-enhancing product line for the so-called 'Asian eye.'"

A TURNING POINT IN JAPAN A critical turn in the development of the product was a clinical trial in Japan, which was then essentially a virgin market for iris-enhancing lenses. In the course of the study, Dr. McCarthy ensured the cosmetic effect of the prototypical *1-DAY* ACUVUE® DEFINE™ lens would be appealing to Japanese consumers. Equally important was gathering input from eye care professionals to ensure lens design met their needs.

In turn, Koo learned that Japanese consumers preferred the subtlest possible appearance of iris enlargement—the equivalent of extra-thin eyeliner if it were an eye makeup product. "The feedback from Japanese consumers gave Karin and me some nuances to mull over," recalls Koo. "We always knew we had to stay close to the voice of the customer to get the product right. After our clinical trial there, we made subtle refinements that would dramatically enhance the appeal."

1-DAY ACUVUE® DEFINE™ was launched in Korea in November 2004 and then in Japan, the biggest Asian market, in February 2005. Over the next year, the new lenses were rolled out to China, Singapore, Taiwan, Hong Kong, Thailand and Malaysia. "Response has been extremely positive among female consumers of all ages. This innovation has also attracted new people into the contact lens category," says Koo.

STRONG VISION FOR A VISION BUSINESS The year 2006 also marked the 25th anniversary of the Johnson & Johnson Vision Care business, which—much like its beauty contact lenses for Asian women—was created in a paradigm-shifting approach based directly on consumer insight. ACUVUE® was the world's first disposable contact lens.

In its overall perspective, the Vision Care business aims "to provide healthy vision to everyone, everywhere, every day." It is the global market leader in the disposable contact lens market.

"Now, we're blazing a new trail in the global marketplace for contact lenses by putting greater emphasis on satisfying the special needs and desires of customers in different geographies and cultures," says Koo. "*1-DAY* ACUVUE® DEFINE™ is a perfect example."

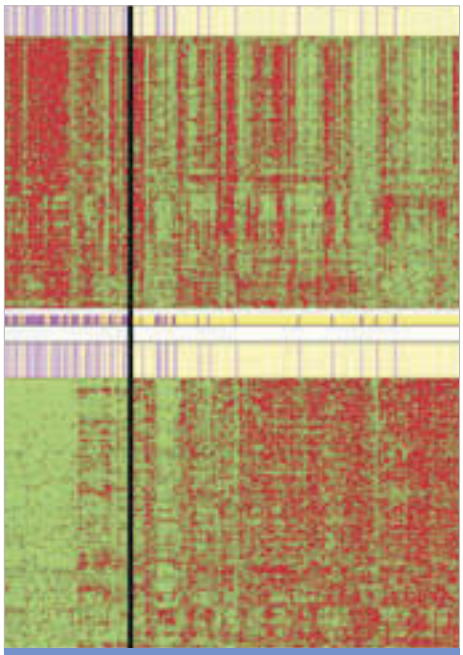
OUR PASSION TRANSFORMS:

The Power of Knowing

A breast cancer surgeon never faces a more frustrating mid-operative moment than having to close a woman's surgical wounds without knowing whether the breast cancer cells have metastasized, or spread, to the patient's lymph nodes.

The answer comes, all right—but only days later, when a biopsy report becomes available. And if the news is bad, the doctor has to call the patient, whose wounds are healing, and ask her to come back for more—more pre-op counseling, more sign-offs, more anesthesia, more surgery, more recovery, more pain, more scarring and more anxiety.

Fortunately, this all-too-familiar scenario need never occur again.



Under the GENESEARCH™ brand, Veridex develops products based on molecular technology for gene expression profiling. Gene arrays such as this one help physicians detect the presence of cancer earlier.

NO MORE WAITING Now, a new DNA-based diagnostic tool, the GENESEARCH™ Breast Lymph Node (BLN) Assay, can deliver test results in 35 to 45 minutes, while the breast cancer patient is still on the operating table. No more false starts at healing. No more waiting several days for news, good or bad. No more second-surgery heartaches.

The GENESEARCH™ assays use molecular-level patented technology to diagnose, stage and/or more accurately characterize disease, far more quickly than ever before.

"With GENESEARCH™, we can quickly obtain a result on the status of the sentinal lymph node," says Dr. Jean-Marie Nogaret, Chief Breast Surgeon, Institut Jules-Bordet, Brussels, Belgium. "It is a benefit for the patient and for the medical team, and it is more economical."

PIONEERING DIAGNOSTICS The new GENESEARCH™ diagnostic test was pioneered by Veridex, LLC. The GENESEARCH™ BLN test entered the European market in mid-2006 in compliance with EU in vitro medical device regulations. It received a favorable FDA advisory panel review in December 2006.

"The earlier a doctor can detect metastasized breast cancer in a woman's lymphatic tissue, the better the outcome—and that's where GENESEARCH™ comes in," explains David Atkins, Ph.D., the scientist who led the early development of the GENESEARCH™ platform and now Vice President for Europe, Middle East and Africa (EMEA) for Ortho-Clinical Diagnostics, Inc. (Ortho-Clinical). "In our new diagnostic platform, the genetic detective is a hunter of rogue DNA. It looks, at the molecular level, for DNA that should not be present, DNA that indicates the spread of cancer.

"Detecting rogue DNA in lymph nodes is essential to staging and treating the disease with precision," adds Atkins. "Finding it, however, was thought to be nearly impossible, due to the limitations of underlying technology. But the team working on this project thought outside the box and developed a novel approach to detecting the rogue DNA intra-operatively."

THE VANGUARD OF A NEW ERA Today, two out of every three medical decisions are based upon in vitro diagnostic testing (conducted in a test tube or other controlled environment)—a field in which Ortho-Clinical is a worldwide leader. Says Roy Davis, Ortho-Clinical Company Group Chairman: "As the focus shifts from lab operations to patient outcomes, diagnostic tools like GENESEARCH™—and another Veridex platform, CELLSEARCH™—will help write the next big chapter in the history of medicine. They represent the vanguard of a new era in which cellular- and molecular-based diagnostics will enable doctors to manage more patients back to wellness rather than just coping with illness."

Ortho-Clinical is at the forefront of a major transformation happening in diagnostics. The company's approach is two-pronged. As Veridex introduces new diagnostic platforms in oncology, Ortho-Clinical's franchise development group is actively engaged in identifying new biological markers in select categories of major unmet medical needs. Many of these

NOVEL DIAGNOSTICS "We're working to identify novel diagnostic and prognostic markers," says Yixin Wang (left), Ph.D., Executive Director, Research & Development at Veridex. "The genetic detective . . . [looks] for DNA that should not be present, DNA that indicates the spread of cancer," explains David Atkins (right), Ph.D., Vice President, EMEA for Ortho-Clinical Diagnostics, Inc., who led the early development of GENESEARCH™.

markers, when validated, will become the foundation for new, high-value diagnostic tests—tests that have the potential to identify disease states at earlier stages than ever before.

CELLSEARCH™—unveiled in 2004—identifies, enumerates and characterizes circulating tumor cells directly from a whole-blood sample. It is currently available in the U.S. for use in metastatic breast cancer, and clinical trials are in progress for application with additional cancers.

STILL MORE TO COME Working as a project leader with Atkins on GENESEARCH™ was Yixin Wang, Ph.D., Executive Director, Research & Development at Veridex. Says Wang: "The researchers in La Jolla are working to expand both GENESEARCH™ and CELLSEARCH™ to facilitate early detection of cancers. And we're also working to identify novel diagnostic and prognostic markers for major types of cancer to support the Veridex molecular testing pipeline."

Wang's other Ortho-Clinical responsibility is to support pharmaceutical research and development teams in biomarker evaluation for drug development.

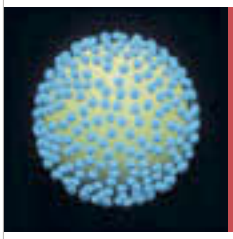
"The name of the game is detecting cancer cells at the earliest possible point," says Wang. "That's what the GENESEARCH™ and CELLSEARCH™ platforms are designed to do. We look forward to bringing a series of GENESEARCH™ and CELLSEARCH™ tests to market."

"Our collective long-term dream at Ortho-Clinical and Veridex," says Davis, "is a world in which cancer is rarely fatal, where diabetes never becomes full-blown and where heart attacks are circumvented through early detection. The European introduction of the GENESEARCH™ BLN test is a testament that we are on our way to making the dream a reality."

OUR PASSION TRANSFORMS:

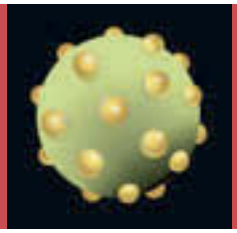
Humans vs. Microbes

Throughout history, some of humanity's worst enemies have been infectious diseases caused by microbes—one-celled or small multicelled life forms. "Infectious diseases caused by bacteria and viruses have been one of the most important causes of mortality for centuries and continue to be a medical challenge," says Paul Stoffels, M.D., Company Group Chairman, Research and Development, CNS (Central Nervous System) and Internal Medicine, and founder of Tibotec-Virco, a company acquired in 2002 that specializes in new treatments for viral infections. "The most widely spread epidemics are called pandemics. One of the deadliest has been HIV, which since 1981 has infected an estimated 60 million people, killing 25 million of them."



Imaging technology portrays humanity's worst enemies—in this case, HIV—in astounding detail.

Until AIDS, tuberculosis was the leading cause of death from infectious disease worldwide.



Globally, some 170 million people are infected with the hepatitis C virus (HCV).

The year 2006 was a milestone in science's battle against HIV: "It has been 25 years since the first case of AIDS, then unnamed, was reported to the Centers for Disease Control," says Stoffels, who has dedicated much of his career to battling the world's most lethal viruses. "It has been 20 years since the first clinical trial of antiretroviral drugs, which inhibit HIV genetic material in the patient's blood. And it has been 10 years since the debut of the first protease inhibitors, which prevent the virus from creating as many as 1 billion new copies daily in an HIV-positive patient."

NEW PROTEASE INHIBITOR Moreover, 2006 was the year that a Johnson & Johnson operating company launched—in record time—a new protease inhibitor (PI) for patients who have failed previous therapies, such as another PI. The new drug, PREZISTA™ (darunavir), also known as TMC114, is marketed in the U.S. by Tibotec Therapeutics Division of Ortho Biotech Products, LP, and in other countries by the Tibotec divisions within the Janssen-Cilag companies. It signals the start of a new global virology business franchise for Johnson & Johnson. The franchise's pipeline is robust with other novel investigational medications for HIV, for hepatitis C (HCV) and for tuberculosis (TB). TB is one of the most important opportunistic infections in HIV patients throughout the world.

"Global infectious diseases are among the greatest unmet medical challenges of our generation," says Julie McHugh, Company Group Chairman, Virology. "Infectious diseases like HIV, HCV and TB are truly global health issues. They require the pharmaceutical industry to create innovative solutions, not only by developing new best-in-class compounds but also by bringing these medications to the patients who need them in both industrialized and developing countries. Because our innovative science addresses such urgent needs, we believe we have the opportunity to build a new sustainable business while having a real impact on epidemics worldwide."

UNIQUE R&D PROCESS PREZISTA™ is the result of a unique pharmaceutical research and development process that relied on HIV drug-resistance insights gleaned from diagnostic tools pioneered by Virco, an affiliate of Tibotec. Virco performed diagnostic tests to chart, on a molecular level, up to 250,000 types of resistant HIV viruses worldwide; Tibotec then used the information to design a molecule that would be able to inhibit replication of the most prevalent drug-resistant strains of the virus.

"But beyond resistance, to truly benefit patients we also had to be concerned with efficacy, safety, tolerability and convenience. PREZISTA™ is an important new option for treatment

WHERE IT ALL BEGAN Paul Stoffels, M.D. (right), Company Group Chairman, Research and Development, is reunited in Mechelen, Belgium, with three founding members of his AIDS-fighting research team (clockwise from bottom): Hilde Azijn, Senior Scientist, Tibotec Clinical Virology; Kurt Hertogs, Vice President, Tibotec-Virco Scientific Operations; and Marie-Pierre de Bethune, Vice President, Tibotec Clinical Virology.

of experienced adult patients, such as those who have failed or are resistant to more than one protease inhibitor. It may allow patients who have lived with a low level of virus for years to attain an undetectable viral load, a goal that is consistent with current treatment guidelines," says Roger Pomerantz, M.D., FACP, President, Tibotec Research and Development.

"In this respect, the development of PREZISTA™ has taught us a great deal about how to treat global infectious disease in general," continues Pomerantz. "It showed us that long-term suppression of viruses and microbes requires the development of compounds that 'fit' a virus very neatly—and likewise fit patients' needs." Additional studies are ongoing to evaluate long-term outcomes of PREZISTA™ therapy.

SCIENCE AS HERO The 15-year-long behind-the-scenes story of how Tibotec created PREZISTA™ illustrates how nimble, creative science was able to find a way to increase the genetic barrier to resistance for an insidious "smart" virus that has proved itself a master of disguise, mutation and opportunistic survival.

Stoffels recalls: "By the late 1990s, the so-called 'cocktail' of drug therapies seemed to have turned AIDS into a manageable chronic disease, much like diabetes. But the hidden reality was that the virus was continuing to build up resistance, threatening to destroy the hopes of people who were working so hard to live full and productive lives. As a patient, hearing that your HIV infection has become drug-resistant—and that your viral load is increasing, not decreasing—is the second-worst day of your life, exceeded only by the day your physician gave you the original diagnosis.

"We felt we had to go the extra mile for that patient, no matter how long or arduous the task ahead—so we put our heads, hearts and hands to work. Through an exceptional commitment of the entire organization at Tibotec and Virco, within record time we were able to discover and develop a novel drug while we were building a new organization. Our people are the core of our success. The entire team is committed to making the difference for patients living with HIV/AIDS globally."

Tibotec-Virco Vice President of Scientific Operations Kurt Hertogs, who has been at Stoffels' side from the beginning,

GLOBAL HEALTH "Infectious diseases represent our greatest unmet medical challenges," says Julie McHugh, Company Group Chairman, Virology. Adds Roger Pomerantz, M.D., FACP, President, Tibotec Research and Development: "Our new compound, PREZISTA™, 'fits' HIV neatly, making it extremely difficult for the virus to mutate."

says that the team "engineered against failure" by creating a timeline that gave specific details for each research and development function on a day-to-day—and, eventually, hour-to-hour—basis: "We covered the walls of the Tibotec facility in Mechelen, Belgium, with posters six feet long and three feet wide. The posters illustrated the interplay of functions and deliverables, and were a constant reminder of deadlines and commitments."

Another original team member, Marie-Pierre de Bethune, Vice President of Clinical Virology, says: "Our motto was 'The patients are waiting.' It drove us to work in a way that Paul called 'faster than possible,' without compromising on quality, science or ethics. We made many personal sacrifices to meet a highly accelerated timeline. For instance, during high-output months, we restricted vacation times. And when it came time to work on the application for health authorities, the core team went off-site to a remote location in northeast Belgium for an entire week, working from 7 a.m. to 11 p.m. each day."

The discipline paid off. Only five years elapsed between the first study in humans (January 2001) and the submission of filings (December 2005). Says Stoffels: "In drug-development terms, this is an extremely short time."

A DEEP COMMITMENT TO HIV

In addition to PREZISTA™, which was known as TMC114 throughout the development process, Tibotec has two other novel antiretrovirals—TMC125 and TMC278—in development. Both investigational drugs are NNRTIs—non-nucleoside reverse transcriptase inhibitors.

TMC125, in late-stage development, is the first investigational NNRTI to show significant activity in patients with prior NNRTI failure. Clinical trials are also being conducted to investigate its use in combination with PREZISTA™. TMC278, an early development compound, is highly potent and, if successful, could become the backbone for fixed-dose combination therapy in a single pill.

The company continues to create its own path in the world of HIV. Another NNRTI compound, TMC120, was licensed by the company to the International Partnership for Microbicides, a nonprofit product development partnership, for development as a vaginal microbicide. This agreement, signed in 2004, was the first royalty-free licensing arrangement of its kind in microbicide research and is an approach that has since been repeated by other manufacturers.

HIV IN WOMEN: A SPECIAL STUDY On the research front, Tibotec Therapeutics—the company's U.S. marketing, sales and clinical arm—initiated in 2006 the largest clinical study ever conducted among treatment-experienced adult women with HIV. The GRACE (Gender, Race and Clinical Experience) study is comparing gender differences in the efficacy, safety and tolerability of PREZISTA™ administered with other antiretroviral agents over a 48-week treatment period. The study, which is being conducted at sites throughout the U.S., Mexico and Canada, also explores racial differences in treatment outcomes.

Says McHugh: "Although women represent nearly 50 percent of all infections worldwide, they are vastly underrepresented in HIV clinical trials—even though research to date not only suggests that women may tolerate HIV medications in different ways than men but also suggests that certain complications of the disease may be gender-specific. We've worked very closely with the U.S. HIV community in

developing this trial. The GRACE study and our collaboration with the International Partnership for Microbicides on TMC120 reflect our deep commitment to address HIV treatment and prevention options for women and girls."

BETTER ACCESS FOR DEVELOPING NATIONS Upon receiving the earliest approval of PREZISTA™, the company launched the Tibotec Global Access program. Under this initiative, and because of the unique situation created by an infectious disease that is now a global pandemic, Tibotec will make its antiretrovirals available at reduced prices on a sustainable basis to people in need in more than 100 countries. The program includes early filing registration of PREZISTA™ in 41 countries, which were selected on the basis of several factors, including their incidence and prevalence of HIV/AIDS, the maturity of their HIV treatment programs and the presence of international HIV programs. Dossiers have already been submitted in 12 of these 41 countries, including those with a high HIV burden such as Brazil, China, India, South Africa, Thailand and Ukraine. For many of the least developed countries in the world—especially sub-Saharan African nations—the company is actively pursuing agreements for licensing with generic manufacturers.

"We recognize the unparalleled challenges posed by the AIDS epidemic and our responsibility to collaborate in the international response to this pandemic, particularly by providing access to medicines," says McHugh. "At Tibotec and Virco, we believe that people who need our products should have ready access to them. Finding creative ways to ensure this access is a core part of our business."

MORE EPIDEMICS IN THEIR SIGHTS The research and development teams at Tibotec and Virco have even more than HIV within their sights.

TMC207, the first novel anti-TB compound in 40 years, was discovered at the Johnson & Johnson Pharmaceutical Research & Development, LLC laboratories in Beerse, Belgium, and is now being developed at Tibotec. Tibotec also recently obtained co-development and marketing rights in selected territories from Vertex Pharmaceuticals to VX-950, a promising oral inhibitor of hepatitis C virus (HCV) protease. The drug, now called Telaprevir, is in early development. In addition, Tibotec has internal preclinical HCV drug discovery programs and is advancing an HCV protease inhibitor into clinical studies in collaboration with Medivir AB.

"In years to come," says Werner Verbiest, General Manager, Virco BVBA, "our virology franchise will continue to explore the use of biomarkers for diagnostic and drug discovery purposes, seeking increasingly more personalized and effective treatments. But no matter what we do, we'll keep one thing at the forefront of our work:

"Somewhere, patients are waiting."

Employee Volunteers Upgrade Ugandan Village's Water

Jens Van Roey, M.D., and his Tibotec and Virco colleagues in Mechelen, Belgium, are helping to provide a Ugandan village with a fresh water supply so that children need not walk hours each day to collect water.

"All our research leads back to Africa in the early 1980s," says Jens Van Roey, M.D., Director of Global Clinical Development at Tibotec. "At that time, Paul Stoffels and I were working side by side as clinical caregivers and medical researchers in Zaire [now Congo], one of the poorest countries in sub-Saharan Africa. We began to notice signs of nothing less than a plague-to-come—a vast, yet-to-be-named microbial scourge, of which Central Africa was undoubtedly an evolving epicenter."

In the ensuing years, countries such as Uganda have suffered terrible losses from HIV/AIDS, says Van Roey: "More than 1 million adult Ugandans have been lost to the epidemic. They've left behind nearly 2 million orphans. The disease invades every aspect of life—work, home and community."

Van Roey serves as liaison for a new employee-initiated project, begun in 2005, to provide support to the village of Mulanda, near Uganda's eastern border with Kenya. In 2006, the project focused its efforts on providing a sustainable supply of fresh, clear water to the village: "We aim to reduce morbidity and mortality arising from poor-quality water. Many Mulandan children walk for hours every day to carry water from distant sources to their sick parents and other adults back in the village. Unfortunately, much of this water is contaminated by microorganisms, even cholera."

The Tibotec and Virco employee initiative is a support to a larger volunteer project that provides support services to Mulanda, including home-based care and counseling for HIV/AIDS patients. At the Tibotec and Virco offices in Mechelen, Belgium, and Yardley, Pa., the clean-water project has taken on a life of its own. Employees have initiated fundraising efforts that have included car washes; a photographic contest with calendar production; sponsored triathlons and other athletic events; and sales of such items as water buckets, T-shirts and items contributed by individual employees, including homegrown fruits and vegetables, apple juice and homemade Belgian waffles.

"I cannot overemphasize that our volunteerism isn't one-sided charity, but a valuable exchange," Van Roey says. "It's a two-way street—a constant dialogue with people who have much to teach us about how to live in dignity and solidarity, with a broader sense of family, amid the unrelenting ravages of disease. Employees are also encouraged to visit Mulanda, and a first employee visited the village last fall.

"Once our employee volunteers see with their own eyes what it's like to live with HIV in Africa, their professional dedication instinctively redoubles. And they especially become aware of how critical it is, in my opinion, to become as involved as possible at the earliest stages of the HIV/AIDS process. It helps to understand that the HIV pandemic is more of a socioeconomic than a medical problem and that more is needed than just drugs alone."

OUR PASSION TRANSFORMS:

Restoring the Joys of Life

When my patient Christopher acted like the life of the party, he was just doing his job," says Markus Michel, M.D., Head Physician of the Orthopaedic Center Munsingen, a Swiss facility world-renowned for preventing and correcting disorders of the body's support structures, including the skeleton, joints, muscles, ligaments and cartilage.

"For years, Christopher was one of Switzerland's most successful, in-demand DJs—a high-energy professional who was expected to party late for nights on end," recalls Dr. Michel. "But his life came to a grinding halt when severe hip problems caused him to feel unrelenting, disabling pain. A year ago, when he was 36, Christopher presented to me. His first words were, 'My job meant everything—now my whole life is over.' He told me his work was no longer fun, he couldn't play sports anymore, and he had even given up driving. He said all his professional and personal relationships were in jeopardy." Worst of all, Christopher couldn't remember what a pain-free past had ever felt like—and he couldn't begin to imagine a pain-free future.

It turned out that Christopher needed an operation usually associated with someone twice his age—he needed a hip replacement.

Markus Michel, M.D., is head physician at Switzerland's world-renowned Orthopaedic Center Munsingen.

NOT FOR SENIORS ONLY "Hip replacement surgery isn't just for seniors anymore," explains Stefano Alfonsi, Worldwide Vice President of Hip Marketing for DePuy Orthopaedics, Inc., a leader in developing state-of-the art technologies for joint reconstruction. "In fact, the orthopaedic patient population is getting younger. Patients are unwilling to accept long-term pain and want to maintain their quality of life. Additionally, treatment options for younger patients are expanding."

UNMET PATIENT NEEDS Alfonsi—who spent his initial years at DePuy as a bioengineer—goes on to explain that Christopher is a prime example of today's patient. "This is a younger, information-empowered patient, engaging with surgeons in a discussion of treatment options."

Adds Alfonsi: "This evolving demographic profile presents a new challenge. Orthopaedic surgeons tell us that patients like Christopher are looking for state-of-the-art surgical interventions offering optimal function and faster recovery—allowing patients to preserve their active lifestyles."

WITHOUT GEOGRAPHIC BOUNDARIES "At DePuy, we utilize multinational and multidisciplinary teams to develop the best solutions for the changing needs of today's hip patients," explains Professor Graham Isaac, Senior Engineering Fellow for Hips. "We believe that our international approach to research and development differentiates DePuy in the orthopaedic industry. We involve surgeons, bioengineers, manufacturers and marketers' expertise in a true collaborative effort—with people who have the passion to go the extra mile."

Continues Isaac, "Teams of global surgeons provide insight on unmet patient needs and the surgical procedure. Bioengineers draw on their expertise to find technical solutions to clinical challenges. The product management

BACK IN THE SADDLE At age 36, Christopher—a Swiss DJ—developed severe hip problems that brought his life to a pain-wracked halt. But after receiving a DEPUY PROXIMA™ Hip implant, he can bike with the best.

team responsibly introduces these technologies to the marketplace, with a focus on professional education."

Alfonsi elaborates on the collaborative product development approach. "If we were automotive engineers who just designed a system improvement, we could climb into the car and go for a test drive. But our team is not licensed to take the patient out for a test drive. Only a surgeon can do that—so we have to rely heavily on professional feedback about our new invention's efficacy. That's exactly why DePuy regularly convenes panels of top surgical opinion leaders around the world."

In the past two years, DePuy introduced major innovations that preserve bone during hip replacement surgery:

- The DEPUY PROXIMA™ Hip, an implant device with a short anatomical stem and POROCOAT® Porous Coating, is specifically designed to preserve femoral bone and soft tissue. This advance in hip replacement was introduced in Europe in 2006. An Investigational Device Exemption study begins in the U.S. in early 2007.
- The DEPUY PROXIMA™ Hip finds a perfect synergy with another DePuy innovation, the DEPUY MICROHIP™ surgical procedure. Developed by surgeons in Switzerland, this is a minimally invasive surgical technique that does not require a surgeon to cut muscles or tendons, minimizing soft-tissue damage.
- The DEPUY ASR™ XL metal-on-metal bearings are useful for younger people with good cortical bone tissue. They are high-performance bearings, with a larger diameter that facilitates lower wear and high joint stability compared with traditional bearings. The higher stability gives patients a greater level of confidence as they return to daily activities. This new technology was introduced in Europe in 2005 and in 2006 in the U.S.

DJ GETS HIS GROOVE BACK Christopher needed a highly stable and durable joint. For him, Dr. Michel chose the DEPUY PROXIMA™ Hip in combination with the DEPUY ASR™ XL metal-on-metal bearing.

Only three weeks after his operation, Christopher the DJ was "already back running the show," reports Dr. Michel. "He was booking parties again, making music, driving his car, keeping fit, even playing sports."

Says Alfonsi: "Year in and year out, our highest aspiration is to help surgeons like Dr. Michel take away their patients' pain and restore their joy of life itself."

OUR PASSION TRANSFORMS:

The First Moments of Life

It was as quiet as the moment of silence before a baby's first breath. The grand boardroom in the Chinese Ministry of Health echoed with Joy Marini's thoughts as she waited for this landmark meeting with Ministry officials.

"What these two organizations are hoping to accomplish is as difficult as climbing the Great Wall," thought Marini, MS, PA-C, Director of Johnson & Johnson Pediatric Institute, LLC (JJPI), as she looked up at the giant mural of that man-made wonder. It was mid-2002, and China's Ministry of Health was seeking a partner to address an overwhelming challenge that affected the lives and hearts of millions of families in China.

The Ministry wanted JJPI's collaboration in helping to solve the leading cause of infant mortality in China: neonatal asphyxia (the inability to breathe at birth). With 13 million babies born every year, the challenge seemed almost impossible. Each year in China, nearly 125,000 newborns may lose the fight for life's first breath. Others, deprived of oxygen for longer than 90 seconds, may suffer disabilities such as permanent brain damage.

Worldwide, neonatal asphyxia strikes one out of every 10 babies born—but where it happens can make all the difference. While most babies are treated quickly and have good outcomes,

INTERNATIONAL PARTNERS At the Chinese Ministry of Health in Beijing, May Li (far left) and Joy Marini (second from left) of Johnson & Johnson Pediatric Institute, LLC meet with Chinese Ministry of Health representatives Ms. Cao Bin (second from right), Director, Child Division, and Madame Zhang Deying, Deputy Director, Maternal and Child Division, to discuss China's Neonatal Resuscitation Program.

few Chinese nurses, doctors or midwives outside the urban hospitals have received practical, hands-on training to intervene for neonatal asphyxia—until now.

The Ministry was determined to save future generations of its children from early deaths or heartbreaking disabilities, and in JJPI—a Johnson & Johnson company dedicated to saving the lives of mothers and babies the world over—they found an equally determined partner.

THE BREATH OF LIFE Almost two years later, the Chinese Ministry of Health's Division of Child Health launched its Neonatal Resuscitation Program (NRP). The program teaches Chinese health care workers how to rescue a newborn baby struggling for a first full breath of life. It brings together a wide range of health professionals who, under a range of local circumstances, deliver thousands of babies each year in China's townships, counties, cities and provinces. They include obstetricians, pediatricians, neonatologists, anesthesiologists, nurses and midwives.

With JJPI's help, the Ministry reached across the Pacific Ocean to forge a partnership with the American Academy of Pediatrics, which Marini says has "the gold standard" for training in neonatal asphyxia. "It's a wonderful international collaboration. These two groups are learning so much from each other."

LIKE A DROP OF INK IN WATER Since its inception in July 2004, the Ministry of Health's NRP has trained more than 18,000 native health care professionals to be trainers. In so doing, it has saved the lives of countless babies who would otherwise have died.

In its first two years, the program has easily surpassed the goal originally set for the five-year mark. NRP-trained professionals now work in more than 600 Chinese cities, thanks largely to a cadre of inspired—and inspiring—nurses who quickly fanned out across the nation, voluntarily training one another in concentric succession.

"When a drop of calligrapher's ink falls into a bowl of clear water, it spreads everywhere at once," says May Li, a Shanghai-based representative of JJPI who served as its day-to-day contact with the Ministry. "The NRP model has been working the same way. When a hard-working nurse sees baby after baby live instead of dying immediately, she almost cannot help but get further involved in the program. She finds herself volunteering to go anywhere, to teach anyone. She feels that her professional life has greater meaning."

Marini says it's no secret why China's NRP has spread farther, and faster, than many such initiatives she has seen elsewhere in her Asian travels: "Encouragement and motivation are this incredible program's core values and the keys to its success."

"Joy and I have become true soul mates through this work, and we've learned so much from each other," says Li. "We've been each other's cultural guides in forging a powerful cross-Pacific collaboration."

"I wake up in the morning and I can't believe I've been so lucky to work on an initiative like the NRP that will save so many babies in such a beautiful country," says Marini. "May and I have the best jobs in the world."

"NOT TODAY"

Wang Lixin is a nurse in Beijing. Every day, she helps mothers bring their babies into the world. Too often, through the years, Wang Lixin has seen tragedy unfold while a baby boy or girl fusses and struggles, trying to take a first breath, finally turning blue from lack of oxygen.

This morning, Wang Lixin's friend Liu Jia, who is also a nurse, lies upon the birthing table. Over the past year, Wang Lixin has taught many nurses how to defeat death—and one of them is holding her hand.

"Not today," resolves Wang Lixin silently. "Today the breath of life will prevail." And when it came time for Wang Lixin's friend Liu Jia to give birth, Liu put her life—and her child's life—in the hands of her NRP-trained peer.

Wang Lixin, an NRP National Trainer, personally taught more than 150 other Chinese nurses in 2006.

In a nation where the official one-child-per-family birthing policy heightens every expectant parent's dreams and anxieties, Wang Lixin, on a volunteer basis:

Liu Jia with her son, Yang Yang

- Traveled deep into Eastern China's teeming cities to give hospital nurses their first-ever glimpse of neonatal rescue by trained health professionals.
- Traveled to more remote outposts to show nurses how to work with portable, infant-sized oxygen tents.
- Helped guide the growth of NRP as an NRP Task Force member.
- Found time and energy to fulfill her responsibilities in another volunteer capacity, as president of the Division of Midwives-Chinese Nursing Association.

Like Wang Lixin, Liu Jia is proud of her homeland's strong new commitment to protect newborn infants from preventable death and illness: "Every smile, every laugh, even every cry is precious. Yang Yang is the future of our family; we're so thankful for the trained team that knew exactly what to do when he was born and did not breathe."

2006 YEAR IN REVIEW:

Consumer Health Care

- **PCH Acquisition Makes Johnson & Johnson World's Premier Consumer Health Care Company**
- **Groupe Vendome Acquisition Expands Global Skin Care Presence**
- **More Than 400 New Products Fuel Worldwide Growth**

SEIZING A RARE OPPORTUNITY:

PFIZER CONSUMER HEALTHCARE (PCH) ACQUISITION

The acquisition of Pfizer Consumer Healthcare assets marks an important milestone in our history as the world's most comprehensive and broadly based health care products company. Consistent with our longstanding strategy of leadership within attractive health care markets, the acquisition extends our leadership from 13 to 22 consumer health care categories in the U.S. It also strengthens our global reach and brings together a combination of consumer businesses that promise sustained growth on a global basis:

With ex-U.S. rights to NICORETTE®, world leader in smoking cessation, we gain significant entry into this high-potential segment.

LISTERINE® Antiseptic, the world's No. 1 mouthwash, transforms our oral care business into a $1 billion-plus franchise and expands our presence in 60 markets.

VISINE® nonprescription eye-care products complement our Vision Care franchise.

LUBRIDERM® moisturizing products expand our adult Skin Care franchise.

NEOSPORIN® complements our wound-care business.

BENADRYL® and SUDAFED® expand our OTC upper-respiratory business.

Nutritionals Business Continues to Turn Out Recipes for Success

As a way of saying thank you to loyal consumers who have made SPLENDA® (sucralose) America's favorite sweetener, McNeil Nutritionals, LLC introduced an official cookbook, *The SPLENDA® World of Sweetness*. Created in response to enormous consumer demand, *The SPLENDA® World of Sweetness* provides families with the tools to create reduced-sugar and lower-calorie versions of favorite foods and beverages without compromising the sweet taste.

In 2006, McNeil Nutritionals, LLC also introduced SPLENDA® Brand Flavor Blends for coffee, SPLENDA® Brand QUICK PACK™ Pouches for Unsweetened Powdered Drink Mixes and VIACTIV® Calcium Soft Chews for Teens.

Oral Care Business Broadens Beyond Flosses, Brushes and Whitening Products

The combination of the Pfizer and Johnson & Johnson oral care businesses created a $1 billion-plus franchise, the fourth-largest oral care business in the world. LISTERINE® is the No. 1 mouthwash brand in the world, and Johnson & Johnson holds the No. 3 position in toothbrushes globally with such new products as the REACH® Clean & Whiten Toothbrush and REACH® InBetween™ Toothbrush; the No. 2 position in dental floss, including the new REACH® CLEANPASTE™ Floss; and the No. 2 position in whitening products, with the introduction of REMBRANDT® Whitening Strips Premium With Mint flavor.

ALSO NEW IN 2006:

Extra Strength TYLENOL® (acetaminophen) GoTabs™

BAND-AID® Brand Adhesive Bandages Antibiotic bandage (U.S.)

COMPEED® Cold Sore Patch (Europe)

CORTAID® Poison Ivy Care Kit treatment kit

LE PETIT MARSEILLAIS® shower gels, soaps and bath and hair care products

STAYFREE® Dry Max Ultra Thin and Maxi products

CAREFREE® Large (Europe and North America)

JOHNSON'S® SOOTHING NATURALS™ Line Expands as Company Underscores Commitment to Moms

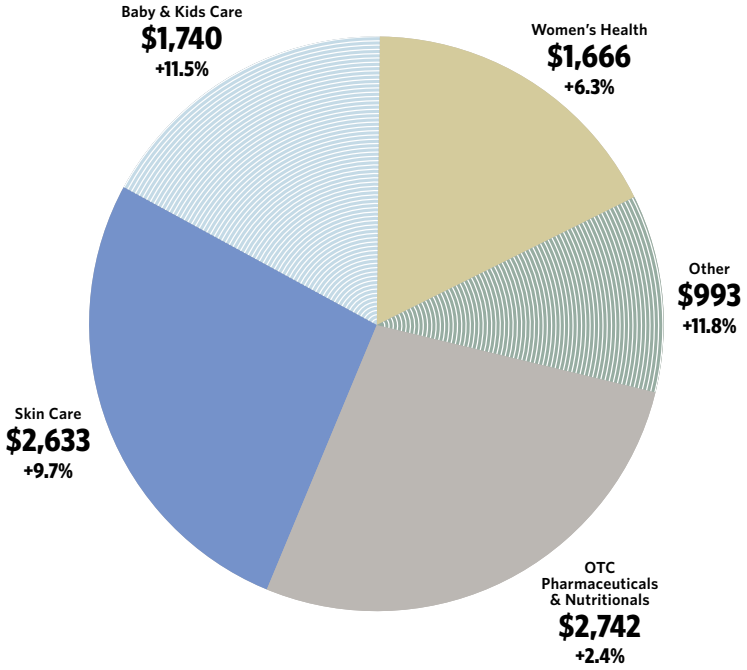
For more than 100 years, JOHNSON'S® Baby brand has been an indispensable partner to Mom. In 2006, product lines and fragrances were extended in traditional brands, while online efforts underscored the commitment to a new generation of moms: **JOHNSON'S® SOOTHING NATURALS™**, a breakthrough collection of baby skin care products featuring natural ingredients, was expanded to the Europe/Africa/Middle East and Asia/Pacific regions. These products, combining the gentleness of JOHNSON'S® with the healing power of nature, were first made available in the U.S. at the end of 2005. **JOHNSON'S®** Baby Lotion fragrance was extended to Baby Wash and Cream. **BabyCenter®** (www.babycenter.com) was redesigned, including technology advancements and an enhanced commerce platform, and was re-established as a preeminent online destination for moms.

Consumer Segment Sales

Sales by Major Franchise

2006 Sales: $9,774 million Growth Rate: 7.5%

(in millions of dollars)



Science Leads Way for Growth in Skin Care

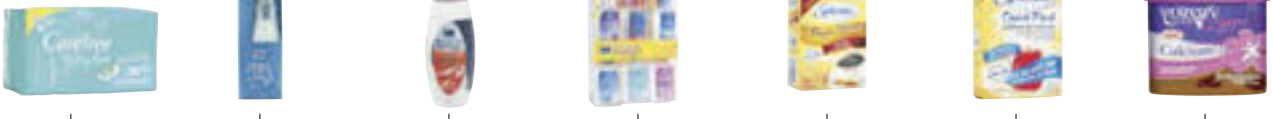
Our skin care business is growing due to strong consumer receptivity to scientific innovations, strong professional support and increased penetration in international markets.

Geographic expansion of our skin care businesses was further enhanced in 2006 with the acquisition of **Groupe Vendome**, a French company known for adult and baby skin care brands such as LE PETIT MARSEILLAIS®, a line of shower gels, soaps and bath and hair care products; Laboratories Vendome, a dermatological-solutions brand with body cleansers and moisturizers; and Prim'Age, a baby toiletries brand.

Our emphasis on bringing superior science to skin care was evident in a number of new product introductions throughout our skin care businesses in 2006, including a new patented ingredient that provides the strongest protection available in the U.S. against the sun's harmful UVA rays, which cause skin cancer and photoaging (see page 8): branded HELIOPLEX™ technology in NEUTROGENA® skin care products and ACTIVE PHOTOBARRIER COMPLEX™ in AVEENO® skin care products.

Other scientific innovations were evident in these new products in 2006:

- CLEAN & CLEAR® Oxygenating Skincare Line
- CLEAN & CLEAR® ADVANTAGE® Invisible Acne Patch
- AMBI® EVEN & CLEAR™, a new line of advanced skin care products to help women of African, Latin and South Asian heritage achieve clear, even-toned skin
- NEUTROGENA® MINERAL SHEERS™ pure and gentle makeup, formulated with minerals
- AVEENO® ULTRA-CALMING SHAVE GEL, new to the AVEENO® ULTRA-CALMING line of products, containing the naturally calming ACTIVE NATURALS™, Feverfew
- Nourishing Renewal Lotion and Nourishing Care 24 Hour Moisturizing Wash, innovations that prompted a relaunch of JOHNSON'S® SOFTLOTION™ and SOFTWASH™ for adults.



CAREFREE® Healthy Fresh liner and wash (Asia Pacific)

K-Y® Brand SENSUAL MIST™ warming and non-warming mistable lubricant

K-Y® Brand TOUCH MASSAGE™ 2-in-1 WARMING™ personal massage plus personal lubricant

K-Y® Brand TOUCH MASSAGE™ Lotion line extensions

SPLENDA® Brand Flavor Blends for coffee

SPLENDA® Brand QUICK PACK™ Pouches for Unsweetened Powdered Drink Mixes

VIACTIV® Calcium Soft Chews for Teens

2006 YEAR IN REVIEW:

Pharmaceuticals

- **Four New Prescription Medicines Approved**
- **New Growth Platform in Virology Launched**
- **Important New Indications for Leading Rxs**
- **In-licensing Adds Four New Products to Pipeline**

Pharmaceutical and Diagnostic Strengths Combine in New Virology Franchise

On June 23, 2006, when the FDA granted accelerated approval of PREZISTA™ (darunavir), also known as TMC114, for the treatment of HIV/AIDS in antiretroviral (ARV) experienced adults, our pharmaceuticals business launched more than its first HIV treatment: It launched an entire new growth engine in virology—a business devoted to fighting some of the world's most deadly diseases.

The launch of this important new virology franchise began just four years earlier with the acquisition of a promising young Belgian company, Tibotec-Virco (see page 16). Today, Tibotec Pharmaceuticals Ltd., Tibotec Therapeutics Division of Ortho Biotech Products, LP and Virco BVBA are the backbone of a highly innovative virology business based on evolving science and combining pharmaceutical and diagnostic approaches. Thanks to strong internal development capabilities and in-licensing of important early-stage products, the virology franchise has been launched with a strong pipeline and promising growth for years to come.

PREZISTA™ is a potent protease inhibitor that has demonstrated significant activity against both wild-type and drug-resistant strains of HIV. Experts in the field agree that this drug offers new hope for treatment-experienced patients. PREZISTA™ is the first ARV in a decade to receive FDA accelerated approval based on Phase IIb data. Phase III studies in early experienced and treatment-naive patients are ongoing and will form part of a traditional filing within the next year.

During 2006, approvals also were granted in Canada, Russia, Argentina and Switzerland. Further, conditional marketing authorization was received from the European Commission in February 2007.

The near-term pipeline in virology holds two other late-stage HIV medicines:

- TMC125, in Phase III, is the first investigational NNRTI to show significant activity in patients with prior NNRTI failure.
- TMC278, in Phase IIb dose-finding studies, is one of the most potent NNRTIs ever developed and as such has the potential to become a backbone in a range of fixed-dose combinations.

The virology franchise also has early-stage development efforts and complementary in-licensing focused on hepatitis C (HCV), tuberculosis (TB) and respiratory syncytial virus (RSV). The first clinical data on TMC207 in TB patients was presented in 2006. TMC207 is one of the first potential new TB drugs in more than 40 years, and the emerging profile appears very attractive. In 2006 a licensing agreement with **Vertex Pharmaceuticals** for VX-950, now called Telaprevir, added a promising novel protease inhibitor for the treatment of HCV to the virology pipeline. The virology franchise will work in close partnership with Vertex on the development of this important molecule and will have commercial rights outside the U.S. Telaprevir is currently in Phase IIb for treatment of adults with chronic HCV. Hepatitis C is a blood-borne liver disease caused by infection with the hepatitis C virus.

Near-Term Pipeline

In 2005, we communicated to the investment community plans to file or secure approval of between 10 and 13 new molecular entities (NMEs) by the end of 2007. Four NMEs—PREZISTA™, IONSYS™, JURNISTA™ (EU) and INVEGA™—were approved in 2006, and a fifth, Doripenem, was filed. Our performance is on track with seven additional filings expected by the end of 2007:

PROJECTED FILINGS, 2006-2009
as of January 23, 2007

CNS	Paliperidone Palmitate
	Carisbamate*
PAIN	Tapentadol (U.S.)*
I.M.I.D.	CNTO 1275
	CNTO 148
ONCOLOGY	ZARNESTRA®
	DACOGEN™ (EU)*
	YONDELIS® (U.S.)*
VIROLOGY	TMC 125
	Telaprevir (EU)*
ANTIBACTERIALS	Doripenem*
	Ceftobiprole*
CARDIOVASCULAR	Rivaroxaban (U.S.)*
UROLOGY	Dapoxetine (selected EU)*
HEMATOLOGY	ICA 17043*

Est. filing: 2007 | Est. filing: 2009
Est. filing: 2008 | Filed

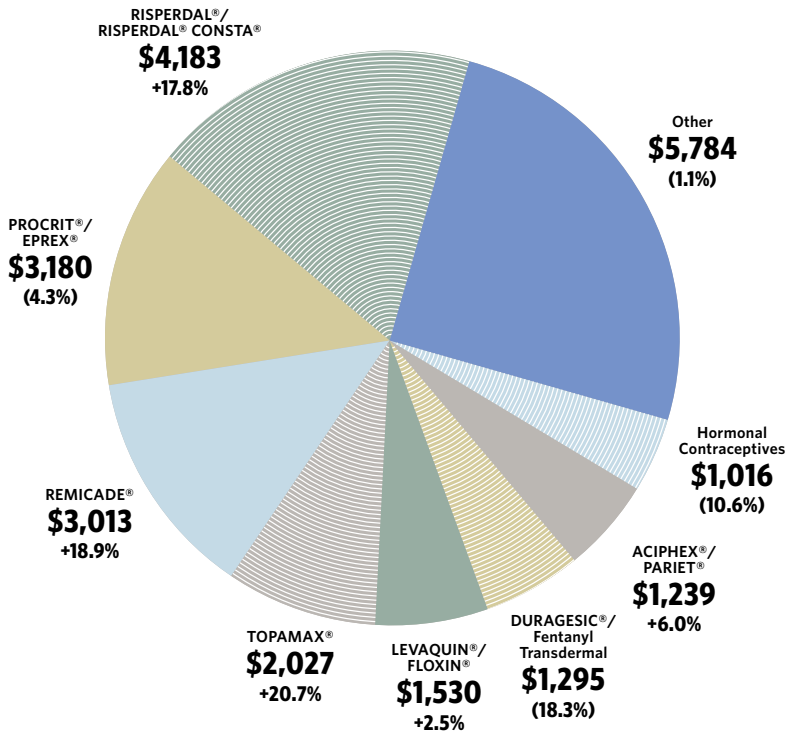
* Carisbamate licensed from SK-Bio Pharmaceuticals. Doripenem licensed from Shionogi & Co. Tapentadol licensed from Grunenthal GmbH. YONDELIS® licensed from PharmaMar. Ceftobiprole licensed from Basilea Pharmaceutica. Rivaroxaban licensed from Bayer Healthcare. ICA 17043 licensed from Icagen. Dacogen licensed from MGI Pharma. Telaprevir licensed from Vertex Pharmaceuticals Inc. Dapoxetine licensed from PPD-GenuPro.

Pharmaceutical Segment Sales

Sales by Major Product

2006 Sales: $23,267 million Growth Rate: 4.2%

(in millions of dollars)



Ortho-McNeil, Inc. Signs Deal for Worldwide Rights to Two Type 2 Diabetes Compounds

A licensing agreement between Ortho-McNeil, Inc. and **Metabolex, Inc.** yielded two investigational compounds currently in clinical development for the treatment of type 2 diabetes. Ortho-McNeil secured exclusive worldwide development and commercialization rights from Metabolex for these two compounds, which represent a novel class of insulin sensitizers.

In all, in-licensing added four products to the Rx pipeline. (For more details, see pages 26 and 28.)

New Atypical Anti-Psychotic Reinforces Leadership in Psychiatry

Our long-standing leadership position in diseases of the central nervous system (CNS) and, specifically, psychiatry was further strengthened in 2006 by the FDA approval of INVEGA™ (paliperidone) Extended-Release Tablets, a new atypical antipsychotic for the treatment of schizophrenia, and by the very important approval for RISPERDAL® (risperidone), for the treatment of irritability associated with autistic disorder.

INVEGA™ represents an important step forward in satisfying unmet needs in the treatment of schizophrenia. The once-daily oral medication is specifically designed to deliver paliperidone—the active metabolite of risperidone—through the innovative OROS® extended-release technology, demonstrating powerful efficacy and a clinically proven safety and tolerability profile. A long-acting formulation, containing paliperidone palmitate, is not far behind. Johnson & Johnson Pharmaceutical Research and Development, LLC expects to file a new drug application for paliperidone palmitate, which is administered by injection once every four weeks, by the end of 2007.

Meanwhile, the RISPERDAL® (risperidone) franchise (RISPERDAL® and RISPERDAL® CONSTA™ Long-Acting Injection) continues to perform strongly with the most-prescribed and fastest-growing treatment in schizophrenia. In 2006, RISPERDAL® became the first and only medication approved by the FDA for the treatment of irritability associated with autistic disorder—including symptoms of aggression, deliberate self-injury, temper tantrums and quickly changing moods—in children and adolescents aged 5 to 16 years.

Also in 2006, two additional dosage strengths (3 mg and 4 mg) of RISPERDAL® M-TAB®, the fast-dissolving form of RISPERDAL® (risperidone), were made available by prescription. This convenient delivery form makes taking medication easy for patients because it dissolves in seconds when placed on the tongue. This is an alternative for patients who have difficulty or do not like swallowing pills.

RNAi Pioneer Craig Mello Named Inaugural Winner of Dr. Paul Janssen Award for Biomedical Research

A new award established by Johnson & Johnson to honor Dr. Paul Janssen, one of the 20th century's most innovative and inspiring pharmaceutical researchers and founder of Janssen Pharmaceutica, was presented to its inaugural recipient, Craig C. Mello, Ph.D., for his role in the discovery of RNA interference (RNAi) and the elucidation of its biological functions. Dr. Mello is a professor of molecular medicine at the University of Massachusetts Medical School in Worcester, Mass., and an investigator at the Howard Hughes Medical Institute. Shortly thereafter, Dr. Mello and his colleague Andrew A. Fire of Stanford University were awarded the Nobel Prize in Physiology or Medicine for 2006 for the same discovery.

REMICADE®

Granted Four Significant Indications in U.S.

REMICADE® (infliximab), the Centocor, Inc. biologic for immune mediated inflammatory disorders, garnered four significant new U.S. indications in 2006. REMICADE® is one of the world's most versatile biologics, with a total of nine approved indications (i.e., unique patient populations) ranging from rheumatoid arthritis to plaque psoriasis, with 24 approved efficacy claims.

In 2006, REMICADE® was approved in the U.S. for pediatric Crohn's disease; for the inhibition of progression of structural damage and improved physical function in psoriatic arthritis; for treatment of chronic severe plaque psoriasis in adults; and expanded for maintaining long-term clinical remission and mucosal healing in patients with moderate to severely active ulcerative colitis. REMICADE® is the global market leader in anti-TNF therapy. Also in 2006, REMICADE® received regulatory approvals for four major indications in 25 European countries and five major new indications in Canada, as well as numerous approvals in the rest of the world.

Centocor also has two exciting near-term products. CNTO 148 is a next-generation anti-TNF antibody that is likely to emerge as a best-in-class product. It is initially being studied for rheumatoid arthritis, psoriatic arthritis and ankylosing spondylitis, and is also being explored in a wide range of other therapeutic areas. A fully human antibody, it is being developed as both a subcutaneously and intravenously administered product with long dosing intervals—unique in this class. Centocor also is developing a novel immunomodulator, CNTO 1275, a first-in-class anti-IL-12/23. CNTO 1275 is in Phase III trials for psoriasis, where it has already demonstrated strong efficacy.

Two New Pain Medicines Using Novel Delivery Systems Approved

Two new pain medications approved in 2006 use novel drug delivery systems developed by ALZA Corporation to manage moderate to severe pain.

IONSYS™ (fentanyl iontophoretic transdermal system), the first needle-free, patient-activated analgesic

system, was approved in 2006 in both the United States and Europe and is expected to launch in the second half of 2007. IONSYS™ is indicated for the short-term management of acute post-operative pain in adult patients requiring opioid analgesia during hospitalization. IONSYS™ is a compact, self-contained system that delivers on-demand pain medication as needed by the patient. The patient double-clicks on a dosing button and the system delivers a preprogrammed dose of fentanyl through the skin. Each dose is delivered over a 10-minute period. IONSYS™ is the first and only product to incorporate the proprietary E-TRANS® Iontophoretic Transdermal Drug-Delivery System developed by ALZA Corporation. Iontophoresis is a process in which a low-intensity electric field, generally imperceptible to the patient, is used to rapidly transport fentanyl across the skin and into the circulatory system.

JURNISTA® Prolonged-Release Tablets (hydromorphone HCl), a new prescription treatment for severe pain, was developed by ALZA Corporation and utilizes the OROS® Push-Pull™ delivery system. This delivery technology releases the opioid hydromorphone at a consistent rate, providing patients with up to 24 hours of pain relief from a single dose. JURNISTA® has launched in Germany, Denmark, Slovenia and Slovakia; is scheduled to launch in other European countries in 2007; and will be registered and marketed by other Janssen-Cilag companies throughout the world.

In addition to these prescription pain medications approved in 2006, PriCara, a unit of Ortho-McNeil, Inc., and **Biovail Corporation** launched ULTRAM® ER (Tramadol HCl) Extended-Release Tablets in the U.S., the first extended-release Tramadol product in that market.

Looking ahead at the pain pipeline, Johnson & Johnson Pharmaceutical Research and Development, LLC hopes to file in 2007 a new drug application in the U.S. for Tapentadol, a centrally acting analgesic it is co-developing with **Grunenthal**. Plans for Tapentadol call for both immediate-release and extended-release formulations.

Licensing Deals Enhance Oncology Growth Engine

Two 2006 licensing deals further enhanced the pharmaceuticals growth engine in oncology from its foundation of PROCRIT®/EPREX® (epoetin alfa) and DOXIL® (doxorubicin HCl liposome injection). These deals reinforce the commitment to deliver innovative and effective treatments for cancer patients with unmet medical needs and those who care for them.

Since 2003, the international Janssen-Cilag businesses have marketed a leading treatment for multiple myeloma, VELCADE® (bortezomib), a novel protease inhibitor for which new uses are being co-developed with **Millennium Pharmaceuticals, Inc.** Recently, Ortho Biotech Products, LP entered into a new agreement with Millennium to jointly promote VELCADE® to U.S.-based physicians who treat mantle cell lymphoma or multiple myeloma patients who have received at least one prior therapy.

In addition, 2006 saw Janssen-Cilag license from **MGI PHARMA** global development and commercialization rights outside North America to DACOGEN™ (decitabine) for Injection—a treatment for myelodysplastic syndromes (MDS), a disease of the bone marrow—which is currently in Phase III trials in Europe. MGI PHARMA received U.S. approval for DACOGEN™ in May.

Also in 2006, a supplemental new drug application for DOXIL®—as combination therapy with VELCADE® to treat patients with multiple myeloma whose disease has progressed or relapsed after prior therapy—was submitted for review to the FDA, and Janssen Pharmaceutical K.K. gained approval for VELCADE® in Japan.

The near-term pipeline in oncology includes two other promising drugs: YONDELIS® (trabectedin), co-developed with **PharmaMar**, a subsidiary of the Zeltia Group; and ZARNESTRA® (tipifarnib), for acute myeloid leukemia (AML).

Medical Devices & Diagnostics

- **59 New Products Extend Global Leadership in Medical Technology**
- **Six Major Acquisitions Expand Key Business Portfolios**

Cordis Corporation Portfolio Benefits From Acquisitions, Agreements and R&D

In 2006 two strategic acquisitions and three licensing transactions further strengthened Cordis' global leadership position in interventional cardiology and other strategic business areas. In all, these transactions contributed 12 new product introductions from this franchise last year.

The acquisition of **Ensure Medical, Inc.**, a privately held company in Sunnyvale, Calif., that develops devices for post-catheterization closure of the femoral artery, further expands Cordis' presence in California. In 2006, it launched Accelerated Medical Ventures, a state-of-the-art advanced research and development facility in the San Francisco Bay area.

The Johnson & Johnson acquisition of **Conor Medsystems, Inc.**, completed in February 2007, is expected to complement the existing drug-eluting stent business with a unique controlled drug-delivery technology. The acquisition provides a unique drug-delivery technology to be explored across a range of therapeutic categories, and it immediately contributes to the development of next-generation technologies aimed at advancing the standard of care in the treatment of cardiac and vascular disease.

The Cordis portfolio continued to grow in 2006 with the addition of a dozen new products, including:

CYPHER® SELECT™ PLUS, the first third-generation drug-eluting stent launched in major global markets (except the U.S. and Japan)

CARTO® RMT V8 and **Niobe Integrated Electroanatomical Navigation System**

PRECISE® Nitinol Stent

ANGIOGUARD® Emboli Capture Guidewire

On the distribution front, Cordis signed a distribution agreement with **Brivant Ltd.** for three interventional guidewire products that will be marketed under an umbrella brand known as REGATTA™. Cordis also signed an agreement with **ClearStream Technologies Group, PLC** for distribution rights to the CRESCENDO™ PTCA (Percutaneous Transluminal Coronary Angioplasty) Balloon Dilation Catheter in all countries except the U.S., Japan and Canada.

In addition, BioSense Webster, Inc., part of the Cordis franchise, secured exclusive worldwide rights to distribute **Siemens Medical Solutions'** state-of-the-art cardiac catheters, ACUSON AcuNav™ ultrasound catheters, to electrophysiologists.

TRANSFORMING DIABETES CARE

From Measurement to Management

LifeScan, Inc. is more focused than ever on moving from simple blood glucose measurement to diabetes management in order to deliver improved patient health outcomes. It's doing that by offering patients and providers tools that give better insight into disease management, such as the OneTouch® Ultra®2 Blood Glucose Monitor, which helps patients link the effects of food to blood glucose results.

LifeScan, Inc. also offers products that provide greater access to blood glucose monitoring in both developed and developing markets. The new OneTouch® UltraMini™ Blood Glucose Monitor (also marketed as OneTouch® UltraEasy™ in some countries) offers just the basics of testing in a small, affordable, simple-to-use monitor to encourage appropriate testing and greater glucose control.

Similarly, the OneTouch® Horizon® Blood Glucose Monitor was specifically designed to provide greater access to testing in developing markets such as India, where currently only 7 percent of the more than 35 million people with diabetes are monitoring their blood glucose. Patients in these markets require the simple, discrete and affordable testing offered by the OneTouch® Horizon® Monitor.

The 2006 acquisition of **Animas Corporation**, a company specializing in insulin delivery systems, was a key development for the Johnson & Johnson diabetes franchise. LifeScan and Animas are working together to provide a superior range of integrated solutions for insulin delivery and blood glucose monitoring to simplify diabetes control for patients using insulin and their health care professionals.

Ethicon, Inc. Continues to Pioneer Minimally Invasive Surgical Advances for Women

Ethicon, Inc. introduced two important advances in 2006 that offer minimally invasive alternatives to common surgeries for women. GYNECARE® TVT SECUR™ (above) is a new mid-urethral sling to treat female stress urinary incontinence that features a smaller mesh implant and no skin exit incisions. GYNECARE® MORCELLEX™ Tissue Morcellator facilitates laparoscopic supracervical hysterectomy (LSH), which preserves the cervix. This new surgical tool is designed to minimize some of the challenges physicians can face when performing this procedure. GYNECARE® MORCELLEX™ can also be used to facilitate laparoscopic myomectomy, a procedure in which uterine fibroids are removed.

Ethicon's 2006 acquisition of **Vascular Control Systems, Inc.** added further innovations to its women's health portfolio. The primary technology gained is a uterine artery occlusion treatment that Ethicon is developing as a less-invasive treatment for fibroids and fibroid-related symptoms.

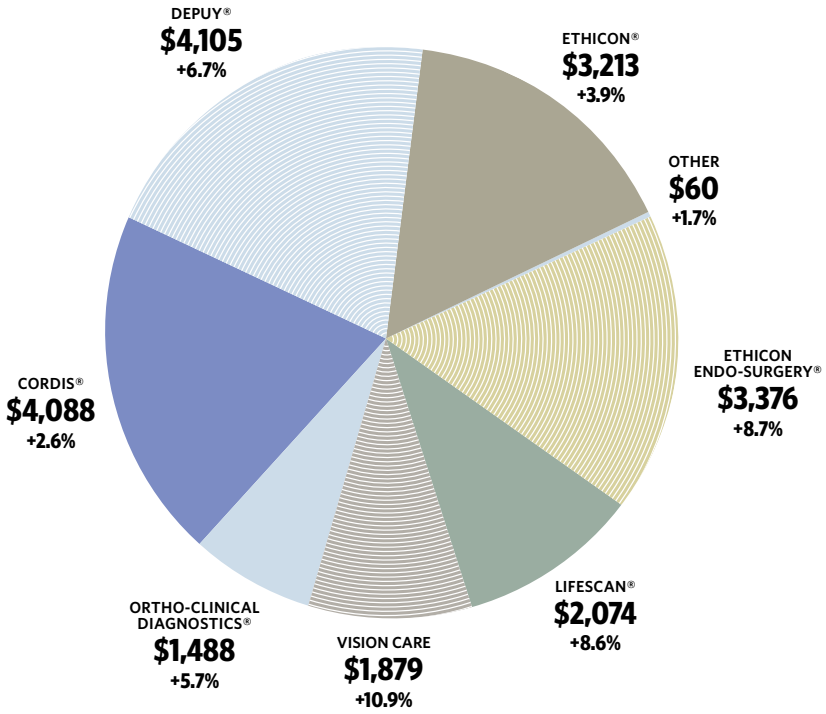
Also in 2006, Ethicon introduced ULTRAPRO® Hernia System (UHS), SURGIFLO™ Hemostatic Matrix With FlexTip in the U.S., and ETHICON OMNEX™ Surgical Sealant in Europe.

Medical Devices & Diagnostics Segment Sales

Sales by Major Franchise

2006 Sales: $20,283 million Growth Rate: 6.2%

(in millions of dollars)

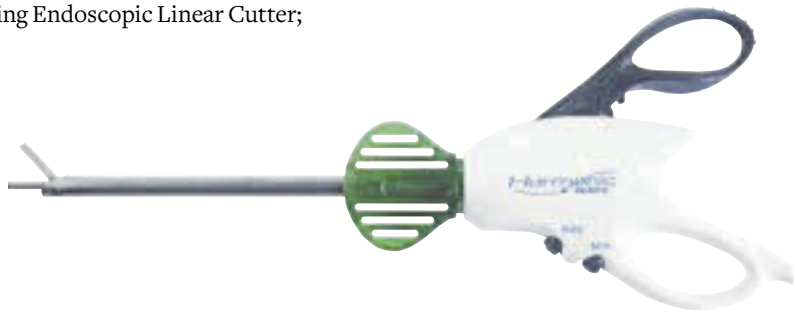


Ethicon Endo-Surgery, Inc. Launches New Surgical Innovations

In 2006, Ethicon Endo-Surgery, Inc. introduced many surgical innovations to round out a portfolio that now offers new technology for nearly every procedure being performed by general, bariatric and gynecological surgeons. The new products include HARMONIC WAVE™ Open Shears 18mm (below), the latest innovation in ultrasonic energy for open surgery; HARMONIC ACE™ Open Scissor Codes; CONTOUR® TRANSTAR™ Curved Cutter Stapler Procedure Set for Stapled Transanal Rectal Resection (STARR); ECHELON™ 60 ENDOPATH® Stapler Long; ENDOPATH XCEL™ Bladeless 15mm for bariatric surgery; LIGAMAX™ 5 Endoscopic Multiple Clip Applier; ENDOPATH® ETS-Flex 60 Articulating Endoscopic Linear Cutter; and MAMMOTOME® MR Bladeless Probes and Targeting Sets, a breast biopsy system for use with MRI imaging.

In addition, Advanced Sterilization Products, a division of Ethicon, Inc., received FDA clearance for the EVOTECH™ Endoscope Cleaner and Reprocessor (ECR), the first-ever washer/disinfector to eliminate the requirement for manual cleaning of endoscopes.

The high volume of new product introductions demonstrates Ethicon Endo-Surgery's commitment to transforming patient care through innovative medical devices for both minimally invasive and open surgical procedures.



DePuy Orthopaedics, Inc. Broadens Leadership Through Acquisitions and Portfolio Development

Through strategic acquisitions and internally developed innovations, the DePuy franchise has become a comprehensive orthopaedics business spanning the entire lifetime continuum of orthopaedic care—from sports medicine and early intervention through joint replacement and spinal fusions. Three strategic acquisitions in 2006 will continue to broaden DePuy's leadership in this important category and impact future development of meaningful innovations for an aging population.

- **Hand Innovations, LLC,** a privately held manufacturer of widely used fracture fixation products for the upper extremities, provides leading technology in plating, the fastest-growing and most underpenetrated segment of the trauma market.
- **Future Medical Systems, SA,** a privately held company that primarily develops, manufactures and markets arthroscopic fluid management systems, positions DePuy at the forefront of rapidly evolving minimally invasive techniques in sports medicine.
- **OrthoMedics,** a South African distributor, expands the company's presence in that region.

In addition, DePuy capitalized on learnings from the CHARITE™ Artificial Disc and extended the spine portfolio with introduction of the DISCOVER™ Cervical Disc (below) in Europe in late 2006. The first patients were enrolled in U.S. clinical trials in July.

Last year two new innovations in hip replacement were introduced: the DEPUY PROXIMA™ bone-preserving hip implant in Europe for younger and more demanding patients, and the DEPUY ASR™ XL metal-on-metal "large head" hip bearings, which launched in the U.S. and continue to gain usage. (See story on page 20.)

Also in 2006, DePuy Mitek saw use of the MILAGRO™ Bioreplacable Screw rapidly expand one year post-launch, an important indicator that physicians are adopting this technology.

VISTAKON Introduces New Advances in Vision Care

VISTAKON, a division of Johnson & Johnson Vision Care, Inc., continues to perform strongly around the globe with new products introduced in 2006 including *1-DAY* ACUVUE® MOIST™ Brand Contact Lenses and *1-DAY* ACUVUE® DEFINE™ Vivid Style Cosmetic Contact Lenses in Asian markets. (See story on page 12.)

Ortho-Clinical Diagnostics, Inc. Receives FDA Approval for First Blood-Screening Test for Chagas' Disease

Chagas' disease, also called American trypanosomiasis, is an infection caused by the parasite Trypanosoma cruzi (T. cruzi) that can damage heart tissue and cause death. The disease is endemic to most countries in Central and South America, as well as Mexico. Transmission occurs through insect bites, blood transfusions and organ transplants, and via infected pregnant women to children in utero. A new test by Ortho-Clinical Diagnostics, Inc., called the ORTHO® T. cruzi ELISA Test System, is designed to screen blood donors for exposure to Chagas' disease and is the first such test approved by the FDA for use in the U.S.

The Centers for Disease Control and Prevention (CDC) estimates that 10 to 12 million people worldwide are infected with Chagas' disease; of those, 50,000 will die each year. Chagas' disease can be treated successfully if detected soon after the infection occurs, but there is no cure once the disease has entered the chronic stage. The test is being implemented in the U.S. due to an increased prevalence in blood donors and will improve transfusion safety.

Veridex, LLC Introduces Second Novel Diagnostic Platform in Two Years; Ortho-Clinical Diagnostics, Inc. Adds 23 New Assays to Menu

Veridex, LLC recently launched the second of two novel diagnostic platforms in two years. GENESEARCH™, the world's first gene-based diagnostic test designed to detect the spread of breast cancer into the lymph nodes, uses molecular technology to diagnose, stage and more accurately characterize tumors and can be used during surgery to guide the procedure. GENESEARCH™ entered the European market in mid-2006 in compliance with EU in vitro medical device regulations. It received a favorable FDA advisory panel review in December 2006.

The first platform, the CELLSEARCH™ System, identifies and enumerates circulating tumor cells (CTCs) directly from whole blood in breast cancer patients. Approved in the U.S. in January 2004 as a diagnostic tool for identifying and counting CTCs in a blood sample to predict progression-free survival and overall survival in patients with metastatic breast cancer, CELLSEARCH™ was granted expanded FDA-approved claims in 2006 as an aid in the monitoring of metastatic breast cancer. CELLSEARCH™ and the new GENESEARCH™ Breast Lymph Node diagnostic test represent the next chapter in in-vitro diagnostics. (See story on page 14.)

In 2006, Ortho-Clinical Diagnostics, Inc. expanded its diagnostics menus with 23 new FDA-approved assays, including five assays for the VITROS® ECiQ Immunodiagnostic System and 11 new MicroTip™ assays for the VITROS® 5.1 FS Chemistry System. The new VITROS® ECiQ assays include tests to aid in the diagnosis of congestive heart failure, determine whether a patient has a previous or ongoing infection from hepatitis A virus (HAV), quantify levels of an oncology marker and aid in assessment of metabolism. The new VITROS® MicroTip Chemistry Products include tests to detect the presence of drugs of abuse, measure homocysteine concentration in blood plasma, measure the extent of red-blood destruction and manage diabetes.

2006 YEAR IN REVIEW:

Caring for the Environment

Reducing Our Environmental Impact

For more than 15 years, the Johnson & Johnson Family of Companies has been striving to reduce the environmental impact of our operations and products. For example, from 2001 to 2005, total water use, normalized to sales, decreased by 45 percent. This corresponds with a 16 percent absolute reduction of water use. In addition, during the same period, total waste generation, normalized to sales, decreased by 49 percent. This corresponds with a 28 percent absolute reduction.

In January 2006, we began a new set of five-year sustainability goals. Our Healthy Planet 2010 goals continue to go beyond what is required by any government. We are still tracking common environmental-footprint indicators like water, energy and waste, but we are also going to improve the environmental profile of our products, increase employee environmental literacy and increase the amount of paper and packaging we source from sustainably managed forests. The full set of sustainability goals can be reviewed on www.jnj.com.

Partnering With Our Supply Chain

External manufacturing will continue to be a critical aspect of achieving Johnson & Johnson's leadership and growth objectives, and in 2006 we published the Standards for Responsible External Manufacturing. These standards help us select external manufacturing partners who operate in a manner consistent with our values, and they help our partners clearly understand our expectations. They were developed in consideration of the different legal and cultural environments in which our external manufacturing partners operate and internationally recognized expectations for business ethics, product quality, labor and employment, health and safety, and the environment.

GUIDING PRINCIPLES FOR EXTERNAL MANUFACTURERS

- Comply with applicable legal requirements.
- Behave ethically and with integrity.
- Integrate quality into business processes.
- Treat people with dignity and respect.
- Promote the safety, health and well-being of employees.
- Operate in an environmentally responsible manner.
- Implement management systems to ensure ongoing performance and continual improvement.

Earning Fifth Consecutive Green Power Leadership Award

Johnson & Johnson is the only company to earn this award from the U.S. Environmental Protection Agency for five consecutive years. Our participation in the voluntary Green Power Partnership program fosters development of the green power market. The company ranks as the third-largest corporate purchaser and the fifth-largest purchaser in the U.S.

Reducing Carbon Dioxide Emissions While Growing Sales

Johnson & Johnson is taking seriously the challenge of global climate change, applying sustained, long-term actions to address this growing threat—including the adoption of our Climate Friendly Energy Policy in 2003. Taking more aggressive measures, we reduced carbon dioxide emissions by 11.5 percent on an absolute basis from 1990 to 2005. During this same period, sales increased by 351 percent. We're set to continue the trend: Currently, about 30 percent of our electricity needs comes from green power sources: solar energy, wind energy, biomass and geothermal sources.

Partnering to Protect Our Ecosystems Is a Special Responsibility

Johnson & Johnson supports a number of nonprofit organizations that are engaged in restoring or preserving fragile ecosystems. These include The Conservation Fund, The Trust for Public Land, The Nature Conservancy and The Wilderness Society. We are particularly interested in community health projects that directly link a sustainably managed environment with the need for access to health care in communities that live near areas of high biodiversity.

Through our signature partnership with the World Wildlife Fund (WWF), we are making the environment healthier in sensitive ecoregions. WWF, under its Healthy Communities, Healthy Ecosystems program, has improved community health in areas including Kenya and Mozambique. In Kenya, a new dispensary was constructed, allowing greater access to medicines, and safe drinking water was provided. In Mozambique, two new fishing sanctuaries were created, and health clinics in the Congo Basin were staffed and equipped.

Giving Throughout the World

A Century of Giving

In 2006, we marked a milestone in the company's history, commemorating the 100th anniversary of our first documented response to a major disaster. In the aftermath of the 1906 earthquake that struck San Francisco, we provided medical products and set up field hospitals to support relief efforts. These actions set into motion a legacy of disaster relief and philanthropic outreach that continues today across the world, reflecting Our Credo commitment to the communities in which we live and work. Here are just a few highlights of the many philanthropic efforts in which we took part throughout the world in 2006. Find out more about our efforts on www.jnj.com.

Keeping Mothers and Children Healthy

PREMATURITY PREVENTION INITIATIVE (U.S.) is a partnership with the March of Dimes and the Kentucky Department for Public Health to test whether bundling proven interventions can lower rates of preventable preterm births.

THE ELIZABETH GLASER PEDIATRIC AIDS FOUNDATION (WORLDWIDE) first partnered with Johnson & Johnson in 2003 for the prevention of mother-to-child transmission of HIV (PMTCT). In 2006 our partnership reached more than 260,000 pregnant women, with HIV testing and counseling at more than 450 health care facilities in Cameroon, China, the Dominican Republic, India, Russia and Zimbabwe.

PROJECT MERCY'S MEDHANE-ALEM SCHOOL (ETHIOPIA) provides HIV/AIDS education and orphan support to residents who are uneducated and rely heavily on simple conditions and routines to survive. With our support, doctors from Glen C. Olsen Hospital train students on public health issues such as sexually transmitted diseases, malaria prevention and intestinal parasites so they can educate and influence their villages.

SAFE KIDS WORLDWIDE® fosters multifaceted initiatives on a global scale based on the success of the National Safe Kids Campaign, which started in the U.S. in 1987 and has seen a dramatic decline in the childhood injury death rate since its inception. Now celebrating its 20th anniversary, Safe Kids Worldwide® is active in 16 countries on all major continents.

Project Mercy, Ethiopia

Providing Relief When Disaster Strikes

We responded with products and money following several major disasters in 2006, including mudslides in the Philippines and the earthquake in Indonesia. Several Johnson & Johnson affiliates provided local assistance in the immediate aftermath of these disasters.

Also in 2006, we continued to help communities in the southern U.S. affected by Hurricane Katrina. These efforts included assistance with establishing mental health programs for children traumatized by the disaster; funding for automatic electronic defibrillators in key community health centers in New Orleans; and support to several universities for educational services.

Improving Access to Health Care and Health Products

MEBENDAZOLE DONATION INITIATIVE (CAMEROON) is a new multi-year program to provide mebendazole, a treatment for intestinal worms, to some of the most severely infected children in the world. In 2006, 4 million doses were distributed for use in Cameroon.

Building Health Care Capacity

JOHNSON & JOHNSON/UCLA MANAGEMENT DEVELOPMENT INSTITUTE (AFRICA) instituted a program of intensive management training for health care system leaders of East African organizations that provide HIV/AIDS prevention, treatment, care and support services. Seventy health leaders from seven African nations were trained in 2006.

HOSPITAL MANAGEMENT TRAINING PROJECT (CHINA) is an ongoing program that equips hospital administrators with the management tools and competencies necessary to provide quality patient care in the ever-changing health care environment; it is administered by the China Hospital Management Association, with support from Xian-Janssen Pharmaceutical Ltd.

EUROPEAN HEALTH LEADERSHIP PROGRAMME (EUROPE) is a partnership between INSEAD and Johnson & Johnson that brings together participants from many countries for a two-week educational experience that equips them with the concepts, tools, techniques and strategies to play significant leadership roles in health care.

ASSOCIACAO SAUDE DE FAMILIA (BRAZIL) trains outreach workers to provide HIV/AIDS health education to female adolescents, adult women and their partners. Dozens of health teams have been trained, and nearly 20,000 women have benefited.

Board of Directors

First Row, Left to Right

WILLIAM C. WELDON
Chairman, Board of Directors, and Chief Executive Officer

CHRISTINE A. POON
Vice Chairman, Board of Directors

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

Second Row, Left to Right

ANN D. JORDAN
Former Director, Social Services Department, Chicago Lying-In Hospital

LEO F. MULLIN
Retired Chairman and Chief Executive Officer, Delta Air Lines, Inc.

MARY SUE COLEMAN, PH.D.
President, University of Michigan

Third Row, Left to Right

DAVID SATCHER, M.D., PH.D.
Director, Center of Excellence on Health Disparities, Morehouse School of Medicine; Former U.S. Surgeon General

SUSAN L. LINDQUIST, PH.D.
Member and Former Director, Whitehead Institute for Biomedical Research; Professor of Biology, Massachusetts Institute of Technology

STEVEN S REINEMUND
Executive Chairman, PepsiCo, Inc.

Fourth Row, Left to Right

JAMES G. CULLEN
Retired President and Chief Operating Officer, Bell Atlantic Corporation

ARNOLD G. LANGBO
Retired Chairman and Chief Executive Officer, Kellogg Company

CHARLES PRINCE
Chairman and Chief Executive Officer, Citigroup Inc.

Committees of the Board

AUDIT

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

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

COMPENSATION & BENEFITS

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

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

FINANCE

The Finance Committee exercises the management authority of the Board during the intervals between Board meetings. The Finance Committee is comprised of the Chairman, Presiding Director and Vice Chairman of the Board.

William C. Weldon, Chairman
James G. Cullen
Christine A. Poon

NOMINATION & CORPORATE GOVERNANCE

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

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

PUBLIC POLICY

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

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

SCIENCE & TECHNOLOGY

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

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

CORPORATE OFFICERS

WILLIAM C. WELDON
Chairman, Board of Directors
Chief Executive Officer
Chairman, Executive Committee

CHRISTINE A. POON
Vice Chairman, Board of Directors
Executive Committee

DOMINIC J. CARUSO
Vice President, Finance
Chief Financial Officer
Executive Committee

STEPHEN J. COSGROVE
Corporate Controller

LAVERNE H. COUNCIL
Vice President, Chief
Information Officer

RUSSELL C. DEYO
Vice President, General Counsel
Chief Compliance Officer
Executive Committee

KAYE I. FOSTER-CHEEK
Vice President, Human Resources
Executive Committee

COLLEEN A. GOGGINS
Worldwide Chairman
Johnson & Johnson Consumer Group
Executive Committee

THOMAS M. GORRIE, PH.D.
Vice President
Government Affairs and Policy

JOANN HEFFERNAN HEISEN
Vice President, Diversity

DAVID P. HOLVECK
Vice President,
Corporate Development

RAYMOND C. JORDAN
Vice President, Public Affairs &
Corporate Communications

JOHN A. PAPA
Treasurer

BRIAN D. PERKINS
Vice President
Corporate Affairs

STEVEN M. ROSENBERG
Secretary
Assistant General Counsel

JOSEPH C. SCODARI
Worldwide Chairman
Pharmaceuticals Group
Executive Committee

AJIT SHETTY
Vice President
Worldwide Operations

THEODORE J. TORPHY, PH.D.
Vice President
Science and Technology

NICHOLAS J. VALERIANI
Worldwide Chairman
Medical Devices & Diagnostics Group
Executive Committee

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, Pharmaceuticals and Medical Devices and Diagnostics business segments. Each subsidiary within the business segments is, with some exceptions, managed by citizens of the country where it is located.

COMPANY GROUP CHAIRMEN

RICK D. ANDERSON

SUPRATIM BOSE

DONALD M. CASEY

ROSEMARY A. CRANE

ROY N. DAVIS

SETH H. Z. FISCHER

CARLOS A. GOTTSCHALK

JOHN H. JOHNSON

GUY J. LEBEAU, M.D.

KAREN A. LICITRA

SHERI S. MCCOY

JULIE H. MCHUGH

PATRICK D. MUTCHLER

DAVID Y. NORTON

KRISTINE PETERSON

MARC E. ROBINSON

JOSE V. SARTARELLI, PH.D.

MICHAEL E. SNEED

PERICLES P. STAMATIADES

PAUL A. STOFFELS, M.D.

Corporate Governance and Management's Responsibility

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

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

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

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

During 2006, the Company continued to invest significant time and resources in order to ensure compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Based on the work performed, we have concluded that our internal control over financial reporting was effective as of December 31, 2006. We refer you to Management's Report on Internal Control over Financial Reporting on page 76.

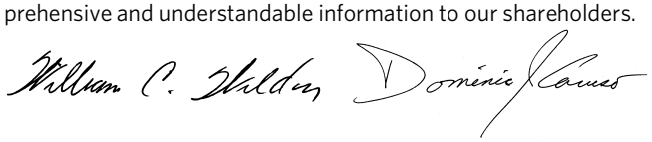
We require the management teams of our operating companies to certify their compliance with our Policy on Business Conduct and we have a systematic program designed to ensure compliance with these policies. To view our Policy on Business Conduct, please visit our website at www.jnj.com/our_company/policies.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, is engaged to perform an integrated audit of our consolidated financial statements and internal control over financial reporting. Their Report of Independent Registered Public Accounting Firm is on page 77.

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

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

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



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

Dominic J. Caruso
Vice President, Finance, and Chief Financial Officer

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Organization and Business Segments

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

Johnson & Johnson and its subsidiaries (the "Company") have approximately 122,200 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 and its primary focus has been on products related to human health and well-being.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. The Consumer segment includes a broad range of products used in the baby and kids care, skin care, oral care, wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. These products are marketed principally to the general public and sold both to wholesalers and directly to independent and chain retail outlets throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-fungal, anti-infective, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, psychotropic (central nervous system), urology and virology areas. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use by the general public. The Medical Devices and Diagnostics segment includes a broad range of products used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. These products include Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal care products; Ethicon's wound care and women's health products; Ethicon Endo-Surgery's minimally invasive surgical products; LifeScan's blood glucose monitoring 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 operations and allocation of the resources of the Company. This Committee oversees and coordinates the activities of the Consumer, Pharmaceutical and Medical Devices and Diagnostics business segments. Each subsidiary within the business segments is, with some exceptions, managed by citizens of the country where it is located.

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

MANAGEMENT'S OBJECTIVES

A primary objective of the Company is to achieve superior levels of capital efficient profitable growth. To accomplish this, the Company's management operates the business consistent with certain strategic principles that have proven successful over time. To this end, the Company participates in growth areas in human health care and is committed to attaining leadership positions in these growth segments through the development of innovative products and services. New products introduced within the past five years accounted for over 30% of 2006 sales. In 2006, $7.1 billion, or 13.4% of sales was invested in research and development, an increase of $0.7 billion over 2005. This increase reflects management's commitment to the importance of on-going development of new and differentiated products and services to sustain long term growth.

With more than 250 operating companies located in 57 countries, the Company views its principle of decentralized management as an asset and fundamental to the success of a broadly based business. It also fosters an entrepreneurial spirit, combining the extensive resources of a large organization with the ability to react quickly to local market changes and challenges.

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

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

Results of Operations

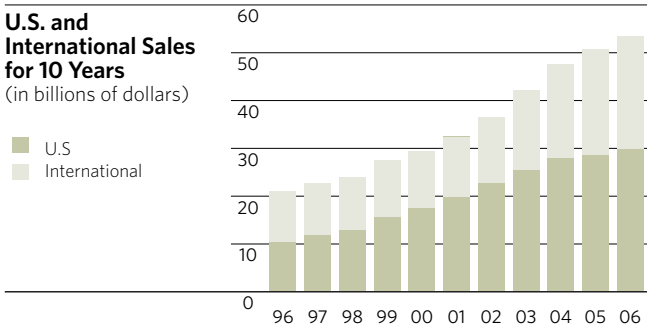
ANALYSIS OF CONSOLIDATED SALES

In 2006, worldwide sales increased 5.6% to $53.3 billion, compared to increases of 6.7% in 2005 and 13.1% in 2004. These sales increases consisted of the following:

Sales increase due to:	2006	2005	2004
Volume	3.8%	5.4	8.7
Price	1.5	0.6	1.0
Currency	0.3	0.7	3.4
Total	**5.6%**	**6.7**	**13.1**

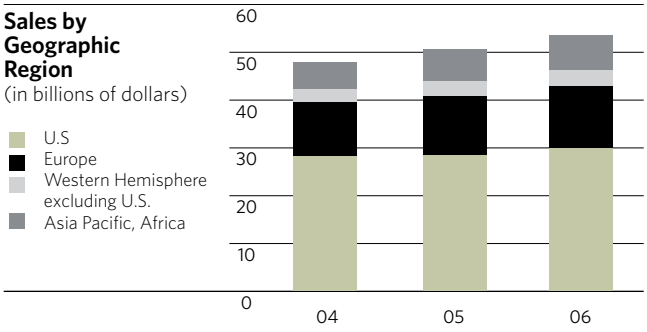
Sales by U.S. companies were $29.8 billion in 2006, $28.4 billion in 2005, and $27.7 billion in 2004. This represents an increase of 4.9% in 2006, 2.2% in 2005, and 9.9% in 2004. Sales by international companies were $23.5 billion in 2006, $22.1 billion in 2005, and $19.6 billion in 2004. This represents an increase of 6.4% in 2006, 13.1% in 2005, and 18.0% in 2004.

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 10.5%, 8.5% and 13.5%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 9.6%, 10.6% and 8.4%, respectively.

Sales by Geographic Region
(in billions of dollars)

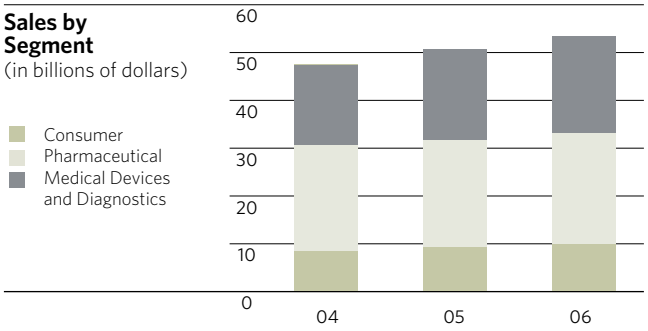


All international geographic regions experienced sales growth during 2006, consisting of 4.9% in Europe, 14.7% in the Western Hemisphere (excluding the U.S.) and 5.2% in the Asia-Pacific, Africa regions. These sales increases include the impact of currency fluctuations between the U.S. dollar and foreign currencies which had positive impacts of 0.5% in Europe, 5.4% in the Western Hemisphere (excluding the U.S.) and a negative impact of 1.4% in the Asia-Pacific, Africa region.

In 2006 and 2005, the Company did not have a customer that represented 10% or more of total revenues. In 2004, sales to Cardinal Health and McKesson accounted for 10.2% and 10.0% of total revenues, respectively.

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

Sales by Segment
(in billions of dollars)



Analysis of Sales by Business Segments

CONSUMER SEGMENT

Consumer segment sales in 2006 were $9.8 billion, an increase of 7.5%, over 2005 with operational growth accounting for 6.4% of the total growth and 1.1% due to positive currency fluctuations. U.S. Consumer segment sales were $4.6 billion, an increase of 3.8%. International sales were $5.2 billion, an increase of 10.9%, with 8.7% as a result of operations and 2.2% due to currency fluctuations over 2005.

Consumer segment sales growth in 2006 was led by strong sales performance in the Skin Care and Baby & Kids Care franchises. The 2006 Over-the-Counter (OTC) Pharmaceuticals and Nutritionals franchise sales were $2.7 billion, an increase of 2.4% from 2005. This growth was led by the success of the re-launch of the TYLENOL® Upper Respiratory product line with products containing phenylephrine instead of pseudoephedrine, as well as growth in SPLENDA® No Calorie Sweeteners. This was partially offset by sales declines in adult analgesics. The Skin Care franchise sales in 2006 were $2.6 billion, representing an increase of 9.7% over 2005. This was attributable to sales growth in the AVEENO®, JOHNSON'S® adult, suncare, and the newly acquired Groupe Vendôme adult skin care product lines. The Baby & Kids Care franchise sales grew by 11.5% to $1.7 billion in 2006. This strong growth was led by the success of powder product lines in international markets, as well as cleanser, lotion and cream product lines in both U.S.

Major Consumer Franchise Sales:

(Dollars in Millions)	2006	2005	2004	% Change '06 vs. '05	% Change '05 vs. '04
OTC Pharmaceuticals & Nutritionals	$2,742	2,678	2,395	2.4%	11.8
Skin Care	2,633	2,401	2,140	9.7	12.2
Baby & Kids Care	1,740	1,561	1,447	11.5	7.9
Women's Health	1,666	1,568	1,470	6.3	6.7
Other	993	888	881	11.8	0.8
Total	**$9,774**	**9,096**	**8,333**	**7.5%**	**9.2**

and international markets. The Women's Health franchise sales grew by 6.3% to $1.7 billion in 2006 resulting from solid contributions from the K-Y® and STAYFREE® product lines. Sales in all other franchises grew by 11.8% to $1.0 billion in 2006. This was primarily due to the acquisition of the REMBRANDT® Brand of oral care products.

The operating results of the Consumer Healthcare business acquired from Pfizer Inc. on December 20, 2006 will be reported in the Company's financial statements beginning in 2007, as 2006 results subsequent to the acquisition date were not significant.

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

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

PHARMACEUTICAL SEGMENT

Pharmaceutical segment sales in 2006 were $23.2 billion, an increase of 4.2% over 2005, with 3.9% of this change due to operational growth and the remaining 0.3% increase related to the positive impact of currency. U.S. Pharmaceutical segment sales were $15.1 billion, an increase of 4.2%. International Pharmaceutical segment sales were $8.1 billion, an increase of 4.2%, which included 3.4% of operational growth and 0.8% related to the positive impact of currency.

RISPERDAL® (risperidone), a medication that treats the symptoms of schizophrenia and bipolar mania, and RISPERDAL® CONSTA® (risperidone) long acting injection that treats the symptoms of schizophrenia, achieved $4.2 billion in sales in 2006, an increase of 17.8% over prior year. Sales growth was positively impacted by lower rebates for RISPERDAL® and higher demand for RISPERDAL® CONSTA®. U.S. sales of RISPERDAL® and RISPERDAL® CONSTA® increased by 24.3% to $2.4 billion, while international sales increased by 9.9% to $1.8 billion. In October of 2006, the Company received approval from the U.S. Food and Drug Administration (FDA) to market RISPERDAL® for the treatment of irritability associated with autistic disorder in children and adolescents. The RISPERDAL® compound patent is scheduled to expire in the U.S. in December 2007. The Company has submitted pediatric data to the FDA in order to extend exclusivity through June 2008. The expiration of a product patent typically results in a loss of market exclusivity and can result in a significant reduction in sales.

PROCRIT® (Epoetin alfa) and EPREX® (Epoetin alfa) had combined sales of $3.2 billion in 2006, a decline of 4.3% compared to prior year. PROCRIT® experienced a sales decline of 8.1% in 2006 due to a competitor's anticompetitive contracting strategy in oncology clinics. EPREX® sales increased by 3.5% in 2006. The approval of the once weekly administration and the recent restoration to the label of subcutaneous administration for EPREX® in Europe resulted in volume gains. Although the EPREX® patent has expired in most major European markets, no erythropoietin product has been approved using the biosimilar regulatory pathway. Several companies have made filings using the pathway and their filings are under review. The Company cannot predict when such products may be approved.

REMICADE® (infliximab), a biologic approved for the treatment of Crohn's disease, ankylosing spondylitis, psoriatic arthritis, ulcerative colitis and use in the treatment of rheumatoid arthritis, achieved sales of $3.0 billion in 2006, with growth of 18.9% over prior year. Continued growth was driven by increased demand due to expanded indications. During the fiscal third quarter of 2006, REMICADE® received FDA approval for the treatment of adults with chronic severe plaque psoriasis.

TOPAMAX® (topiramate), which has been approved for adjunctive and monotherapy use in epilepsy, as well as for the prophylactic treatment of migraines, achieved $2.0 billion in sales in 2006, an increase of 20.7% over prior year. The migraine indication was the key driver of 2006 sales growth.

LEVAQUIN® (levofloxacin) and FLOXIN® (ofloxacin) achieved combined sales of $1.5 billion in 2006, representing growth of 2.5% over prior year. This growth was achieved despite a lack of growth in the market.

DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system) sales declined to $1.3 billion in 2006, a reduction of 18.3% from 2005. This decline was the result of the impact of generic competition in the U.S. and certain international markets. Generic competition in the U.S. began in January 2005.

The hormonal contraceptive franchise sales declined to $1.0 billion in 2006, a reduction of 10.6% from 2005. ORTHO

Major Pharmaceutical Product Revenues:

(Dollars in Millions)	2006	2005	2004	% Change '06 vs. '05	% Change '05 vs. '04
RISPERDAL® (risperidone)/RISPERDAL® CONSTA® (risperidone)	$ 4,183	3,552	3,050	17.8%	16.5
PROCRIT®/EPREX® (Epoetin alfa)	3,180	3,324	3,589	(4.3)	(7.4)
REMICADE® (infliximab)	3,013	2,535	2,145	18.9	18.2
TOPAMAX® (topiramate)	2,027	1,680	1,410	20.7	19.1
LEVAQUIN®/FLOXIN® (levofloxacin/ofloxacin)	1,530	1,492	1,296	2.5	15.2
DURAGESIC® /Fentanyl Transdermal (fentanyl transdermal system)	1,295	1,585	2,083	(18.3)	(23.9)
ACIPHEX®/PARIET® (rabeprazole sodium)	1,239	1,169	1,116	6.0	4.7
Hormonal Contraceptives	1,016	1,136	1,278	(10.6)	(11.1)
Other	5,784	5,849	6,161	(1.1)	(5.1)
Total	**$23,267**	**22,322**	**22,128**	**4.2%**	**0.9**

EVRA® (norelgestromin/ethinyl estradiol), the first contraceptive patch approved by the FDA, experienced a significant decline in sales as a result of labeling changes and negative media coverage concerning product safety. The sales decline was also a result of continued generic competition in oral contraceptives. Growth in ORTHO TRI-CYCLEN® LO (norgestimate/ethinyl estradiol), a low dose oral contraceptive partially offset the sales decline in the hormonal contraceptive franchise.

CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder, achieved sales of $0.9 billion in 2006, representing an increase of 20.2% over 2005. Although the original CONCERTA® patent expired in 2004, two new CONCERTA® patents have been issued which expire in 2017. At present, the FDA has not approved any generic version that is substitutable for CONCERTA®. Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA® are pending and may be approved at any time.

NATRECOR® (nesiritide), a product for the treatment of patients with acutely decompensated congestive heart failure who have dyspnea at rest or with minimal activity, has experienced a significant decline in demand due to negative media coverage regarding a meta analysis of selected historical clinical trials. The Company believes that the data does not support the conclusions of these medical and consumer publications and the currently approved label for NATRECOR® reflects all available data to date.

NATRECOR® was purchased by the Company in 2003 and resulted in the recording of an intangible asset, which is being amortized over 12 years. The remaining unamortized intangible value associated with NATRECOR® was $1.0 billion at the end of the fiscal fourth quarter of 2006, and based on the current estimate of projected future cash flows, no adjustment to this intangible asset is required. The Company is currently conducting several clinical trials for NATRECOR®, the outcomes of which cannot be predicted and may impact the projections of future cash flows.

During 2006, the Company received FDA approval for PREZISTA™ (darunavir), an anti-HIV medication, and INVEGA™ (paliperidone) Extended-Release Tablets, a new atypical antipsychotic, for the treatment of schizophrenia. Additionally, IONSYS™ (fentanyl iontophoretic transdermal system), the first needle-free, patient-activated analgesic system received FDA and European Commission approval. JURNISTA™ prolonged-release tablets (Hydromorphone HCl), a new prescription treatment for severe pain, received approval through the European Mutual Recognition Procedure in 2006.

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

Pharmaceutical segment sales in 2004 were $22.1 billion, an increase of 13.4% over 2003, with 10.7% due to operational growth and 2.7% due to positive currency fluctuations. U.S. Pharmaceutical segment sales increased by 12.7% while international Pharmaceutical segment sales grew 14.8% over 2003. This included operational growth of 6.4% and 8.4% related to the positive impact from currency.

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

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

The Medical Devices and Diagnostics segment achieved sales of $20.3 billion in 2006, representing an increase over the prior year of 6.2%, with operational growth of 6.4% and a negative impact from currency of 0.2%. U.S. sales were $10.1 billion, an increase of 6.5%. International sales were $10.2 billion, an increase of 5.9%, with 6.2% from operations and a negative currency impact of 0.3%.

The DePuy franchise achieved $4.1 billion in sales in 2006, which was a 6.7% increase over prior year. This growth was primarily due to DePuy's orthopaedic joint reconstruction products, Mitek sports medicine products and the trauma business. The acquisitions of Future Medical Systems S.A. and Hand Innovations LLC also contributed to this growth.

The Cordis franchise achieved sales of $4.1 billion in 2006, an increase of 2.6% over 2005. Sales of the CYPHER® Sirolimus-eluting Stent, the largest product in the Cordis franchise, were relatively flat. The relatively modest growth in CYPHER® Sirolimus-eluting Stent sales was caused by lower average selling prices, negative media and a regulatory focus concerning drug eluting stents and the corresponding lack of market growth. There were strong performances by the Biosense Webster and endovascular businesses in 2006. During the fiscal third quarter of 2006, the Company received FDA approval to market the PRECISE® Nitinol Stent and the ANGIOGUARD™ Emboli Capture Guidewire to treat carotid artery disease. In addition, the Company received CE Mark

Major Medical Devices and Diagnostics Franchise Sales*:

(Dollars in Millions)	2006	2005	2004	% Change '06 vs. '05	% Change '05 vs. '04
DEPUY®	$ 4,105	3,847	3,420	6.7%	12.5
CORDIS®	4,088	3,982	3,213	2.6	24.0
ETHICON ENDO-SURGERY®	3,376	3,105	2,854	8.7	8.8
ETHICON®	3,213	3,092	2,833	3.9	9.1
LIFESCAN®	2,074	1,909	1,701	8.6	12.3
Vision Care	1,879	1,694	1,530	10.9	10.7
ORTHO-CLINICAL DIAGNOSTICS®	1,488	1,408	1,273	5.7	10.6
Other	60	59	63	1.7	(6.3)
Total	**$20,283**	**19,096**	**16,887**	**6.2%**	**13.1**

** Prior year amounts have been restated to conform with current presentation.*

approval in Europe for the CYPHER SELECT™ Sirolimus-eluting Stent for use in the treatment of severe arterial disease in the leg.

In April and July of 2004, the Cordis Cardiology Division of Cordis Corporation received Warning Letters from the FDA regarding Good Manufacturing Practice regulations and Good Clinical Practice regulations. In response to the Warning Letters, Cordis has made improvements to its quality systems and has provided periodic updates to the FDA. The Clinical Warning Letter issues have been resolved to the FDA's satisfaction. With respect to the Quality System Warning Letter, in addition to the improvement updates, the Cordis Juarez, Mexico and stent supplier locations were inspected with acceptable results. The FDA inspected the Miami site and the Global Quality System, including Design Control system, in August 2006, with acceptable results; Cordis received no observations from the FDA during this inspection. The FDA inspections were completed in Cordis LLC in San German, Puerto Rico and Cordis laboratory operations in Warren, New Jersey in January 2007, thereby completing all scheduled follow up inspections. Cordis is in the process of evaluating and reviewing the overall results of the inspections with the FDA.

The Ethicon Endo-Surgery franchise achieved sales of $3.4 billion in 2006, an 8.7% increase over 2005. A major contributor of growth continues to be endocutter sales, which include products used in performing bariatric procedures for the treatment of obesity, an important focus area for the franchise. Strong results were achieved with the success of the HARMONIC SCALPEL®, an ultrasonic cutting and coagulating surgical device, which received approval in January 2006 for expanded indications to include plastic surgery. There was also strong growth in advanced sterilization products.

The Ethicon franchise sales grew 3.9% in 2006, reaching $3.2 billion. This was a result of solid growth in mesh and women's health and urology products. Sales of both GYNECARE® products and DERMABOND® had strong results in 2006. There was also continued growth in suture sales.

The LifeScan franchise achieved $2.1 billion in sales in 2006, an increase of 8.6% over 2005. Animas Corporation, which was acquired in the fiscal first quarter of 2006, provided LifeScan with a platform for entry into the insulin pump segment of the diabetes market, was a key contributor to this growth. Strong performance was also achieved in the ONETOUCH® ULTRA® product line in both U.S. and international markets.

Sales in the Vision Care franchise reached $1.9 billion in 2006, a growth rate of 10.9% over the prior year. This growth was led by the global success of ACUVUE® OASYS™ Brand Contact Lenses with HYDRACLEAR™ PLUS and ACUVUE® ADVANCE™ for ASTIGMATISM and the international success of 1-DAY ACUVUE® MOIST™ and ACUVUE® DEFINE.™

The Ortho-Clinical Diagnostics franchise achieved $1.5 billion in sales in 2006, a 5.7% increase over 2005. Growth was achieved in clinical laboratory and immunohematology sales in both the U.S. and international markets.

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

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

Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income increased to $14.6 billion, or 11.2%, over the $13.1 billion earned in 2005. The increase in 2005 was 6.4% over the $12.3 billion in 2004. As a percent to sales, consolidated earnings before provision for taxes on income in 2006 was 27.4% which was an improvement of 1.4% from 2005. There was no change as a percent to sales between 2005 and 2004. For 2004, the improvement was 2.7% over the 23.3% in 2003. 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	2006	2005	2004
Cost of products sold	28.2%	27.7	28.5
Percent point increase/(decrease) over the prior year	0.5	(0.8)	(0.7)
Selling, marketing and administrative expenses	32.7	34.1	34.2
Percent point increase/(decrease) over the prior year	(1.4)	(0.1)	(0.3)

In 2006, there was an increase in the percent to sales of cost of products sold. This was due to unfavorable product mix and higher manufacturing costs in the Pharmaceutical and Consumer segments. There was a decrease in the percent to sales of selling, marketing and administrative expenses in 2006. This was a result of leveraging selling expenses and a reduction in advertising and promotional spending. During 2006, the Company continued to focus on controlling expenses.

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

In 2004, there was a decrease in the percent to sales of cost of products sold. This was due to favorable mix, as well as cost improvement initiatives. There was also a decrease in the percent to sales of selling, marketing and administrative expenses. This was due to the Company's focus on managing expenses, partially offset by an increase in investment spending across a number of businesses focused on driving future growth.

Research and Development: 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. Worldwide costs of research activities, excluding in-process research and development charges, were as follows:

(Dollars in Millions)	2006	2005	2004
Research and development expense	$7,125	6,462	5,344
Percent increase over the prior year	10.3%	20.9	10.6
Percent of sales	13.4%	12.8	11.3

Research and development expense as a percent of sales for the Pharmaceutical segment was 21.3% for 2006, 20.2% for 2005, and 16.7% for 2004. Combined research and development expense as a percent to sales in the Consumer and Medical Devices and Diagnostics segments were 7.2%, 6.9%, and 6.5% in 2006, 2005 and 2004, respectively.

Research and development activities accelerated in the Pharmaceutical segment, increasing to $5.0 billion, or 9.9%, over 2005. The compound annual growth rate was approximately 14.6% for the five-year period since 2001.

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

In-Process Research and Development: In 2006, the Company recorded in-process research and development (IPR&D) charges of $559 million before tax related to the acquisitions of the Consumer Healthcare business of Pfizer Inc., Vascular Control Systems, Inc., Ensure Medical, Inc., ColBar LifeScience Ltd., Hand Innovations LLC and Future Medical Systems S.A. The Consumer Healthcare business of Pfizer Inc. accounted for $320 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. Vascular Control Systems, Inc., a privately held company focused on developing medical devices to treat fibroids and to control bleeding in obstetric and gynecologic applications, accounted for $87 million before tax of the IPR&D charges. Ensure Medical, Inc., a privately held company that develops devices for post-catheterization closure of the femoral artery, accounted for $66 million before tax of the IPR&D charges. ColBar LifeScience Ltd., a privately held company specializing in reconstructive medicine and tissue engineering, accounted for $49 million before tax of the IPR&D charges. Hand Innovations LLC, a privately held manufacturer of fracture fixation products for the upper extremities, accounted for $22 million before tax of the IPR&D charges. Future Medical Systems S.A., a privately held company that primarily develops, manufactures and markets arthroscopic fluid management systems, accounted for $15 million before tax of the IPR&D charges.

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

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

Other (Income) Expense, Net: Other (income) expense, net includes gains and losses related to the sale and write-down of certain investments in equity securities held by Johnson & Johnson Development Corporation, gains and losses on the disposal of property, plant and equipment, currency gains and losses, minority interests, litigation settlements and liabilities and royalty income. The change in other (income) expense, net from 2006 to 2005 was an increase in income of $457 million.

In 2006, other (income) expense, net included the gain associated with the Guidant acquisition agreement termination fee, less associated expenses, of $622 million. Other (income) expense, net also included royalty income partially offset by expenses associated with the recording of additional product liability reserves and the integration costs associated with the acquisition of Pfizer Consumer Healthcare.

In 2005, other (income) expense, net included royalty income partially offset by several expense items, none of which were individually significant.

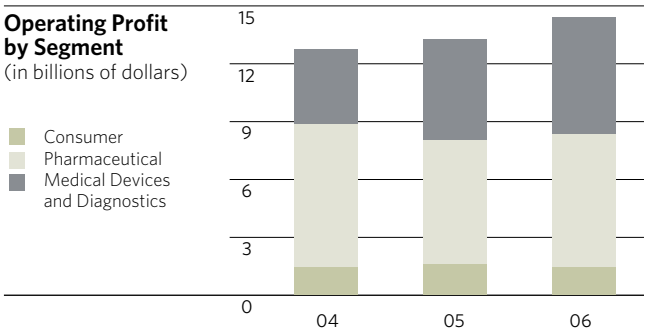
In 2004, other (income) expense, net included several expense items, none of which were individually significant, partially offset by royalty income.

OPERATING PROFIT BY SEGMENT

Operating profits by segment of business were as follows:

			Percent of Segment Sales	
(Dollars in Millions)	2006	2005	2006	2005
Consumer	$ 1,374	1,592	14.1%	17.5
Pharmaceutical	6,894	6,365	29.6	28.5
Med Devices and Diag	6,126	5,240	30.2	27.4
Segments total	14,394	13,197	27.0	26.1
Less: (Income)/Expenses not allocated to segments [1]	(193)	81		
Earnings before provision for taxes on income	$14,587	13,116	27.4%	26.0

[1] *Amounts not allocated to segments include interest (income)/expense, minority interest, and general corporate (income)/expense.*



Consumer Segment: Consumer segment operating profit in 2006 decreased 13.7% from 2005. As a percent to sales, 2006 operating profit declined to 14.1% resulting from $320 million of IPR&D expenses as well as expenses associated with the Pfizer Consumer Healthcare integration recorded during 2006. Consumer segment operating profit in 2005 increased 10.2% over the prior year. As a percent to sales, 2005 operating profit increased slightly to 17.5%, despite increases in investment spending in advertising and research and development.

Pharmaceutical Segment: In 2006, Pharmaceutical segment operating profit increased 8.3% and as a percent to sales increased to 29.6%. This increase was the result of $302 million of IPR&D recorded during 2005 partially offset by increases in research and development spending and lower gross margins in 2006. In 2005, Pharmaceutical segment operating profit decreased 13.7%, and as a percent to sales declined 4.8% from 2004 to 28.5%. This change was primarily due to increased investment in research and development spending, as well as the impact of $302 million of IPR&D expenses in 2005.

Medical Devices and Diagnostics Segment: In 2006, the operating profit in the Medical Devices and Diagnostics segment increased 16.9%, and as a percent to sales increased 2.8%. The primary driver of the improved operating profit was the Guidant acquisition agreement termination fee, less associated expenses, of $622 million recorded during 2006. This was partially offset by increases in IPR&D charges. In addition, advertising and promotional expense leveraging were offset in part by increases in research and development spending.

In 2005, the Medical Devices and Diagnostics segment operating profit increased 33.5%, and as a percent to sales increased 4.2% from 2004 to 27.4%. This increase was driven by improved gross margins due to cost reduction programs and product mix, primarily related to the CYPHER® Sirolimus-eluting Stent. This was partially offset by an increased investment in research and development spending.

Interest (Income) Expense: Interest income in 2006 increased by $342 million due primarily to higher rates of interest, as well as a higher average cash balance despite the $5.0 billion common stock repurchase program and an increase in acquisition activity. The cash balance, including current marketable securities was $4.1 billion at the end of 2006 and averaged $15.7 billion, as compared to the $14.3 billion average cash balance in 2005.

Interest expense in 2006 increased slightly as compared to 2005 due to a higher average debt balance, from $2.6 billion in 2005 to $3.1 billion in 2006. This was partially offset by a decrease in interest rates.

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

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

Provision for Taxes on Income: The worldwide effective income tax rate was 24.2% in 2006, 23.3% in 2005 and 33.7% in 2004. The 2006 tax rate benefited from a reversal of tax allowances of $134 million associated with the Tibotec business, partially offset by the Guidant acquisition agreement termination fee recorded at a 40.8% rate. The 2005 effective tax rate included a benefit of $225 million, due to the reversal of a tax liability previously recorded during the fiscal fourth quarter of 2004, related to a technical correction to the American Jobs Creation Act of 2004.

Liquidity and Capital Resources

CASH FLOWS

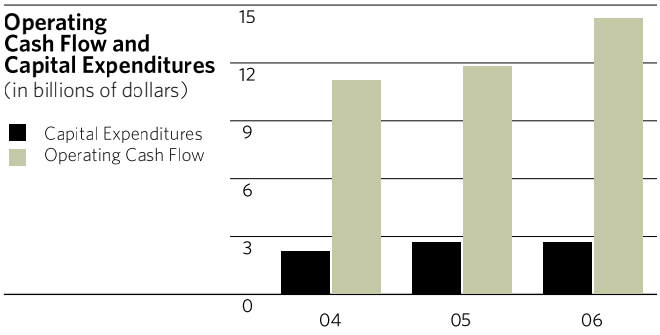
In 2006, cash flow from operations was $14.2 billion, an increase of $2.4 billion over 2005. The increase in cash generated from operations was a result of a net income increase of $1.2 billion, net of the non-cash impact of IPR&D charges. The major changes in assets and liabilities were a $2.7 billion increase in accounts payable and accrued liabilities partially offset by a $0.9 billion increase in deferred taxes and a $0.8 billion increase in other current and non-current assets.

Net cash used by investing activities increased by $20.0 billion. This was primarily due to a $17.0 billion increase in acquisition activity most of which occurred late in the fiscal fourth quarter. For a more detailed discussion on mergers and acquisitions, see Note 17. There was also a $3.6 billion net decrease in sales of investments. Capital expenditures were $2.7 billion, $2.6 billion and $2.2 billion in 2006, 2005 and 2004, respectively.

Net cash used by financing activities increased by $1.7 billion. This was due to the $5.0 billion used for the common stock repurchase program which was publicly announced on March 8, 2006 and completed early in the fiscal fourth quarter of 2006. This was partially offset by $3.3 billion of net proceeds from short term debt.

Cash and current marketable securities were $4.1 billion at the end of 2006 as compared with $16.1 billion at the end of 2005, primarily due to the acquisition of the Consumer Healthcare business of Pfizer Inc. on December 20, 2006.

Cash generated from operations amounted to $11.8 billion in 2005, which was $0.7 billion more than the cash generated from operations in 2004 of $11.1 billion. The major factors contributing to the increase were a net income increase of $2.2 billion, net of the non-cash impact of IPR&D charges. A $1.0 billion decrease in other current and non-current assets also contributed to this increase. This was partially offset by a $1.5 billion decrease in accounts payable and accrued liabilities. Additionally, cash payments of approximately $0.5 billion were made for previously accrued taxes on the repatriation of undistributed international earnings in accordance with the American Jobs Creation Act of 2004. There was also an increase of approximately $0.2 billion in pension funding in 2005 as compared to 2004.



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 products 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 December 31, 2006 market rates would increase the unrealized value of the Company's forward contracts by $262 million. Conversely, a 10% depreciation of the U.S. Dollar from the December 31, 2006 market rates would decrease the unrealized value of the Company's forward contracts by $320 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 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 $127 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 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.

Total unused credit available to the Company approximates $10.8 billion, including $9 billion of credit commitments, of which $3.75 billion expire September 27, 2007, $4 billion expire October 30, 2007 and $1.25 billion expire September 28, 2011. Also included are $0.75 billion of uncommitted lines with various banks worldwide that expire during 2007.

Total borrowings at the end of 2006 and 2005 were $6.6 billion and $2.7 billion, respectively. The increase in borrowings between 2005 and 2006 was a result of financing the acquisition of the Consumer Healthcare business of Pfizer Inc. in December 2006. In 2006, net debt (cash and current marketable securities net of debt) was $2.5 billion compared to net cash of $13.5 billion in 2005. Total debt represented 14.4% of total capital (shareholders' equity and total debt) in 2006 and 6.5% of total capital in 2005. Shareholders' equity per share at the end of 2006 was $13.59 compared with $13.01 at year-end 2005, an increase of 4.5%.

For the period ended December 31, 2006, there were no material cash commitments. Johnson & Johnson continues to be one of a few industrial companies with a Triple A credit rating. A summary of borrowings can be found in Note 6.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations, primarily lease, debt obligations and unfunded retirement plans, with no other significant obligations. To satisfy these obligations, the Company will use cash from operations. The following table summarizes the Company's contractual obligations and their aggregate maturities as of December 31, 2006 (see Notes 4, 6 and 13 for further details):

(Dollars in Millions)	Operating Leases	Long-Term Debt Obligations[1]	Unfunded Retirement Plans	Total
2007	$187	9	41	237
2008	162	9	42	213
2009	137	240	44	421
2010	115	9	45	169
2011	98	6	47	151
After 2011	150	1,750	260	2,160
Total	**$849**	**2,023**	**479**	**3,351**

[1] *Amounts do not include interest expense.*

SHARE REPURCHASE AND DIVIDENDS

On March 8, 2006, the Company announced that its Board of Directors approved a stock repurchase program, authorizing the Company to buy back up to $5.0 billion of the Company's common stock. This program was completed early in the fiscal fourth quarter of 2006 with 81.3 million shares repurchased. 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 2006 for the 44th consecutive year. Cash dividends paid were $1.455 per share in 2006, compared with dividends of $1.275 per share in 2005 and $1.095 per share in 2004. The dividends were distributed as follows:

	2006	2005	2004
First quarter	$0.330	0.285	0.240
Second quarter	0.375	0.330	0.285
Third quarter	0.375	0.330	0.285
Fourth quarter	0.375	0.330	0.285
Total	**$1.455**	**1.275**	**1.095**

On January 2, 2007, the Board of Directors declared a regular cash dividend of $0.375 per share, payable on March 13, 2007, to shareholders of record as of February 27, 2007. The Company expects to continue the practice of paying regular cash dividends.

Other Information

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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.

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 derived by estimating sales volumes for the incentive period and are recorded as products are sold.

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 financial statement impact.

Below are tables which show the progression of accrued rebates, returns, promotions, reserve for doubtful accounts and reserve for cash discounts by segment of business for the years ended December 31, 2006 and January 1, 2006.

CONSUMER SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2006				
Accrued rebates[1]	$144	352	(332)	164
Accrued returns	78	117	(103)	92
Accrued promotions	172	1,555	(1,516)	211
Subtotal	$394	2,024	(1,951)	467
Reserve for doubtful accounts	35	10	(3)	42
Reserve for cash discounts	13	176	(174)	15
Total	**$442**	**2,210**	**(2,128)**	**524**
2005				
Accrued rebates[1]	$110	635	(601)	144
Accrued returns	58	129	(109)	78
Accrued promotions	176	1,417	(1,421)	172
Subtotal	$344	2,181	(2,131)	394
Reserve for doubtful accounts	37	3	(5)	35
Reserve for cash discounts	13	286	(286)	13
Total	**$394**	**2,470**	**(2,422)**	**442**

[1] Includes reserve for customer rebates of $54 million at December 31, 2006 and $33 million at January 1, 2006, recorded as a contra asset.

PHARMACEUTICAL SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2006				
Accrued rebates[1]	$1,119	2,857	(2,743)	1,233
Accrued returns	287	67	(30)	324
Accrued promotions	160	625	(580)	205
Subtotal	$1,566	3,549	(3,353)	1,762
Reserve for doubtful accounts	36	0	(6)	30
Reserve for cash discounts	29	503	(503)	29
Total	**$1,631**	**4,052**	**(3,862)**	**1,821**
2005				
Accrued rebates[1]	$1,489	2,604[2]	(2,974)	1,119
Accrued returns	265	31	(9)	287
Accrued promotions	217	540	(597)	160
Subtotal	$1,971	3,175	(3,580)	1,566
Reserve for doubtful accounts	59	(5)	(18)	36
Reserve for cash discounts	37	407	(415)	29
Total	**$2,067**	**3,577**	**(4,013)**	**1,631**

[1] Includes reserve for customer rebates of $227 million at December 31, 2006 and $172 million at January 1, 2006, recorded as a contra asset.

[2] Includes $186 million related to previously estimated performance-based rebate allowances in managed care contracts.

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2006				
Accrued rebates[1]	$302	1,808	(1,816)	294
Accrued returns	170	26	(13)	183
Accrued promotions	56	104	(119)	41
Subtotal	$528	1,938	(1,948)	518
Reserve for doubtful accounts	93	7	(12)	88
Reserve for cash discounts	15	188	(185)	18
Total	**$636**	**2,133**	**(2,145)**	**624**
2005				
Accrued rebates[1]	$263	2,062	(2,023)	302
Accrued returns	134	225	(189)	170
Accrued promotions	73	155	(172)	56
Subtotal	$470	2,442	(2,384)	528
Reserve for doubtful accounts	110	21	(38)	93
Reserve for cash discounts	12	168	(165)	15
Total	**$592**	**2,631**	**(2,587)**	**636**

[1] *Includes reserve for customer rebates of $277 million at December 31, 2006 and $266 million at January 1, 2006, recorded as a contra asset.*

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

Income Taxes: Income taxes are recorded based on amounts refundable or payable for the current year and include the results of any difference between U.S. GAAP accounting and U.S. tax reporting, recorded as deferred tax assets or liabilities. The Company estimates deferred tax assets and liabilities based on current tax regulations and rates. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities in the future. Management believes that changes in these estimates would not result in a material effect on the Company's results of operations, cash flows or financial position.

In 2005, the Company repatriated $10.8 billion of undistributed international earnings in accordance with the American Jobs Creation Act of 2004 (AJCA), and recorded a tax charge of $789 million during the fiscal fourth quarter of 2004. During the fiscal second quarter of 2005, the Company recorded a tax benefit of $225 million, due to the reversal of the tax liability previously recorded during the fiscal fourth quarter of 2004, associated with a technical correction made to the AJCA in May 2005. At December 31, 2006 and January 1, 2006, the cumulative amount of undistributed international earnings were approximately $17.9 billion and $11.9 billion, respectively. The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded to cover the undistributed portion not intended for repatriation.

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

Long-Lived and Intangible Assets: The Company assesses changes in economic conditions and makes assumptions regarding estimated future cash flows in evaluating the value of the Company's property, plant and equipment, goodwill and intangible assets. As these assumptions and estimates may change over time, it may or may not be necessary for the Company to record impairment charges.

Employee Benefit Plans: The Company sponsors various retirement and pension plans, including defined benefit, defined contribution and termination indemnity plans, that cover most employees worldwide. These plans are based on assumptions for the discount rate, expected return on plan assets, expected salary increases and health care cost trend rates. See Note 13 for further detail on these rates and the effect a rate change would have on the Company's results of operations. The Company adopted SFAS No. 158, *Employer's Accounting for Defined Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R).* This statement requires the recognition of the funded status of a benefit plan in the statement of financial position, and that changes in the funded status in the year in which the changes occur be recognized through other comprehensive income (OCI), net of tax.

Stock Options: During the fiscal first quarter of 2006, the Company adopted SFAS No. 123(R), *Share Based Payment.* The Company has applied the modified retrospective transition method to implement SFAS No. 123(R). Previously reported financial statements have been restated in accordance with the provisions of SFAS No. 123(R). See Note 10 for further information regarding stock options.

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share Based Payment*. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (such as employee stock options and restricted stock units). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options and restricted stock units) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The Company adopted this statement in the fiscal first quarter of 2006, applying the modified retrospective transition method. Previously reported financial statements have been restated to reflect the adoption of SFAS No. 123(R).

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

In June 2006, the FASB issued FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109.* This interpretation 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 interpretation also provides guidance on derecognition, classification and other matters. FIN 48 is effective for the fiscal year 2007 and the Company will adopt it accordingly. The Company is assessing the impact of the adoption of FIN 48 and currently does not believe that the adoption will have a material effect on its results of operations, cash flows or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements.* This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective in the fiscal first quarter of 2008 and the Company will adopt the statement at that time. The Company believes that the adoption of SFAS No. 157 will not have a material effect on its results of operations, cash flows or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R).* This statement requires the recognition of the funded status of a benefit plan in the statement of financial position. It also requires the recognition as a component of other comprehensive income (OCI), net of tax, of the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to statements 87 or 106. The statement also has new provisions regarding the measurement date as well as certain disclosure requirements. The statement was effective at fiscal year end 2006 and the Company adopted the statement at that time.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, which expresses the Staff's views regarding the process of quantifying financial statement misstatements. The bulletin was effective at fiscal year end 2006. The implementation of this bulletin had no impact on the Company's results of operations, cash flows or financial position.

The following accounting pronouncements became effective in 2005 and did not have a material impact on the Company's results of operations, cash flows or financial position:

- FIN 47: *Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143.*
- SFAS 153: *Exchanges of Non-monetary Assets, an amendment of APB 29.*

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

- EITF Issue 02-14: *Whether an Investor should apply the Equity Method of Accounting to Investments other than Common Stock.*
- EITF Issue 04-1: *Accounting for Preexisting Relationships between the Parties to a Business Combination.*

ECONOMIC AND MARKET FACTORS

Johnson & Johnson is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concerns about the rising cost of health care. In response to these concerns, Johnson & Johnson has a long standing policy of pricing products responsibly. For the period 1996 – 2006, in the United States, the weighted average compound annual growth rate of Johnson & Johnson net price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI).

Inflation rates, even though moderate in many parts of the world during 2006, continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases. The Company faces various worldwide health care changes that may result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

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

LEGAL PROCEEDINGS

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

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

See Note 18 for further information regarding legal proceedings.

COMMON STOCK MARKET PRICES

The Company's common stock is listed on the New York Stock Exchange under the symbol JNJ. The composite market price ranges for Johnson & Johnson common stock during 2006 and 2005 were:

	2006		2005	
	High	Low	High	Low
First quarter	$63.10	56.70	68.68	61.20
Second quarter	62.00	57.32	69.99	64.43
Third quarter	65.13	59.68	65.35	61.65
Fourth quarter	69.41	64.50	64.60	59.76
Year-end close	$66.02		60.10	

Cautionary Factors That May Affect Future Results

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

Forward-looking statements are based on current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or that unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. The Company does not undertake to update any forward-looking statements as a result of new information or future events or developments.

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

The Company's report on Form 10-K for the year ended December 31, 2006 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.

Consolidated Balance Sheets

Johnson & Johnson and Subsidiaries

At December 31, 2006 and January 1, 2006 (Dollars in Millions Except Share and Per Share Data) (Note 1)	2006	2005
Assets		
Current assets		
Cash and cash equivalents (Notes 1, 14 and 15)	$ 4,083	16,055
Marketable securities (Notes 1, 14 and 15)	1	83
Accounts receivable trade, less allowances for doubtful accounts $160 (2005, $164)	8,712	7,010
Inventories (Notes 1 and 2)	4,889	3,959
Deferred taxes on income (Note 8)	2,094	1,931
Prepaid expenses and other receivables	3,196	2,442
Total current assets	**22,975**	**31,480**
Marketable securities, non-current (Notes 1, 14 and 15)	16	20
Property, plant and equipment, net (Notes 1 and 3)	13,044	10,830
Intangible assets, net (Notes 1 and 7)	15,348	6,185
Goodwill, net (Notes 1 and 7)	13,340	5,990
Deferred taxes on income (Note 8)	3,210	1,138
Other assets (Note 5)	2,623	3,221
Total assets	**$ 70,556**	**58,864**
Liabilities and Shareholders' Equity		
Current liabilities		
Loans and notes payable (Note 6)	$ 4,579	668
Accounts payable	5,691	4,315
Accrued liabilities	4,587	3,529
Accrued rebates, returns and promotions	2,189	2,017
Accrued salaries, wages and commissions	1,391	1,166
Accrued taxes on income	724	940
Total current liabilities	**19,161**	**12,635**
Long-term debt (Note 6)	2,014	2,017
Deferred taxes on income (Note 8)	1,319	211
Employee related obligations (Notes 5 and 13)	5,584	3,065
Other liabilities	3,160	2,226
Total liabilities	**31,238**	**20,154**
Shareholders' equity		
Preferred stock — without par value (authorized and unissued 2,000,000 shares)	—	—
Common stock — par value $1.00 per share (Note 20) (authorized 4,320,000,000 shares; issued 3,119,842,000 shares)	3,120	3,120
Accumulated other comprehensive income (Note 12)	(2,118)	(755)
Retained earnings	49,290	42,310
	50,292	44,675
Less: common stock held in treasury, at cost (Note 20) (226,612,000 shares and 145,364,000 shares)	10,974	5,965
Total shareholders' equity	**39,318**	**38,710**
Total liabilities and shareholders' equity	**$ 70,556**	**58,864**

See Notes to Consolidated Financial Statements

Consolidated Statements of Earnings

Johnson & Johnson and Subsidiaries

(Dollars in Millions Except Per Share Figures) (Note 1)	2006	2005	2004
Sales to customers	$53,324	50,514	47,348
Cost of products sold	15,057	14,010	13,474
Gross profit	38,267	36,504	33,874
Selling, marketing and administrative expenses	17,433	17,211	16,174
Research expense	7,125	6,462	5,344
Purchased in-process research and development (Note 17)	559	362	18
Interest income	(829)	(487)	(195)
Interest expense, net of portion capitalized (Note 3)	63	54	187
Other (income) expense, net	(671)	(214)	15
	23,680	23,388	21,543
Earnings before provision for taxes on income	14,587	13,116	12,331
Provision for taxes on income (Note 8)	3,534	3,056	4,151
Net earnings	**$11,053**	**10,060**	**8,180**
Basic net earnings per share (Notes 1 and 19)	$ 3.76	3.38	2.76
Diluted net earnings per share (Notes 1 and 19)	$ 3.73	3.35	2.74

See Notes to Consolidated Financial Statements

Consolidated Statements of Equity

Johnson & Johnson and Subsidiaries

(Dollars in Millions) (Note 1)	Total	Comprehensive Income	Retained Earnings	Note Receivable From Employee Stock Ownership Plan (ESOP)	Accumulated Other Comprehensive Income	Common Stock Issued Amount	Treasury Stock Amount
Balance, December 28, 2003	**$27,464**		**31,098**	**(18)**	**(590)**	**3,120**	**(6,146)**
Net earnings	8,180	8,180	8,180				
Cash dividends paid	(3,251)		(3,251)				
Employee stock compensation and stock option plans	1,339		(64)				1,403
Conversion of subordinated debentures	105		(18)				123
Repurchase of common stock	(1,384)						(1,384)
Other comprehensive income, net of tax:							
Currency translation adjustment	268	268			268		
Unrealized gains on securities	59	59			59		
Employee benefit plans	(282)	(282)			(282)		
Gains on derivatives & hedges	30	30			30		
Reclassification adjustment		(10)					
Total comprehensive income		**8,245**					
Note receivable from ESOP	7			7			
Balance, January 2, 2005	**$32,535**		**35,945**	**(11)**	**(515)**	**3,120**	**(6,004)**
Net earnings	10,060	10,060	10,060				
Cash dividends paid	(3,793)		(3,793)				
Employee stock compensation and stock option plans	1,485		27				1,458
Conversion of subordinated debentures	369		(132)				501
Repurchase of common stock	(1,717)		203				(1,920)
Other comprehensive income, net of tax:							
Currency translation adjustment	(415)	(415)			(415)		
Unrealized losses on securities	(16)	(16)			(16)		
Employee benefit plans	26	26			26		
Gains on derivatives & hedges	165	165			165		
Reclassification adjustment		(15)					
Total comprehensive income		**9,805**					
Note receivable from ESOP	11			11			
Balance, January 1, 2006	**$38,710**		**42,310**	**—**	**(755)**	**3,120**	**(5,965)**
Net earnings	11,053	11,053	11,053				
Cash dividends paid	(4,267)		(4,267)				
Employee compensation and stock option plans	1,858		181				1,677
Conversion of subordinated debentures	26		(10)				36
Repurchase of common stock	(6,722)						(6,722)
Other	23		23				
Other comprehensive income, net of tax:							
Currency translation adjustment	362	362			362		
Unrealized losses on securities	(9)	(9)			(9)		
Employee benefit plans	(1,710)	(34)			(1,710)		
Losses on derivatives & hedges	(6)	(6)			(6)		
Reclassification adjustment		(9)					
Total comprehensive income		**11,357**					
Balance, December 31, 2006	**$39,318**		**49,290**	**—**	**(2,118)**	**3,120**	**(10,974)**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Johnson & Johnson and Subsidiaries

(Dollars in Millions) (Note 1)	2006	2005	2004
Cash flows from operating activities			
Net earnings	$ 11,053	10,060	8,180
Adjustments to reconcile net earnings to cash flows:			
Depreciation and amortization of property and intangibles	2,177	2,093	2,124
Stock based compensation	659	540	507
Purchased in-process research and development	559	362	18
Deferred tax provision	(1,168)	(235)	(676)
Accounts receivable allowances	(14)	(31)	3
Changes in assets and liabilities, net of effects from acquisitions:			
Increase in accounts receivable	(699)	(568)	(111)
(Increase)/decrease in inventories	(210)	(396)	11
Increase/(decrease) in accounts payable and accrued liabilities	1,750	(911)	607
(Increase)/decrease in other current and non-current assets	(269)	542	(437)
Increase in other current and non-current liabilities	410	343	863
Net cash flows from operating activities	**14,248**	**11,799**	**11,089**
Cash flows from investing activities			
Additions to property, plant and equipment	(2,666)	(2,632)	(2,175)
Proceeds from the disposal of assets	511	154	237
Acquisitions, net of cash acquired (Note 17)	(18,023)	(987)	(580)
Purchases of investments	(467)	(5,660)	(11,617)
Sales of investments	426	9,187	12,061
Other (primarily intangibles)	(72)	(341)	(273)
Net cash used by investing activities	**(20,291)**	**(279)**	**(2,347)**
Cash flows from financing activities			
Dividends to shareholders	(4,267)	(3,793)	(3,251)
Repurchase of common stock	(6,722)	(1,717)	(1,384)
Proceeds from short-term debt	6,385	1,215	514
Retirement of short-term debt	(2,633)	(732)	(1,291)
Proceeds from long-term debt	6	6	17
Retirement of long-term debt	(13)	(196)	(395)
Proceeds from the exercise of stock options/excess tax benefits	1,135	774	684
Net cash used by financing activities	**(6,109)**	**(4,443)**	**(5,106)**
Effect of exchange rate changes on cash and cash equivalents	180	(225)	190
(Decrease)/increase in cash and cash equivalents	(11,972)	6,852	3,826
Cash and cash equivalents, beginning of year (Note 1)	16,055	9,203	5,377
Cash and cash equivalents, end of year (Note 1)	**$ 4,083**	**16,055**	**9,203**
Supplemental cash flow data			
Cash paid during the year for:			
Interest	$ 143	151	222
Income taxes	4,250	3,429	3,880
Supplemental schedule of noncash investing and financing activities			
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	$ 622	818	802
Conversion of debt	26	369	105
Acquisitions			
Fair value of assets acquired	$ 19,306	1,128	595
Fair value of liabilities assumed	(1,283)	(141)	(15)
Net cash paid for acquisitions	**$ 18,023**	**987**	**580**

See Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

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

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

The Company has approximately 122,200 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 and its primary focus is on products related to human health and well-being.

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

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment*. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (such as employee stock options and restricted stock units). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options and restricted stock units) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The Company adopted this statement in the fiscal first quarter of 2006, applying the modified retrospective transition method. Previously reported financial statements have been restated to reflect the adoption of SFAS No. 123(R). (See Note 10.)

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

In June 2006, the FASB issued FASB Interpretation 48 [FIN 48], *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. This interpretation 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 interpretation also provides guidance on derecognition, classification and other matters. FIN 48 is effective for the fiscal year 2007 and the Company will adopt accordingly. The Company is assessing the impact of the adoption of FIN 48 and currently does not believe that the adoption will have a material effect on its results of operations, cash flows or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective in the fiscal first quarter of 2008 and the Company will adopt the statement at that time. The Company believes that the adoption of SFAS No. 157 will not have a material effect on its results of operations, cash flows or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R).* This statement requires the recognition of the funded status of a benefit plan in the statement of financial position. It also requires the recognition as a component of other comprehensive income (OCI), net of tax, of the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to statements 87 or 106. The statement also has new provisions regarding the measurement date as well as certain disclosure requirements. The statement was effective at fiscal year end 2006 and the Company adopted the statement at that time. (See Note 13.)

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, which expresses the Staff's views regarding the process of quantifying financial statement misstatements. The bulletin was effective at fiscal year end 2006. The implementation of this bulletin had no impact on the Company's results of operations, cash flows or financial position.

The following accounting pronouncements became effective in 2005 and did not have a material impact on the Company's results of operations, cash flows or financial position:

- FIN 47: *Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143.*
- SFAS 153: *Exchanges of Non-monetary Assets, an amendment of APB 29.*

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

- EITF Issue 02-14: *Whether an Investor should apply the Equity Method of Accounting to Investments other than Common Stock.*
- EITF Issue 04-1: *Accounting for Preexisting Relationships between the Parties to a Business Combination.*

CASH EQUIVALENTS

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

INVESTMENTS

Short-term marketable securities are carried at cost, which approximates fair value. Investments classified as available-for-sale are carried at estimated fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive income. Long-term debt securities that the Company has the ability and intent to hold until maturity are carried at amortized cost, which also approximates fair value. Management determines the appropriate classification of its investment in debt and equity securities at the time of purchase and re-evaluates such determination at each balance sheet date. The Company periodically reviews its investments in equity securities for impairment and adjusts these investments to their fair value when a decline in market value is deemed to be other than temporary.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

REVENUE RECOGNITION

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

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

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

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 the 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 and includes it in sales to customers.

SHIPPING AND HANDLING

Shipping and handling costs incurred were $693 million, $736 million and $679 million in 2006, 2005 and 2004, respectively, and are included in selling, marketing and administrative expense. The amount of revenue received for shipping and handling is less than 0.5% of sales to customers for all periods presented.

INVENTORIES

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

GOODWILL AND INTANGIBLE ASSETS

Effective at the beginning of fiscal year 2002 in accordance with SFAS No. 142, the Company discontinued the amortization relating to all existing goodwill and indefinite lived intangible assets, which are non-amortizable. SFAS No. 142 requires that goodwill and non-amortizable intangible assets be assessed annually for impairment. The Company completed the annual impairment test for 2006 in the fiscal fourth quarter and no impairment was determined. Future impairment tests will be performed annually in the fiscal fourth quarter, or sooner if a triggering event occurs.

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

FINANCIAL INSTRUMENTS

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

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

The designation as a cash flow hedge is made at the entrance date into the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. The fair value of a derivative instrument (i.e. forward foreign exchange contract, currency swap) is the aggregation, by currency, of all future cash flows discounted to its present value at prevailing market interest rates and subsequently converted to the U.S. dollar at the current spot foreign exchange rate.

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period earnings, and was insignificant in 2006, 2005 and 2004.

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

PRODUCT LIABILITY

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

RESEARCH AND DEVELOPMENT

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

ADVERTISING

Costs associated with advertising are expensed in the year incurred and are included in the selling, marketing and administrative expenses. Advertising expenses worldwide, which are comprised of television, radio, print media and Internet advertising, were $1.9 billion in 2006, $2.1 billion in 2005 and $1.9 billion in 2004.

INCOME TAXES

The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded to cover the undistributed portion not intended for repatriation. At December 31, 2006 and January 1, 2006, the cumulative amount of undistributed international earnings were approximately $17.9 billion and $11.9 billion, respectively.

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

NET EARNINGS PER SHARE

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

USE OF ESTIMATES

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

ANNUAL CLOSING DATE

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

2. Inventories

At the end of 2006 and 2005, inventories were comprised of:

(Dollars in Millions)	2006	2005
Raw materials and supplies	$ 980	931
Goods in process	1,253	1,073
Finished goods	2,656	1,955
	$4,889	**3,959**

3. Property, Plant and Equipment

At the end of 2006 and 2005, property, plant and equipment at cost and accumulated depreciation were:

(Dollars in Millions)	2006	2005
Land and land improvements	$ 611	502
Buildings and building equipment	7,347	5,875
Machinery and equipment	13,108	10,835
Construction in progress	2,962	2,504
	24,028	19,716
Less accumulated depreciation	10,984	8,886
	$13,044	**10,830**

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2006, 2005 and 2004 was $118 million, $111 million and $136 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2006, 2005 and 2004 was $1.6 billion, $1.5 billion and $1.5 billion, respectively.

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

4. Rental Expense and Lease Commitments

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately $285 million in 2006, $248 million in 2005 and $254 million in 2004.

The approximate minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2006 are:

(Dollars in Millions)	2007	2008	2009	2010	2011	After 2011	Total
	$187	162	137	115	98	150	849

Commitments under capital leases are not significant.

5. Employee Related Obligations

At the end of 2006 and 2005, employee related obligations were:

(Dollars in Millions)	2006	2005
Pension benefits	$2,380	1,264
Postretirement benefits	2,009	1,157
Postemployment benefits	781	322
Deferred compensation	631	511
	5,801	3,254
Less current benefits payable	217	189
Employee related obligations	**$5,584**	**3,065**

Prepaid employee related obligations of $259 million and $1,218 million for 2006 and 2005, respectively, are included in other assets on the consolidated balance sheet. Prepaid employee related obligations decreased significantly in 2006 due to the implementation of SFAS No. 158.

6. Borrowings

The components of long-term debt are as follows:

(Dollars in Millions)	2006	Effective Rate%	2005	Effective Rate%
3% Zero Coupon Convertible Subordinated Debentures due 2020	$ 182	3.00	202	3.00
4.95% Debentures due 2033	500	4.95	500	4.95
3.80% Debentures due 2013	500	3.82	500	3.82
6.95% Notes due 2029	293	7.14	293	7.14
6.73% Debentures due 2023	250	6.73	250	6.73
6.625% Notes due 2009	199	6.80	199	6.80
Industrial Revenue Bonds	29	5.21	31	3.90
Other	70	—	55	—
	2,023	**5.23**[1]	**2,030**	**5.18**[1]
Less current portion	9		13	
	$2,014		**2,017**	

[1] *Weighted average effective rate.*

The Company has access to substantial sources of funds at numerous banks worldwide. Total unused credit available to the Company approximates $10.8 billion, including $9 billion of credit commitments, of which $3.75 billion expire September 27, 2007, $4 billion expire October 30, 2007 and $1.25 billion expire September 28, 2011. Also included are $0.75 billion of uncommitted lines with various banks worldwide that expire during 2007. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreement are not material.

The Company filed a shelf registration with the Securities and Exchange Commission (SEC) that became effective November 13, 2006 which enables the Company to issue up to $10 billion in debt securities and warrants to purchase debt securities. There was no debt issued during 2006 and the full amount remained available as of December 31, 2006.

On July 28, 2000, ALZA completed a private offering of the 3% Zero Coupon Convertible Subordinated Debentures, which were issued at a price of $551.26 per $1,000 principal amount at maturity. At December 31, 2006 the outstanding 3% Debentures had a total principal amount at maturity of $272.5 million with a yield to maturity of 3% per annum, computed on a semiannual bond equivalent basis. There are no periodic interest payments. Under the terms of the 3% debentures, holders are entitled to convert their debentures into approximately 15.0 million shares of Johnson & Johnson stock at a price of $40.102 per share. Approximately 11.2 million shares have been issued as of December 31, 2006, due to voluntary conversions by note holders. At the option of the holder, the 3% Debentures may be repurchased by the Company on July 28, 2008 or 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may elect to deliver either Johnson & Johnson common stock or cash, or a combination of stock and cash, in the event of repurchase of the 3% Debentures. The Company, at its option, may also redeem any or all of the 3% Debentures after July 28, 2003 at the issue

price plus accreted original issue discount. At December 31, 2006 and January 1, 2006 the fair value based on quoted market value of the 3% Debentures was $250.7 million and $260.6 million respectively.

Short-term borrowings and current portion of long term debt amounted to $4.6 billion at the end of 2006, of which $4.2 billion was raised under the Commercial Paper Program. The remainder represents principally local borrowing by international subsidiaries.

Aggregate maturities of long-term obligations commencing in 2007 are:

(Dollars in Millions)	2007	2008	2009	2010	2011	After 2011
	$9	9	240	9	6	1,750

CERTAIN BUSINESS RELATIONSHIPS

A member of the Company's Board of Directors is the Chief Executive Officer of a major bank. This bank has provided services to the Company, including providing a line of credit, for which the payments made were not significant for either the Company or the bank in 2006, 2005 or 2004.

7. Intangible Assets and Goodwill

At the end of 2006 and 2005, the gross and net amounts of intangible assets and goodwill were:

(Dollars in Millions)	2006	2005
Trademarks (non-amortizable) — gross	$ 6,609	1,400
Less accumulated amortization	134	134
Trademarks (non-amortizable) — net	**$ 6,475**	**1,266**
Patents and trademarks — gross	$ 5,282	4,128
Less accumulated amortization	1,695	1,370
Patents and trademarks — net	**$ 3,587**	**2,758**
Other intangibles — gross	$ 6,923	3,544
Less accumulated amortization	1,637	1,383
Other intangibles — net	**$ 5,286**	**2,161**
Subtotal intangible assets — gross	$18,814	9,072
Less accumulated amortization	3,466	2,887
Subtotal intangible assets — net	**$15,348**	**6,185**
Goodwill — gross	$14,075	6,703
Less accumulated amortization	735	713
Goodwill — net	**$13,340**	**5,990**
Total intangible assets and goodwill — gross	$32,889	15,775
Less accumulated amortization	4,201	3,600
Total intangible assets and goodwill — net	**$28,688**	**12,175**

Goodwill as of December 31, 2006 and January 1, 2006, as allocated by segment of business is as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev and Diag	Total
Goodwill at January 2, 2005	$1,160	832	3,871	5,863
Acquisitions	—	71	194	265
Translation/other	(70)	(29)	(39)	(138)
Goodwill at January 1, 2006	$1,090	874	4,026	5,990
Acquisitions	$6,720	—	533	7,253
Translation/other	56	28	13	97
Goodwill at December 31, 2006	$7,866	902	4,572	13,340

The weighted average amortization periods for patents and trademarks and other intangible assets are 15 years and 27 years, respectively. The amortization expense of amortizable intangible assets for the fiscal years ended December 31, 2006, January 1, 2006 and January 2, 2005 was $594 million, $521 million and $603 million before tax, respectively. Certain patents and intangibles were written down to fair value during fiscal years 2006, 2005, and 2004, with the resulting charge included in amortization expense. The estimated amortization expense for the five succeeding years approximates $720 million before tax, per year. Substantially all of the amortization expense is included in cost of products sold.

8. Income Taxes

The provision for taxes on income consists of:

(Dollars in Millions)	2006	2005	2004
Currently payable:			
U.S. taxes	$3,625	2,181	3,654
International taxes	1,077	1,110	1,173
	4,702	3,291	4,827
Deferred:			
U.S. taxes	(726)	77	(212)
International taxes	(442)	(312)	(464)
	(1,168)	(235)	(676)
	$3,534	**3,056**	**4,151**

A comparison of income tax expense at the federal statutory rate of 35% in 2006, 2005 and 2004, to the Company's effective tax rate is as follows:

(Dollars in Millions)	2006	2005	2004
U.S.	$ 8,110	6,949	7,489
International	6,477	6,167	4,842
Earnings before taxes on income:	$14,587	13,116	12,331
Tax rates:			
Statutory	35.0%	35.0	35.0
Puerto Rico and Ireland operations	(7.5)	(7.3)	(5.8)
Research and orphan drug tax credits	(0.7)	(0.7)	(0.8)
U.S. state and local	1.6	1.1	1.6
International subsidiaries excluding Ireland	(3.5)	(2.7)	(1.7)
Repatriation of International earnings	—	(1.7)	6.4
IPR&D	0.6	0.9	—
All other	(1.3)	(1.3)	(1.0)
Effective tax rate	24.2%	23.3	33.7

The Company had subsidiaries operating in Puerto Rico under various tax incentive grants. Also, the U.S. possessions tax credit, which expired in 2006, applies to certain operations in Puerto Rico. In addition, the Company had subsidiaries manufacturing in Ireland under an incentive tax rate. The increase in the 2006 tax rate was mainly due to the reversal of a tax liability of $225 million reported in the 2005 tax provision which resulted from a technical correction to the American Jobs Creation Act of 2004. This was partially offset by a benefit reported in 2006 for the reversal of tax allowances of $134 million associated with the Tibotec business.

Temporary differences and carry forwards for 2006 and 2005 are as follows:

	2006 Deferred Tax		2005 Deferred Tax	
(Dollars in Millions)	Asset	Liability	Asset	Liability
Employee related obligations	$1,691		670	
Stock based compensation	1,006		839	
Depreciation		(450)		(428)
Non-deductible intangibles		(2,263)		(1,401)
International R&D capitalized for tax	1,483		999	
Reserves & liabilities	845		788	
Income reported for tax purposes	373		458	
Miscellaneous international	663	(298)	495	(149)
Capitalized intangibles	126		140	
Miscellaneous U.S.	747		342	
Total deferred income taxes	**$6,934**	**(3,011)**	**4,731**	**(1,978)**

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

9. International Currency Translation

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

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

An analysis of the changes during 2006, 2005 and 2004 for foreign currency translation adjustments is included in Note 12.

Net currency transaction and translation gains and losses included in other (income) expense, net were losses of $18 million, $32 million, and $38 million in 2006, 2005 and 2004, respectively.

10. Common Stock, Stock Option Plans and Stock Compensation Agreements

STOCK OPTIONS

At December 31, 2006 the Company had 17 stock-based compensation plans. The shares outstanding are for contracts under the Company's 1995 and 2000 Stock Option Plans, the 2005 Long-Term Incentive Plan, the 2000 Stock Compensation Plan, the 1997 Non-Employee Director's Plan and the Centocor, Innovasive Devices, ALZA, Inverness and Scios Stock Option Plans. During 2006, no options or restricted stock were granted under any of these plans except the 2005 Long-Term Incentive Plan.

The compensation cost recorded under SFAS No. 123(R) that has been charged against income for these plans was $659 million for 2006, $540 million for 2005, and $507 million for 2004. The total income tax benefit recognized in the income statement for share based compensation costs was $228 million for 2006, $189 million for 2005, and $178 million for 2004. Share based compensation costs capitalized as part of inventory were insignificant in all periods.

Stock options expire 10 years from the date of grant and vest over service periods that range from six months to five years. All options are granted at current market price on the date of grant. Under the 2005 Long-Term Incentive Plan, the Company may issue up to 260 million shares of common stock. Shares available for future grants under the 2005 Long-Term Incentive Plan were 224.7 million at the end of 2006.

The Company settles employee stock option exercises with treasury shares. Treasury shares are replenished throughout the year for the number of shares used to settle employee stock option exercises.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Starting in 2006, expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. Prior to 2006, expected volatility was based on 5-year weekly historical volatility rate. Historical data is used to determine the expected life of the option. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

The average fair value of options granted was $12.22 in 2006, $15.48 in 2005, and $13.11 in 2004. The fair value was estimated based on the weighted average assumptions of:

	2006	2005	2004
Risk-free rate	4.60%	3.72%	3.15%
Expected volatility	19.6%	25.0%	27.0%
Expected life	6.0 yrs	5.0 yrs	5.0 yrs
Dividend yield	2.50%	1.93%	1.76%

A summary of option activity under the Plan as of December 31, 2006, January 1, 2006, and January 2, 2005 and changes during the years ending on those dates is presented below:

(Shares in Thousands)	Outstanding Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Shares at December 28, 2003	213,949	$45.37	
Options granted	47,815	53.94	
Options exercised	(24,066)	28.50	
Options canceled/forfeited	(8,694)	53.77	
Shares at January 2, 2005	229,004	48.62	$3,390,159
Options granted	47,556	66.16	
Options exercised	(21,733)	34.19	
Options canceled/forfeited	(6,285)	55.84	
Shares at January 1, 2006	248,542	53.05	$2,030,879
Options granted	28,962	58.38	
Options exercised	(26,152)	42.80	
Options canceled/forfeited	(8,425)	59.33	
Shares at December 31, 2006	242,927	$54.57	$2,787,725

The total intrinsic value of options exercised was $541.5 million, $664.0 million and $663.2 million in 2006, 2005, and 2004 respectively. The total unrecognized compensation cost was $648.8 million as of December 31, 2006, $659.6 million as of January 1, 2006 and $587.5 million as of January 2, 2005. The weighted average period for this cost to be recognized was 0.99 years for 2006, 1.15 years for 2005, and 1.12 years for 2004.

The following table summarizes stock options outstanding and exercisable at December 31, 2006:

(Shares in Thousands)	Outstanding			Exercisable	
Exercise Price Range	Options	Average Life[1]	Average Exercise Price	Options	Average Exercise Price
$ 3.62–$29.88	1,827	2.7	$21.23	1,827	$21.23
$30.07–$40.16	18,916	1.5	36.48	18,914	36.48
$40.98–$50.08	17,441	3.1	49.36	17,364	49.36
$50.11–$52.11	26,309	3.8	50.70	26,309	50.70
$52.20–$53.89	32,343	6.0	52.22	30,659	52.22
$53.93–$54.89	40,172	7.1	53.94	517	54.40
$55.01–$58.25	35,249	5.1	57.30	34,997	57.30
$58.34–$66.08	28,637	9.0	58.54	490	60.85
$66.18–$68.26	42,033	8.1	66.19	—	—
	242,927	**5.9**	**$54.57**	**131,077**	**$50.23**

[1] *Average contractual life remaining in years*

Stock options exercisable at January 1, 2006 and January 2, 2005 were 119,390 at an average price of $47.90 and an average life of 6.4 years, and 100,488 options at an average price of $41.26 and an average life of 6.4 years, respectively.

RESTRICTED STOCK UNITS

The Company grants restricted stock units with a vesting period of three years. The Company settles employee stock issuance with treasury shares. Treasury shares are replenished throughout the year for the number of shares used for employee stock issuances.

A summary of stock activity under the Plan as of December 31, 2006:

(Shares in Thousands)	Outstanding Shares
Shares at January 1, 2006	111
Stock granted	7,320
Stock issued	(33)
Stock canceled/forfeited	(513)
Shares at December 31, 2006	6,885

The average fair value of the restricted stock units granted during 2006 was $54.17, using the fair market value at the date of grant. The fair value of restricted stock units was discounted for dividends, which are not paid on the restricted stock units during the vesting period. The fair value of shares issued during 2006 was $1.7 million.

11. Segments of Business[1] and Geographic Areas

(Dollars in Millions)	Sales to Customers[2] 2006	2005	2004
Consumer — United States	$ 4,573	4,405	4,224
International	5,201	4,691	4,109
Total	**9,774**	**9,096**	**8,333**
Pharmaceutical — United States	15,092	14,478	14,960
International	8,175	7,844	7,168
Total	**23,267**	**22,322**	**22,128**
Medical Devices and Diagnostics — United States	10,110	9,494	8,586
International	10,173	9,602	8,301
Total	**20,283**	**19,096**	**16,887**
Worldwide total	**$53,324**	**50,514**	**47,348**

(Dollars in Millions)	Operating Profit 2006[5]	2005[6]	2004[7]	Identifiable Assets 2006	2005	2004
Consumer	$ 1,374	1,592	1,444	$25,380	6,275	6,142
Pharmaceutical	6,894	6,365	7,376	18,799	16,091	16,058
Medical Devices and Diagnostics	6,126	5,240	3,924	18,601	16,540	15,805
Segments total	14,394	13,197	12,744	62,780	38,906	38,005
Less: (Income)/Expenses not allocated to segments[3]	(193)	81	413			
General corporate[4]				7,776	19,958	16,034
Worldwide total	**$14,587**	**13,116**	**12,331**	**$70,556**	**58,864**	**54,039**

(Dollars in Millions)	Additions to Property, Plant & Equipment 2006	2005	2004	Depreciation and Amortization 2006	2005	2004
Consumer	$ 344	321	227	$ 255	232	222
Pharmaceutical	1,246	1,388	1,197	929	918	1,008
Medical Devices and Diagnostics	823	785	630	861	821	769
Segments total	2,413	2,494	2,054	2,045	1,971	1,999
General corporate	253	138	121	132	122	125
Worldwide total	**$2,666**	**2,632**	**2,175**	**$2,177**	**2,093**	**2,124**

(Dollars in Millions)	Sales to Customers[2] 2006	2005	2004	Long-Lived Assets[8] 2006	2005	2004
United States	$29,775	28,377	27,770	$22,432	15,355	14,324
Europe	12,786	12,187	11,151	14,443	5,646	6,142
Western Hemisphere excluding U.S.	3,542	3,087	2,589	3,108	957	748
Asia-Pacific, Africa	7,221	6,863	5,838	1,206	596	620
Segments total	53,324	50,514	47,348	41,189	22,554	21,834
General corporate				543	451	444
Other non long-lived assets				28,824	35,859	31,761
Worldwide total	**$53,324**	**50,514**	**47,348**	**$70,556**	**58,864**	**54,039**

[1] See Note 1 for a description of the segments in which the Company operates.

[2] Export sales and intersegment sales are not significant. In 2006 and 2005, the Company did not have a customer that represented 10% or more of total revenues. Sales to the top distributors accounted for 10.2% and 10.0% of total revenues in 2004.

[3] Amounts not allocated to segments include interest (income)/expense, minority interest and general corporate (income)/expense.

[4] General corporate includes cash and marketable securities.

[5] Includes $320 million and $239 million of In-Process Research and Development (IPR&D) for the Consumer and Medical Devices and Diagnostics segments, respectively. The Medical Devices and Diagnostics segment also includes the Guidant acquisition agreement termination fee, less associated expenses, of $622 million.

[6] Includes $302 million and $60 million of IPR&D for the Pharmaceutical and Medical Devices and Diagnostics segments, respectively.

[7] Includes $18 million of IPR&D in the Medical Devices and Diagnostics segment.

[8] Long-lived assets include property, plant and equipment, net for 2006, 2005 and 2004 of $13,044, $10,830 and $10,436, respectively, and intangible assets, net for 2006, 2005 and 2004 of $28,688, $12,175 and $11,842, respectively.

12. Accumulated Other Comprehensive Income

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

(Dollars in Millions)	Foreign Currency Translation	Unrealized Gains/ (Losses) on Securities	Employee Benefit Plans	Gains/ (Losses) on Derivatives & Hedges	Total Accumulated Other Comprehensive Income/(Loss)
Dec. 28, 2003	$(373)	27	(64)	(180)	(590)
2004 changes					
Net change due to hedging transactions	—	—	—	15	
Net amount reclassed to net earnings	—	—	—	15	
Net 2004 changes	268	59	(282)	30	75
Jan. 2, 2005	$(105)	86	(346)	(150)	(515)
2005 changes					
Net change due to hedging transactions	—	—	—	112	
Net amount reclassed to net earnings	—	—	—	53	
Net 2005 changes	(415)	(16)	26	165	(240)
Jan. 1, 2006	$(520)	70	(320)	15	(755)
2006 changes					
Net change due to hedging transactions				17	
Net amount reclassed to net earnings				(23)	
Net 2006 changes	362	(9)	(1,710)	(6)	(1,363)
Dec. 31, 2006	$(158)	61	(2,030)	9	(2,118)

Total other comprehensive income for 2006 includes reclassification adjustment gains of $13 million realized from the sale of equity securities and the associated tax expense of $4 million. Total other comprehensive income for 2005 includes reclassification adjustment gains of $23 million realized from the sale of equity securities and the associated tax expense of $8 million. Total other comprehensive income for 2004 includes reclassification adjustment gains of $16 million realized from the sale of equity securities and the associated tax expense of $6 million.

The tax effect on the unrealized gains/(losses) on the equity securities balance is an expense of $33 million, $38 million and $47 million in 2006, 2005 and 2004, respectively. The tax effect related to employee benefit plans was $891 million in 2006 and $160 million in 2005. The tax effect on the gains/(losses) on derivatives and hedges are losses of $4 million and $11 million in 2006 and 2005 and a benefit of $81 million in 2004. See Note 15 for additional information relating to derivatives and hedging.

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

13. Pensions and Other Benefit Plans

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

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

Retirement plan benefits are primarily based on the employee's compensation during the last three to five years before retirement and the number of years of service. International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts or reserves are provided.

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

The Company uses the date of its consolidated financial statements (December 31, 2006 and January 1, 2006, respectively) as the measurement date for all U.S. and international retirement and other benefit plans.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)* which requires an employer to fully recognize the over-funded or under-funded status of its pension and other postretirement benefit plans as an asset or liability in its financial statements. In addition, the Company is required to recognize as a component of other comprehensive income (loss) the actuarial gains and losses and the prior service costs and credits that arise during the period but are not immediately recognized as components of net periodic benefit cost. The incremental effect of applying SFAS No. 158 is a $1.7 billion reduction in shareholder's equity, net of deferred taxes.

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for 2006, 2005 and 2004 included the following components:

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2006	2005	2004	2006	2005	2004
Service cost	$ 552	462	409	$122	56	56
Interest cost	570	488	444	136	87	91
Expected return on plan assets	(701)	(579)	(529)	(3)	(3)	(3)
Amortization of prior service cost	10	12	15	(7)	(7)	(4)
Amortization of net transition asset	(1)	(2)	(3)	—	—	—
Recognized actuarial losses	251	219	173	74	25	27
Curtailments and settlements	4	2	3	—	—	—
Net periodic benefit cost	**$ 685**	**602**	**512**	**$322**	**158**	**167**

The net periodic benefit cost attributable to U.S. retirement plans was $423 million in 2006, $370 million in 2005 and $329 million in 2004.

Amounts expected to be recognized in Net Periodic Cost in the coming year for the Company's defined benefit retirement plans and other postretirement plans:

(Dollars in Millions)	
Amortization of net actuarial loss	$254
Amortization of prior service cost	3
Amortization of net transition obligation	1

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

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2006	2005	2004	2006	2005	2004
U.S. Benefit Plans						
Discount rate	6.00%	5.75	5.75	6.00%	5.75	5.75
Expected long-term rate of return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00
Rate of increase in compensation levels	4.50	4.50	4.50	4.50	4.50	4.50
International Benefit Plans						
Discount rate	5.00%	4.75	5.00	6.00%	5.00	5.50
Expected long-term rate of return on plan assets	8.00	8.25	8.00	—	—	—
Rate of increase in compensation levels	3.75	3.75	3.75	4.50	4.25	4.25

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

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

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

Health Care Plans	2006	2005
Health care cost trend rate assumed for next year	9.00%	9.00
Rate to which the cost trend rate is assumed to decline (ultimate trend)	4.50%	4.50
Year the rate reaches the ultimate trend rate	2012	2010

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

(Dollars in Millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Health Care Plans		
Total interest and service cost	$ 34	$ (23)
Postretirement benefit obligation	292	(238)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2006 and 2005 for the Company's defined benefit retirement plans and other postretirement plans:

(Dollars in Millions)	Retirement Plans 2006	Retirement Plans 2005	Other Benefit Plans 2006	Other Benefit Plans 2005
Change in Benefit Obligation				
Projected benefit obligation — beginning of year	$10,171	8,941	$ 2,325*	1,593
Service costs	552	462	122	56
Interest costs	570	488	136	87
Plan participant contributions	47	22	—	—
Amendments	7	13	—	—
Actuarial (gains)/losses	(99)	932	130	57
Divestitures & acquisitions	443	—	101	—
Curtailments & settlements	(7)	(1)	—	—
Benefits paid from plan	(402)	(366)	(147)	(75)
Effect of exchange rates	378	(320)	1	(1)
Projected benefit obligation — end of year	**$11,660**	**10,171**	**$ 2,668**	**1,717**
Change in Plan Assets				
Plan assets at fair value — beginning of year	$ 8,108	7,125	$ 34	37
Actual return on plan assets	966	801	2	1
Company contributions	259	714	141	71
Plan participant contributions	47	22	—	—
Divestitures & acquisitions	300	—	—	—
Curtailments & settlements	(7)	—	—	—
Benefits paid from plan assets	(402)	(366)	(147)	(75)
Effect of exchange rates	267	(188)	—	—
Plan assets at fair value — end of year	**$ 9,538**	**8,108**	**$ 30**	**34**
Funded status at end of year	$ (2,122)	(2,063)	$(2,638)	(1,683)
Unrecognized actuarial losses	1,996	2,484	1,046	574
Unrecognized prior service costs	44	49	(42)	(48)
Unrecognized net transition assets	7	5	—	—
Total recognized in the consolidated balance sheet	**$ (75)**	**475**	**$(1,634)**	**(1,157)**
Amounts Recognized in the Company's Balance Sheet consist of the following:				
Before Adoption of SFAS 158				
Book accruals	$ (1,703)	(1,264)	(1,634)	(1,157)
Prepaid benefits	1,062	1,218	—	—
Intangible assets	38	41	—	—
Accumulated comprehensive income	528	480	—	—
Total recognized in the consolidated balance sheet	**$ (75)**	**475**	**$(1,634)**	**(1,157)**
After Adoption of SFAS 158				
Non-current assets	$ 259		—	
Current liabilities	(26)		(81)	
Non-current liabilities	(2,355)		(2,557)	
Total recognized in the consolidated balance sheet	**$ (2,122)**		**$(2,638)**	
Amounts Recognized in Accumulated Other Comprehensive Income consist of				
Net actuarial losses	$ 1,996		1,046	
Prior service costs/(credits)	44		(42)	
Unrecognized net transition assets	7		0	
Total before tax effects	**$ 2,047**		**$ 1,004**	
Change in Accumulated Other Comprehensive Income due to Adoption of SFAS 158 (before tax effects)	**$ 1,519**		**$ 1,004**	
Accumulated Benefit Obligations End of Year	**$ 9,804**	**8,570**		

* *Includes other post employment benefits as per the adoption of SFAS No. 158.*

Strategic asset allocations are determined by country, based on the nature of the liabilities and considering the demographic composition of the plan participants (average age, years of service and active versus retiree status). The Company's plans are considered non-mature plans and the long-term strategic asset allocations are consistent with these types of plans. Emphasis is placed on diversifying equities on a broad basis combined with currency matching of the fixed income assets.

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

(Dollars in Millions)	2007	2008	2009	2010	2011	2012-2016
Projected future benefit payments						
Retirement plans	$421	422	432	455	496	3,003
Other benefit plans — gross	$176	176	179	182	185	993
Medicare rebates	(9)	(10)	(11)	(12)	(13)	(83)
Other benefit plans — net	$167	166	168	170	172	910

The Company was not required to fund its U.S. retirement plans in 2006 and is not required, nor does it anticipate funding, in 2007 to meet minimum statutory funding requirements. International plans are funded in accordance with local regulations. Additional discretionary contributions are made when deemed appropriate to meet the long-term obligations of the plans. In certain countries other than the United States, the funding of pension plans is not a common practice as funding provides no economic benefit. Consequently, the Company has several pension plans which are not funded.

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

(Dollars in Millions)	2007	2008	2009	2010	2011	2012-2016
Projected future contributions						
Unfunded U.S. retirement plans	$21	22	23	24	25	140
Unfunded International retirement plans	$20	20	21	21	22	120

The Company's retirement plan asset allocation at December 31, 2006 and January 1, 2006 and target allocations for 2007 are as follows:

	Percent of Plan Assets		Target Allocation
	2006	2005	2007
U.S. Retirement Plans			
Equity securities	78%	76%	75%
Debt securities	22	24	25
Total plan assets	**100%**	**100%**	**100%**
International Retirement Plans			
Equity securities	67%	69%	67%
Debt securities	32	30	32
Real estate and other	1	1	1
Total plan assets	**100%**	**100%**	**100%**

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of $30 million and $34 million at December 31, 2006 and January 1, 2006, respectively.

The fair value of Johnson & Johnson common stock directly held in plan assets was $452 million (4.9% of total plan assets) and $419 million (5.2% of total plan assets) at December 31, 2006 and January 1, 2006, respectively.

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

	Retirement Plans	
(Dollars in Millions)	2006	2005
Accumulated benefit obligation	$(3,085)	$(2,759)
Projected benefit obligation	(3,561)	(3,230)
Plan assets at fair value	1,650	1,570

14. Cash, Cash Equivalents and Marketable Securities

(Dollars in Millions)	December 31, 2006 Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value	January 1, 2006 Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value
Current Investments						
Cash	$1,909	—	1,909	1,425	—	1,425
Government securities and obligations	—	—	—	1,743	—	1,743
Corporate debt securities	—	—	—	67	—	67
Money market funds	1,116	—	1,116	11,918	—	11,918
Time deposits	1,059	—	1,059	985	—	985
Total cash, cash equivalents and current marketable securities	$4,084	—	4,084	16,138	—	16,138
Non-Current Investments						
Marketable securities	$ 16	—	16	20	—	20

15. Financial Instruments

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

As of December 31, 2006, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $9 million after-tax. The Company expects that substantially all of this amount will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. Derivative gains/(losses), initially reported as a component of other comprehensive income, are reclassified to earnings in the period when the forecasted transaction affects earnings.

For the years ended December 31, 2006, January 1, 2006, and January 2, 2005, the net impact of hedge ineffectiveness, transactions not qualifying for hedge accounting and discontinuance of hedges, to the Company's financial statements was insignificant.

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

CONCENTRATION OF CREDIT RISK

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

16. Savings Plan

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

In the U.S. salaried plan, through 2004, one-third of the Company match was paid in Company stock under an employee stock ownership plan (ESOP) unless the employee chose to redirect his or her investment. In 1990, to establish the ESOP, the Company loaned $100 million to the ESOP Trust to purchase shares of the Company stock on the open market. In exchange, the Company received a note, the balance of which was recorded as a reduction of shareholders' equity. The remaining shares held by the ESOP trust were allocated to participant accounts by the end of February 2005. From March 2005, and going forward, the Company match is made in cash and follows the individual employee's investment elections.

Total Company contributions to the plans were $158 million in 2006, $148 million in 2005 and $143 million in 2004.

17. Mergers, Acquisitions and Divestitures

Certain businesses were acquired for $18.0 billion in cash and $1.3 billion of liabilities assumed during 2006. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisitions except as noted below.

On December 20, 2006, the Company completed the acquisition of the Consumer Healthcare business of Pfizer Inc. for a purchase price of $16.6 billion in cash. The operating results of the Consumer Healthcare business of Pfizer Inc. will be reported in the Company's financial statements beginning in 2007, as 2006 results subsequent to the acquisition date were not significant.

In order to obtain regulatory approval of the transaction, the Company agreed to divest certain overlapping businesses. The Company completed the divestiture of the ZANTAC® product on December 20, 2006 and the divestitures of KAOPECTATE®, UNISOM®, CORTIZONE®, BALMEX® and ACT® products on January 2, 2007.

The following table provides pro forma results of operations for the fiscal year ended January 1, 2006 and the fiscal year ended December 31, 2006, as if the Consumer Healthcare business of Pfizer Inc. had been acquired as of the beginning of each period presented. The pro forma results include the effect of divestitures and certain purchase accounting adjustments such as the estimated changes in depreciation and amortization expense on the acquired tangible and intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of the Consumer Healthcare business of Pfizer Inc. Accordingly, such amounts are not necessarily indicative of the results if the acquisition had occurred on the dates indicated or which may occur in the future.

	Pro forma results	
(Dollars in Millions Except Per Share Data)	Year ended December 31, 2006	Year ended January 1, 2006
Net Sales	$57,115	54,156
Net Earnings	10,770	9,784
Diluted Net Earnings per Common Share	$ 3.64	3.26

The Company is in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. The preliminary allocation of the purchase price included in the current period balance sheet is based on the best estimates of management. The completion of the purchase price allocation may result in adjustments to the carrying value of the Consumer Healthcare business of Pfizer Inc.'s recorded assets and liabilities, revisions of the useful lives of intangible assets and the determination of any residual amount that will be allocated to goodwill. The related depreciation and amortization from the acquired assets is also subject to revision based on the final allocation.

The following table presents the preliminary allocation of the purchase price related to the Consumer Healthcare business of Pfizer Inc. as of the date of acquisition:

(Dollars in Millions)	
Current assets	$ 1,992
Property, plant and equipment	809
Goodwill	6,567
Intangible assets	8,895
Total assets acquired	**$18,263**
Current liabilities	831
Non-current liabilities	1,155
Total liabilities assumed	**$ 1,986**
Net assets acquired	**$16,277**

The acquisition of the Consumer Healthcare business of Pfizer Inc. resulted in $6.6 billion in goodwill, which is allocated to the Consumer segment.

The preliminary purchase price allocation to the identifiable intangible assets included in the current period balance sheet is as follows:

(Dollars in Millions)	
Intangible assets with determinable lives:	
Brands	$ 302
Patents and technology	321
Customer relationships	3,067
Total amortizable intangibles	3,690
Brands with indefinite lives	5,205
Total intangible assets	**$8,895**

The weighted average life of the $3,690 million of total amortizable intangibles is approximately 31 years.

The majority of the intangible asset valuation relates to brands. The assessment as to brands that have an indefinite life and those that have a determinable life was based on a number of factors, including the competitive environment, market share, brand history, product life cycles, operating plan and the macroeconomic environment of the countries in which the brands are sold. The indefinite-life brands that account for over 90% of the total value of all indefinite-life brands include LISTERINE®, NICORETTE®, NEOSPORIN®, SUDAFED®, BENADRYL®, VISINE® and BENYLIN®. The determinable-life brands include PURELL®, ACTIFED®, EFFERDENT® and other regional or country specific brands. The determinable-life brands have asset lives ranging from 5 to 40 years. The patents and technology intangibles are concentrated in the upper respiratory, oral care, medicated skin care, tobacco dependence and hair growth businesses and have asset lives ranging from 5 to 20 years. The estimated customer relationship intangible asset useful lives, ranging from 30 to 40 years, reflect the very low historical and projected customer attrition rates among the Consumer Healthcare business of Pfizer Inc.'s major retailer and distributor customers.

The IPR&D charge related to the acquisition of the Consumer Healthcare business of Pfizer Inc. was $320 million on a pre-tax basis and $217 million on an after-tax basis and is primarily associated with rights obtained to the pending switch of ZYRTEC® from U.S. prescription to over the counter status.

The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 95% was used to reflect inherent regulatory risk and the discount rate applied was 11%.

The Company is in the process of completing the analysis of integration plans, pursuant to which the Company will incur costs primarily related to the elimination of certain duplicate selling, general and administrative functions between the two companies in areas such as global business services, corporate staff and go-to-market support, as well as excess manufacturing capacity.

In addition to the acquisition of the Consumer Healthcare business of Pfizer Inc., 2006 acquisitions included: Animas Corporation, a leading maker of insulin infusion pumps and related products; Hand Innovations LLC, a privately held manufacturer of fracture fixation products for the upper extremities; Future Medical Systems S.A., a privately held company that primarily develops, manufactures and markets arthroscopic fluid management systems; Vascular Control Systems, Inc., a privately held company focused on developing medical devices to treat fibroids and to control bleeding in obstetric and gynecologic applications; Groupe Vendôme S.A., a privately held French marketer of adult and baby skin care products; ColBar Lifescience Ltd., a privately held company specializing in reconstructive medicine and tissue engineering and Ensure Medical, Inc., a privately held company that develops devices for post-catheterization closure of the femoral artery.

Excluding the acquisition of the Consumer Healthcare business of Pfizer Inc., the excess of purchase price over the estimated fair value of tangible assets acquired amounted to $1,209 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately $239 million has been identified as the value of IPR&D primarily associated with the acquisitions of Hand Innovations LLC, Future Medical Systems S.A., Vascular Control Systems, Inc., ColBar Lifescience Ltd. and Ensure Medical, Inc.

The IPR&D charge related to the acquisition of Hand Innovations LLC was $22 million and is associated with fracture repair technologies. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor ranging from 38-95% was used to reflect inherent clinical and regulatory risk and the discount rate applied was 17%.

The IPR&D charge related to the acquisition of Future Medical Systems S.A. was $15 million and is associated with the NEXTRA and DUO PUMP product technologies. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 90% for both technologies was used to reflect inherent clinical and regulatory risk and the discount rate applied was 22%.

The IPR&D charge related to the acquisition of Vascular Control Systems, Inc. was $87 million and is associated with the FLOSTAT system technology. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 75% was used to reflect inherent clinical and regulatory risk and the discount rate applied was 21%.

The IPR&D charge related to the acquisition of ColBar Lifescience Ltd. was $49 million and is associated with the EVOLENCE family of products, which are biodegradable dermal fillers. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor ranging from 70-80% was used to reflect inherent clinical and regulatory risk and the discount rate applied was 21%.

The IPR&D charge related to the acquisition of Ensure Medical, Inc. was $66 million and is associated with the femoral artery closure device. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 75% was used to reflect inherent clinical and regulatory risk and the discount rate applied was 22%.

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

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

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

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

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

The IPR&D charge related to the acquisition of Peninsula Pharmaceuticals, Inc. was $252 million and is associated with the development of doripenem, which is in Phase III clinical trials. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. A probability of success factor of 80% was used to reflect inherent clinical and regulatory risk and the discount rate applied was 14%.

The remaining $9 million in IPR&D was associated with the acquisition of international commercial rights to certain patents and know-how in the field of sedation and analgesia from Scott Lab, Inc. The value of the IPR&D was calculated using cash flow

projections discounted for the risk inherent in such projects. The discount rate was 17%.

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

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

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

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

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

Divestitures in 2006, 2005 and 2004 did not have a material effect on the Company's results of operations, cash flows or financial position.

18. Legal Proceedings

PRODUCT LIABILITY

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

Multiple products of Johnson & Johnson subsidiaries are subject to numerous product liability claims and lawsuits, including ORTHO EVRA®, RISPERDAL®, DURAGESIC® and the CHARITÉ™ Artificial Disc. As of December 31, 2006, there were approximately 1,500 claimants who have filed lawsuits or made claims regarding injuries allegedly due to ORTHO EVRA®, 700 claimants with respect to RISPERDAL®, 100 with respect to DURAGESIC® and 100 with respect to CHARITÉ™. These claimants seek substantial compensatory and, where available, punitive damages. Numerous claims and lawsuits in the United States relating to the drug PROPULSID®, withdrawn from general sale by the Company's Janssen Pharmaceutica Inc. subsidiary in 2000, have been resolved or are currently enrolled in settlement programs with an aggregate cap below $100 million in payments by the Company. Litigation concerning PROPULSID® is pending in Canada, where a class action of persons alleging adverse reactions to the drug was recently certified. The Johnson & Johnson subsidiaries responsible for marketing the above products are vigorously defending against these claims except where settlement is deemed appropriate.

AFFIRMATIVE STENT PATENT LITIGATION

In patent infringement actions tried in Delaware Federal District Court in late 2000, Cordis Corporation (Cordis), a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards against Boston Scientific Corporation (Boston Scientific) and Medtronic AVE, Inc. (Medtronic) based on a number of Cordis vascular stent patents. In December 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and the jury in the Medtronic action returned a verdict of $271 million. Multiple post-trial proceedings and appeals have ensued with respect to these verdicts, with the ultimate outcome still subject to uncertainty.

Cordis also has an arbitration claim against Medtronic accusing Medtronic of infringement by sale of stent products introduced by Medtronic subsequent to its products subject to the earlier action referenced above. Those subsequent products were found to have been licensed to Medtronic pursuant to a 1997 license by an arbitration panel in March 2005. Further arbitration proceedings will determine whether royalties are owed for those products.

In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2™, Taxus® and Liberte® stents of infringing the Palmaz patent that expired in November 2005. The Liberte® stent was also accused of infringing Cordis' Gray patent that expires in 2016. In June 2005, a jury found that the Express2™, Taxus® and Liberte® stents infringed the Palmaz patent and that the Liberte® stent also infringed the Gray patent. Motions filed by Boston Scientific seeking to vacate the verdict or obtain a new trial were denied in June 2006. Cordis expects Boston Scientific will appeal to the U.S. Court of Appeals for the Federal Circuit.

PATENT LITIGATION AGAINST VARIOUS JOHNSON & JOHNSON SUBSIDIARIES

The products of various Johnson & Johnson subsidiaries are the subject of various patent lawsuits, the outcomes of which

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

In July 2005, a jury in Federal District Court in Delaware found that the Cordis CYPHER® stent infringed Boston Scientific's Ding `536 patent and that the Cordis CYPHER® and BX VELOCITY® stents also infringed Boston Scientific's Jang `021 patent. The jury also found both of those patents valid. Boston Scientific seeks substantial damages and an injunction in that action. In June 2006, the District Court denied motions by Cordis to overturn the jury verdicts or grant a new trial. Cordis has moved for re-consideration of those decisions. If reconsideration is denied, Cordis will appeal to the Court of Appeals for the Federal Circuit. The District Court indicated it will consider damages, willfulness and injunctive relief after the appeals have been decided.

Trial of Boston Scientific's case asserting infringement by the CYPHER® stent of Boston Scientific's Grainger patent, which had been scheduled for March 2006, has been adjourned pending a decision on Cordis' motion for summary judgment. In that case as well, Boston Scientific seeks an injunction and substantial damages.

Boston Scientific has brought actions in Belgium and the Netherlands under its Kastenhofer patent to enjoin the manufacture and sale of allegedly infringing catheters in those countries, and to recover damages. The Belgian case is pending and no hearing date has been set. A decision by the lower court in the Netherlands in Boston Scientific's favor is on appeal.

In Germany, Boston Scientific has several actions based on its Ding patents pending against the Cordis CYPHER® stent. Cordis was successful in these actions at the trial level, but Boston Scientific has appealed.

The following chart summarizes various patent lawsuits concerning products of Johnson & Johnson subsidiaries that have yet to proceed to trial:

J&J Product	Company	Patents	Plaintiff/ Patent Holder	Court	Trial Date	Date Filed
Catheters and stent delivery systems	Cordis	Fitzmaurice	Medtronic AVE	E.D. Tex	09/07	06/03
Drug Eluting Stents	Cordis	Grainger	Boston Scientific Corp.	D. Del.	*	12/03
Drug Eluting Stents	Cordis	Ding	Boston Scientific Corp.	Germany	*	04/04 11/04
Two-layer Catheters	Cordis	Kasten-hofer Forman	Boston Scientific Corp.	N.D. Cal Belgium	* *	02/02 12/03
Stents	Cordis	Israel	Medinol	Multiple E.U. jurisdictions	*	05/03
Contact Lenses	Vision Care	Nicolson	CIBA Vision	M.D. Fla.	*	09/03

** Trial date to be established.*

LITIGATION AGAINST FILERS OF ABBREVIATED NEW DRUG APPLICATIONS (ANDAs)

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

As noted in the following chart, 30-month stays expired during 2006 and will expire in 2007 or 2008 with respect to ANDA challenges regarding various products:

Brand Name Product	Patent/NDA Holder	Generic Challenger	Court	Trial Date	Date Filed	30-Month Stay Expires
ACIPHEX® 20 mg delay release tablet	Eisai (for Janssen)	Teva Dr. Reddy's Mylan	S.D. N.Y. S.D. N.Y. S.D. N.Y.	03/07 03/07 03/07	11/03 11/03 01/04	02/07 02/07 02/07
AXERT® 6.25 and 12.5 mg	Almirall Ortho-McNeil Neurologics	Teva	S.D. N.Y.	*	03/06	11/08
CONCERTA® 18, 27, 36 and 54 mg controlled release tablet	McNeil-PPC ALZA	Andrx	D. Del.	*	09/05	None

Brand Name Product	Patent/NDA Holder	Generic Challenger	Court	Trial Date	Date Filed	30-Month Stay Expires
DITROPAN XL® 5, 10, 15 mg controlled release tablet	Ortho-McNeil ALZA	Mylan Impax	D. W.V. N.D. Cal.	02/05 12/05	05/03 09/03	09/05 01/06
ORTHO TRI CYCLEN® LO 0.18 mg/0.025 mg 0.215 mg/0.025 mg and 0.25 mg/0.025 mg	Ortho-McNeil	Barr	D. N.J.	*	10/03	02/06
PEPCID® Complete	McNeil-PPC	Perrigo	S.D. N.Y.	02/07	02/05	06/07
RAZADYNE™	Janssen	Teva Mylan Dr. Reddy's Purepac Barr Par AlphaPharm	D. Del D. Del D. Del D. Del D. Del D. Del D. Del	05/07 05/07 05/07 05/07 05/07 05/07 05/07	07/05 07/05 07/05 07/05 07/05 07/05 07/05	01/08 01/08 01/08 01/08 01/08 01/08 01/08
RAZADYNE™ ER	Janssen	Barr	D. N.J.	*	06/06	11/08
RISPERDAL® Tablets .25, 0.5, 1, 2, 3, 4 mg tablets	Janssen	Mylan Dr. Reddy's Apotex	D. N.J. D. N.J. D. N.J.	06/06 06/06 *	12/03 12/03 06/06	05/06 06/06 11/08
RISPERDAL® M-Tab 0.5, 1, 2, 3, 4 mg	Janssen	Dr. Reddy's	D. N.J.	06/06	02/05	07/07
RISPERDAL® Oral Solution, 1 mg/ml	Janssen	Apotex	D. N.J.	*	03/06	08/08
TOPAMAX® 25, 50, 100, 200 mg tablet	Ortho-McNeil	Mylan Cobalt	D. N.J. D. N.J.	* *	04/04 10/05	09/06 03/08
TOPAMAX® SPRINKLE 15, 25 mg capsule	Ortho-McNeil	Cobalt Mylan	D. N.J. D. N.J.	* *	12/05 10/06	05/08 03/09

** Trial date to be established.*

In the action against Mylan and Dr. Reddy's Laboratories regarding RISPERDAL® (risperidone) tablets and M-Tabs, the District Court in New Jersey ruled, on October 13, 2006, that the RISPERDAL® patent was valid, enforceable, and infringed by the generic products at issue, and entered an injunction prohibiting Mylan and Dr. Reddy's from marketing their generic risperidone products until a date no earlier than patent expiration in December 2007. Mylan has appealed that ruling.

In the action against Mylan with respect to the patent on TOPAMAX®, the District Court in New Jersey, on October 24, 2006, granted the Company's subsidiary Ortho-McNeil Pharmaceutical, Inc.'s (Ortho-McNeil) motion for a preliminary injunction barring launch by Mylan of its generic version of TOPAMAX®. On February 2, 2007, the district court granted Ortho-McNeil's motion for summary judgment dismissing Mylan's claim the patent was obvious, the only remaining issue in the case. The Company expects judgment in the case will shortly be entered for Ortho-McNeil, and that Mylan will then appeal.

In the action against Mylan involving Ortho-McNeil's product, DITROPAN XL® (oxybutynin chloride), the court in September 2005 found the DITROPAN XL® patent invalid and not infringed by Mylan's generic product. Those rulings were affirmed by the Court of Appeals for the Federal Circuit on September 6, 2006. Mylan and Impax received final FDA approval and launched their products in November 2006.

In the weeks following the adverse ruling in the DITROPAN XL® ANDA litigation against Mylan in September 2005, Johnson & Johnson and ALZA received seven antitrust class action complaints filed by purchasers of the product. They allege that Johnson & Johnson and ALZA violated the antitrust laws of the various states by knowingly pursuing baseless patent litigation, and thereby delaying entry into the market by Mylan and Impax.

In the action against Impax involving its ANDA referencing McNeil-PPC's product CONCERTA®, McNeil and ALZA Corporation, both subsidiaries of the Company, dismissed with prejudice their claim of infringement against Impax with respect to its ANDA.

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

AVERAGE WHOLESALE PRICE (AWP) LITIGATION

Johnson & Johnson and several of its pharmaceutical subsidiaries, along with numerous other pharmaceutical companies, are defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price (AWP) for the drugs at issue. Most of these cases, both federal actions and state actions removed to federal court, have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in Federal District Court in Boston, Massachusetts. The plaintiffs in these cases include classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP. In the MDL proceeding in Boston, plaintiffs moved for class certification of all or some portion of their claims. On August 16, 2005, the trial judge certified Massachusetts-only classes of private insurers providing "Medi-gap" insurance coverage and private payers for physician-administered drugs where payments were based on AWP. The judge also allowed plaintiffs to file a new complaint seeking to name proper parties to represent a national class of individuals who made co-payments for physician-administered drugs covered by Medicare. The Court of Appeals declined to allow an appeal of those issues and in January 2006, the court certified the national class as noted above. A trial of the two Massachusetts-only class actions concluded before the Massachusetts District Court in December 2006. A decision is expected in the first quarter of 2007. The trial judge has scheduled jury trials to begin in April 2007 in the national class action on behalf of individuals who paid co-payments for Medicare Part B drugs. Trial in the action brought by the Attorney General of the State of Alabama making allegations related to AWP is set for November 2007. Additional AWP cases brought by various Attorney Generals are expected to be set for trial in 2008.

OTHER

In July 2003, Centocor Corporation received a request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Subsequent requests for documents have been received from the U.S. Attorney's Office. Both the Company and Centocor responded, or are in the process of responding, to these requests for documents and information.

In December 2003, Ortho-McNeil received a subpoena from the U.S. Attorney's Office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX® (topiramate). An additional subpoena for documents was served in June 2006. Ortho-McNeil is cooperating in responding to the subpoenas. In October 2004, the U.S. Attorney's Office in Boston asked attorneys for Ortho-McNeil to cooperate in facilitating the subpoenaed testimony of several present and former Ortho-McNeil employees before a federal grand jury in Boston. Cooperation in securing the testimony of additional witnesses before the grand jury has been requested and is being provided.

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

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

In August 2004, Johnson & Johnson Health Care Systems, Inc. (HCS), a Johnson & Johnson subsidiary, received a subpoena from the Dallas, Texas U.S. Attorney's Office seeking documents relating to the relationships between the group purchasing organization Novation and HCS and other Johnson & Johnson subsidiaries. The Company's subsidiaries involved have responded to the subpoena.

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

In March 2005, DePuy Orthopaedics, Inc. (DePuy), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of New Jersey, seeking records concerning contractual relationships between DePuy Orthopaedics and surgeons or surgeons-in-training involved in hip and knee replacement and reconstructive surgery. Other leading orthopaedic companies are known to have received a similar subpoena. DePuy Orthopaedics is responding to the subpoena as well as a follow-on subpoena for documents. A number of employees of DePuy have been subpoenaed to testify before a grand jury in connection with this investigation.

In June 2005, the U.S. Senate Committee on Finance requested the Company to produce information regarding use by several of its pharmaceutical subsidiaries of educational grants. A similar request was sent to other major pharmaceutical companies. In July 2005, the Committee specifically requested information about educational grants in connection with the drug PROPULSID®. A follow up request was received from the Committee for additional information in January 2006.

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

In September 2005, Johnson & Johnson received a subpoena from the U.S. Attorney's Office, District of Massachusetts, seeking documents related to sales and marketing of eight drugs to Omnicare, Inc., a manager of pharmaceutical benefits for long-term care facilities. The Johnson & Johnson subsidiaries involved are responding to the subpoena. Several employees of the Company's pharmaceutical subsidiaries have been subpoenaed to testify before a grand jury in connection with this investigation.

In January 2006, Janssen received a civil investigative demand from the Texas Attorney General seeking broad categories of documents related to the sales and marketing of RISPERDAL®. Janssen is responding to the request. In October 2006, the Texas Attorney General joined a qui tam action filed against Janssen in Texas state court alleging off label marketing of RISPERDAL® and seeking compensation for alleged adverse reactions due to RISPERDAL®.

In February 2006, Johnson & Johnson received a subpoena from the U.S. Securities & Exchange Commission (SEC) requesting documents relating to the participation by several Johnson & Johnson subsidiaries in the United Nations Iraq Oil For Food Program. The subsidiaries are cooperating with the SEC in producing responsive documents.

In June 2006, DePuy received a subpoena from the U.S. Department of Justice, Antitrust Division, requesting documents related to the manufacture, marketing and sale of orthopaedic devices, and had search warrants executed in connection with the investigation. DePuy is responding to the request for documents. In the wake of publicity about the subpoena, DePuy was served with five civil antitrust class actions.

In September 2006, Janssen received a subpoena from the Attorney General of the State of California seeking documents regarding sales and marketing and side-effects of RISPERDAL®, as well as interactions with State officials regarding the State's formulary for Medicaid-reimbursed drugs. Janssen is in the process of responding to the subpoena.

On November 27, 2006, Centocor received a subpoena seeking documents in connection with an investigation being conducted by the Office of the United States Attorney for the Central District of California regarding Centocor's Average Selling Price (ASP) calculations for REMICADE® under the company's Contract Purchase Program. Centocor is producing material responsive to the subpoena and cooperating with the investigation.

On February 12, 2007, Johnson & Johnson voluntarily disclosed to the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC) that subsidiaries outside the United States are believed to have made improper payments in connection with the sale of medical devices in two small-market countries, which payments may fall within the jurisdiction of the Foreign Corrupt Practices Act. The Company will provide additional information to DOJ and SEC, and will cooperate with the agencies' reviews of these matters.

In September 2004, plaintiffs in an employment discrimination litigation initiated against the Company in 2001 in Federal District Court in New Jersey moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the U.S., who were employed at any time from November 1997 to the present. Plaintiffs seek monetary damages for the period 1997 through the present (including punitive damages) and equitable relief. The Court denied plaintiffs' class certification motion in December 2006. The plaintiffs have sought reconsideration of that decision. The Company disputes the allegations in the lawsuit and is vigorously defending against them.

The Company, along with its wholly-owned subsidiaries, Ethicon, Inc., Ethicon Endo-Surgery, Inc. and HCS are defendants in a federal antitrust action challenging suture and endo-mechanical contracts with group purchasing organizations and hospitals in which discounts are predicated on a hospital achieving specified market share targets for both categories of products. Trial in that action, Conmed v. Johnson & Johnson et al. (S.D.N.Y., filed November 6, 2003), is currently scheduled for April 2007. Conmed alleges damages up to $1.8 billion, which damages would be trebled under the antitrust laws if such damages, and liability, are successfully established at trial. In late December 2005 and early 2006, three purported class actions were filed on behalf of purchasers of endo-mechanical instruments. These actions have been filed in the Federal District Court for the Central District of California.

In November 2005, Amgen filed suit against Hoffmann-LaRoche, Inc. in the U.S. District Court for the District of Massachusetts seeking a declaration that the Roche product CERA, which Roche has indicated it will seek to introduce into the United States, infringes a number of Amgen patents concerning EPO. Amgen licenses and manufactures EPO for sale in the

United States by the Company's Ortho Biotech Inc. subsidiary for non-dialysis indications. The suit is in its preliminary stages.

In October 2006, Wyeth, Inc. initiated litigation in Delaware against Cordis Corporation alleging that Cordis breached the license and supply agreement pursuant to which Wyeth supplies Cordis the drug Rapamycin which is used in connection with Cordis' CYPHER® Sirolimus-eluting Stent. Cordis has commenced its own action in Delaware seeking a declaration that no breach has occurred.

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

19. Earnings Per Share

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the years ended December 31, 2006, January 1, 2006 and January 2, 2005:

(Shares in Millions Except Per Share Data)	2006	2005	2004
Basic net earnings per share	$ 3.76	3.38	2.76
Average shares outstanding — basic	2,936.4	2,973.9	2,968.4
Potential shares exercisable under stock option plans	207.0	203.1	186.5
Less: shares repurchased under treasury stock method	(186.3)	(178.6)	(174.6)
Convertible debt shares	3.9	4.4	12.4
Adjusted average shares outstanding — diluted	2,961.0	3,002.8	2,992.7
Diluted net earnings per share	$ 3.73	3.35	2.74

The diluted net earnings per share calculation includes the dilutive effect of convertible debt: a decrease in interest expense of $4 million, $11 million and $14 million after tax for years 2006, 2005 and 2004, respectively.

Diluted net earnings per share excludes 43 million, 45 million and 42 million shares underlying stock options for 2006, 2005 and 2004, respectively, as the exercise price of these options was greater than their average market value, which would result in an anti-dilutive effect on diluted earnings per share.

20. Capital and Treasury Stock

Changes in treasury stock were:

(Amounts in Millions Except Treasury Stock Number of Shares in Thousands)	Treasury Stock	
	Shares	Amount
Balance at December 28, 2003	151,869	$ 6,146
Employee compensation and stock option plans	(25,340)	(1,403)
Conversion of subordinated debentures	(2,432)	(123)
Repurchase of common stock	24,722	1,384
Balance at January 2, 2005	148,819	6,004
Employee compensation and stock option plans	(22,708)	(1,458)
Conversion of subordinated debentures	(7,976)	(501)
Repurchase of common stock	27,229	1,920
Balance at January 1, 2006	145,364	5,965
Employee compensation and stock option plans	(26,526)	(1,677)
Conversion of subordinated debentures	(540)	(36)
Repurchase of common stock	108,314	6,722
Balance at December 31, 2006	226,612	$10,974

Shares of common stock issued were 3,119,842,000 shares at the end of 2006, 2005 and 2004.

Cash dividends paid were $1.455 per share in 2006, compared with dividends of $1.275 per share in 2005 and $1.095 per share in 2004.

21. Selected Quarterly Financial Data (unaudited)

Selected unaudited quarterly financial data for the years 2006 and 2005 are summarized below:

	2006				2005			
(Dollars in Millions Except Per Share Data)	First Quarter[1]	Second Quarter[2]	Third Quarter[3]	Fourth Quarter[4]	First Quarter	Second Quarter[5]	Third Quarter	Fourth Quarter[6]
Segment sales to customers								
Consumer	$ 2,355	2,398	2,456	2,565	2,280	2,278	2,231	2,307
Pharmaceutical	5,626	5,810	5,881	5,950	5,755	5,628	5,457	5,482
Med Devices & Diagnostics	5,011	5,155	4,950	5,167	4,797	4,856	4,622	4,821
Total sales	$12,992	13,363	13,287	13,682	12,832	12,762	12,310	12,610
Gross profit	9,380	9,575	9,637	9,675	9,336	9,240	8,956	8,972
Earnings before provision for taxes on income	4,615	3,603	3,661	2,708	3,927	3,266	3,420	2,503
Net earnings	3,305	2,820	2,760	2,168	2,839	2,588	2,538	2,095
Basic net earnings per share	$ 1.11	0.96	0.95	0.75	0.96	0.87	0.85	0.70
Diluted net earnings per share	$ 1.10	0.95	0.94	0.74	0.94	0.86	0.85	0.70

[1] The first quarter of 2006 includes an after-tax gain of $368 million for the Guidant acquisition termination fee and an after-tax charge of $29 million for In-Process Research and Development (IPR&D).

[2] The second quarter of 2006 includes an after-tax charge of $87 million for IPR&D.

[3] The third quarter of 2006 includes an after-tax charge of $115 million for IPR&D.

[4] The fourth quarter of 2006 includes an after-tax charge of $217 million for IPR&D.

[5] The second quarter of 2005 includes an after-tax charge of $353 million for IPR&D and a $225 million tax benefit, due to the reversal of a tax liability related to a technical correction associated with the American Jobs Creation Act of 2004.

[6] The fourth quarter of 2005 includes an after-tax charge of $6 million for IPR&D. Shifts in sales to lower tax jurisdictions and expenditures to higher tax jurisdictions had a more significant impact on the fiscal fourth quarter's tax rate.

22. Subsequent Events

During the fiscal first quarter of 2007 the Company completed the acquisition of Conor Medsystems, Inc., a cardiovascular device company, for $1.4 billion in cash.

During the fiscal first quarter of 2007, in accordance with the regulatory approval for the acquisition of the Consumer Healthcare business of Pfizer Inc., the Company announced the closing of the divestiture of KAOPECTATE®, UNISOM®, CORTIZONE®, BALMEX® and ACT® products to Chattem, Inc. for $410 million in cash.

Management's Report on Internal Control Over Financial Reporting

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

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

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

The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting.

On December 20, 2006, the Company completed the acquisition of the Consumer Healthcare business of Pfizer Inc. Due to the close proximity of the completion date of the acquisition to the date of management's assessment of the effectiveness of the Company's internal control over financial reporting, management excluded the Consumer Healthcare business of Pfizer Inc. from its assessment of internal control over financial reporting.

The total assets of the Consumer Healthcare business of Pfizer Inc., which were primarily intangible assets and goodwill, represented 26% of the Company's total assets for the fiscal year ended December 31, 2006.

The operating results of the Consumer Healthcare business of Pfizer Inc. acquired on December 20, 2006 will be reported in the Company's financial statements beginning in 2007, as 2006 results subsequent to the acquisition date were not significant.

Based on the Company's processes and assessment, as described above, management has concluded that, as of December 31, 2006, the Company's internal control over financial reporting was effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Johnson & Johnson's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, statements of equity, and statements of cash flows present fairly, in all material respects, the financial position of Johnson & Johnson and its Subsidiaries ("the Company") at December 31, 2006, and January 1, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 13, due to the implementation of SFAS No. 158 the Company changed the manner in which it accounts for pensions and other benefits as of December 31, 2006.

Internal control over financial reporting
Also, in our opinion, management's assessment, included in the accompanying, "Management's Report on Internal Control over Financial Reporting," that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

As described in "Management's Report on Internal Control over Financial Reporting," management has excluded the Consumer Healthcare business of Pfizer Inc. from its assessment of internal control over financial reporting as of December 31, 2006, because it was acquired by the Company on December 20, 2006. We have also excluded the Consumer Healthcare business of Pfizer Inc. from our audit of internal control over financial reporting. Total assets of the Consumer Healthcare business of Pfizer Inc. represent 26% of related consolidated financial statement amounts as of December 31, 2006.

PricewaterhouseCoopers LLP

New York, New York
February 20, 2007

Summary of Operations and Statistical Data 1996-2006

(Dollars in Millions Except Per Share Figures)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Sales to customers — U.S.	$29,775	28,377	27,770	25,274	22,455	19,825	17,316	15,532	12,901	11,814	10,851
Sales to customers — International	23,549	22,137	19,578	16,588	13,843	12,492	11,856	11,825	10,910	10,708	10,536
Total sales	53,324	50,514	47,348	41,862	36,298	32,317	29,172	27,357	23,811	22,522	21,387
Cost of products sold	15,057	14,010	13,474	12,231	10,498	9,622	8,987	8,559	7,711	7,355	7,187
Selling, marketing and administrative expenses	17,433	17,211	16,174	14,463	12,520	11,510	10,675	10,182	8,595	8,215	7,862
Research expense	7,125	6,462	5,344	4,834	4,094	3,704	3,186	2,821	2,538	2,386	2,115
Purchased in-process research and development	559	362	18	918	189	105	66	—	298	108	—
Interest income	(829)	(487)	(195)	(177)	(256)	(456)	(429)	(266)	(302)	(263)	(196)
Interest expense, net of portion capitalized	63	54	187	207	160	153	204	255	186	179	176
Other (income) expense, net	(671)	(214)	15	(385)	294	185	(94)	119	565	248	122
	38,737	37,398	35,017	32,091	27,499	24,823	22,595	21,670	19,591	18,228	17,266
Earnings before provision for taxes on income	14,587	13,116	12,331	9,771	8,799	7,494	6,577	5,687	4,220	4,294	4,121
Provision for taxes on income	3,534	3,056	4,151	2,923	2,522	2,089	1,813	1,554	1,196	1,224	1,179
Net earnings	11,053	10,060	8,180	6,848	6,277	5,405	4,764	4,133	3,024	3,070	2,942
Percent of sales to customers	20.7	19.9	17.3	16.4	17.3	16.7	16.3	15.1	12.7	13.6	13.8
Diluted net earnings per share of common stock	$ 3.73	3.35	2.74	2.29	2.06	1.75	1.55	1.34	1.00	1.01	0.97
Percent return on average shareholders' equity	28.3	28.2	27.3	27.1	26.4	24.0	25.3	26.0	21.6	24.3	27.1
Percent increase over previous year:											
Sales to customers	5.6	6.7	13.1	15.3	12.3	10.8	6.6	14.9	5.7	5.3	15.4
Diluted net earnings per share	11.3	22.3	19.7	11.2	17.7	12.9	15.7	34.0	(1.0)	4.1	15.5
Supplementary expense data:											
Cost of materials and services[1]	$22,912	22,328	21,053	18,568	16,540	15,333	14,113	13,922	11,779	11,702	11,341
Total employment costs	13,444	12,364	11,581	10,542	8,942	8,153	7,376	6,727	6,021	5,634	5,469
Depreciation and amortization	2,177	2,093	2,124	1,869	1,662	1,605	1,592	1,510	1,335	1,117	1,047
Maintenance and repairs[2]	506	510	462	395	360	372	327	322	286	270	285
Total tax expense[3]	4,857	4,285	5,215	3,890	3,325	2,854	2,517	2,221	1,845	1,811	1,747
Supplementary balance sheet data:											
Property, plant and equipment, net	13,044	10,830	10,436	9,846	8,710	7,719	7,409	7,155	6,767	6,204	6,025
Additions to property, plant and equipment	2,666	2,632	2,175	2,262	2,099	1,731	1,689	1,822	1,610	1,454	1,427
Total assets	70,556	58,864	54,039	48,858	40,984	38,771	34,435	31,163	29,019	23,634	22,254
Long-term debt	2,014	2,017	2,565	2,955	2,022	2,217	3,163	3,429	2,652	2,084	2,347
Operating cash flow	14,248	11,799	11,089	10,571	8,135	8,781	6,889	5,913	5,104	4,209	4,000
Common stock information											
Dividends paid per share	$ 1.455	1.275	1.095	0.925	0.795	0.700	0.620	0.550	0.490	0.425	0.368
Shareholders' equity per share	$ 13.59	13.01	10.95	9.25	7.79	8.05	6.82	5.73	4.95	4.52	4.07
Market price per share (year-end close)	$ 66.02	60.10	63.42	50.62	53.11	59.86	52.53	46.63	41.94	32.44	25.25
Average shares outstanding (millions) — basic	2,936.4	2,973.9	2,968.4	2,968.1	2,998.3	3,033.8	2,993.5	2,978.2	2,973.6	2,951.9	2,938.0
— diluted	2,961.0	3,002.8	2,992.7	2,995.1	3,049.1	3,089.3	3,075.2	3,090.4	3,067.0	3,050.0	3,046.2
Employees (thousands)	122.2	115.6	109.9	110.6	108.3	101.8	100.9	99.8	96.1	92.6	91.5

[1] Net of interest and other income.

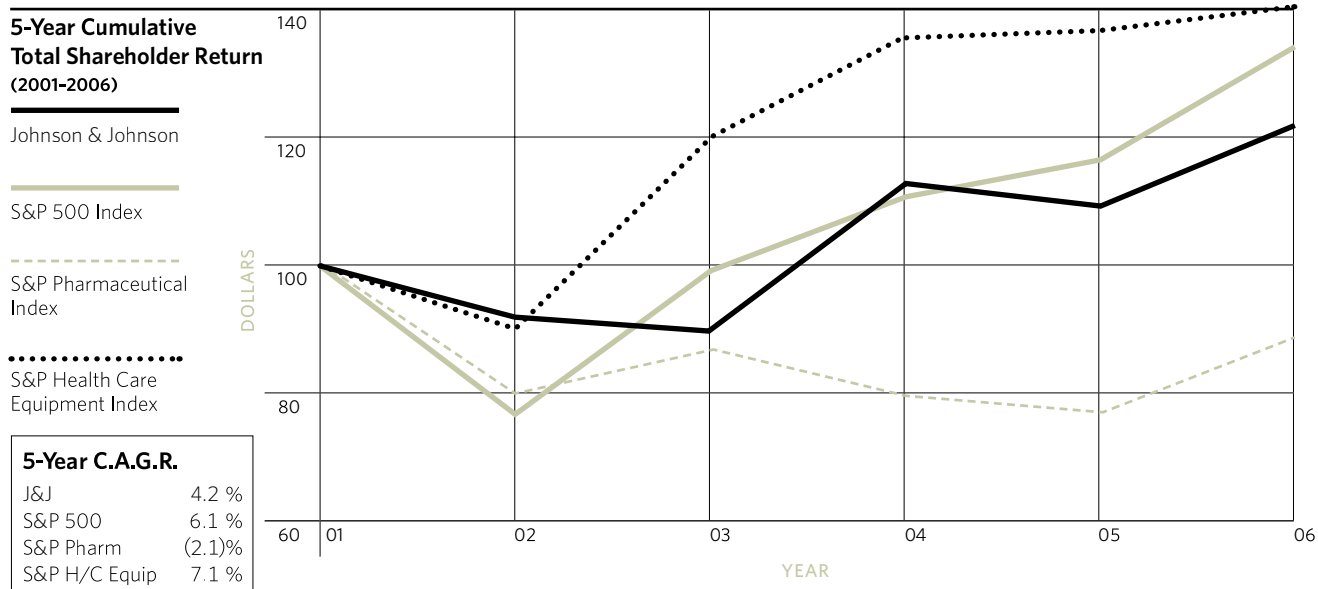
[2] Also included in cost of materials and services category.

[3] Includes taxes on income, payroll, property and other business taxes.

Shareholder Return Performance Graphs

Set forth below are line graphs comparing the cumulative total shareholder return on the Company's Common Stock for periods of five years and ten years ending December 31, 2006, against the cumulative total return of the Standard & Poor's 500 Stock Index, the Standard & Poor's Pharmaceutical Index and the Standard & Poor's Health Care Equipment Index. The graphs and tables assume that $100 was invested on December 31, 2001 and December 31, 1996 in each of the Company's Common Stock, the Standard & Poor's 500 Stock Index, the Standard & Poor's Pharmaceutical Index and the Standard & Poor's Health Care Equipment Index and that all dividends were reinvested.

5-Year Cumulative Total Shareholder Return (2001–2006)

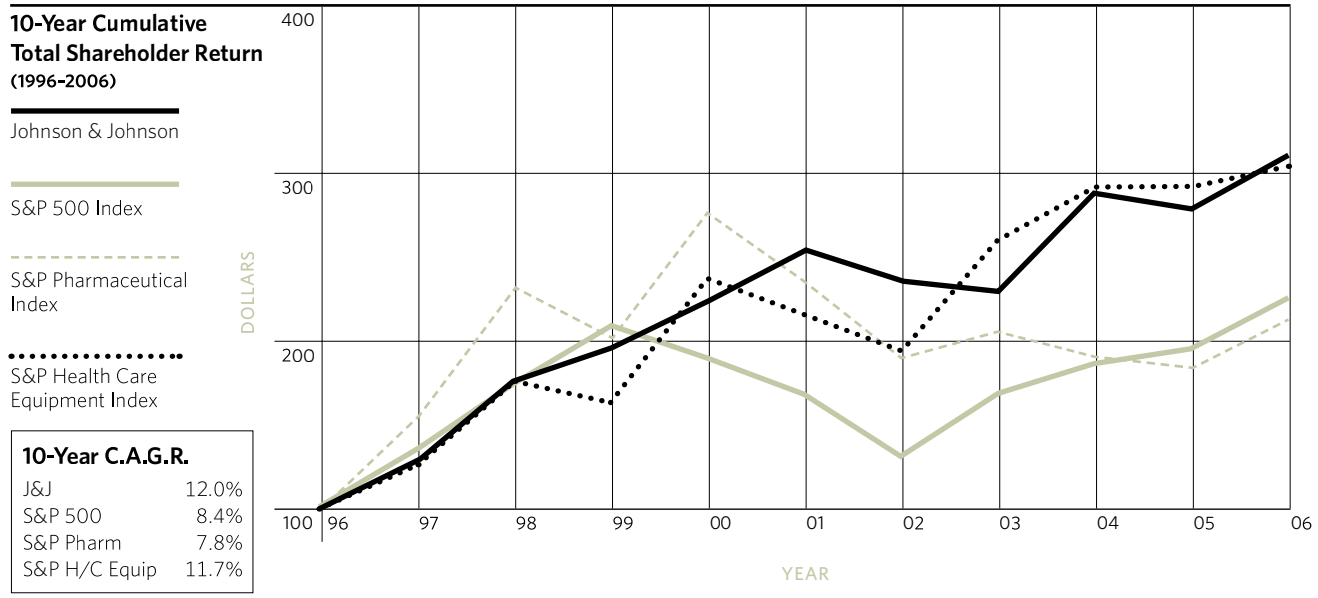


5-Year C.A.G.R.

J&J	4.2 %
S&P 500	6.1 %
S&P Pharm	(2.1)%
S&P H/C Equip	7.1 %

	2001	2002	2003	2004	2005	2006
Johnson & Johnson	$100.00	$92.11	$90.21	$112.88	$109.11	$122.54
S&P 500 Index	$100.00	$77.68	$99.95	$110.81	$116.25	$134.46
S&P Pharmaceutical Index	$100.00	$79.96	$86.99	$80.54	$77.85	$90.05
S&P Health Care Equipment Index	$100.00	$90.85	$119.94	$135.07	$135.15	$140.69

10-Year Cumulative Total Shareholder Return (1996–2006)



10-Year C.A.G.R.

J&J	12.0%
S&P 500	8.4%
S&P Pharm	7.8%
S&P H/C Equip	11.7%

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Johnson & Johnson	$100.00	$134.32	$173.30	$194.87	$222.68	$253.49	$233.51	$228.67	$286.15	$276.59	$310.64
S&P 500 Index	$100.00	$133.35	$171.46	$207.53	$188.64	$166.73	$129.51	$166.64	$184.76	$193.83	$224.19
S&P Pharmaceutical Index	$100.00	$153.59	$228.84	$201.43	$274.54	$234.64	$187.62	$204.11	$188.97	$182.66	$211.28
S&P Health Care Equipment Index	$100.00	$122.96	$174.07	$160.46	$235.50	$214.93	$195.26	$257.78	$290.30	$290.48	$302.38

Reconciliation of Non-GAAP Financial Measures

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

(Dollars in Millions Except Per Share Data)	2006	2005	2004	'06 vs. '05 % Change	'05 vs. '04 % Change
Net Earnings — as reported	$11,053	10,060	8,180	9.9%	23.0
In-process research & development (IPR&D) charges	448	359	12		
Guidant acquisition agreement termination fee	(368)	—	—		
American Jobs Creation Act of 2004 (AJCA):					
Tax cost associated with repatriation of undistributed international earnings	—	—	789		
Tax gain associated with a technical correction	—	(225)	—		
Net Earnings — as adjusted	$11,133	10,194	8,981	9.2%	13.5
Diluted net earnings per share — as reported	$ 3.73	3.35	2.74	11.3%	22.3
In-process research & development charges	0.15	0.12	—		
Guidant acquisition agreement termination fee	(0.12)	—	—		
American Jobs Creation Act of 2004:					
Tax cost associated with repatriation of undistributed international earnings	—	—	0.26		
Tax gain associated with a technical correction	—	(0.08)	—		
Diluted net earnings per share — as adjusted	$ 3.76	3.39	3.00	10.9%	13.0

The Company believes investors gain additional perspective of underlying business trends and results by providing a measure of net earnings and diluted net earnings per share that excludes IPR&D charges, the Guidant acquisition agreement termination fee, and the tax cost associated with funds repatriated under, and the tax gain associated with a technical correction made to, the AJCA, in order to evaluate ongoing business operations. These non-GAAP financial measures should not be considered replacements for, and should be read together with, the most comparable GAAP financial measures.

PRINCIPAL OFFICE

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

ANNUAL MEETING

The Annual Meeting of Shareholders will take place April 26, 2007, at the Hyatt Regency New Brunswick, 2 Albany Street, New Brunswick, New Jersey. The meeting will convene at 10 a.m. All shareholders are cordially invited to attend. A formal Notice of Meeting, Proxy Statement and Proxy have been sent to shareholders.

CORPORATE GOVERNANCE

Copies of the Company's 2006 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K to the Securities and Exchange Commission, Proxy Statement, and this Annual Report are available online at www.jnj.com, or to shareholders without charge upon written request to the Secretary at the Company's principal address or by calling (800) 328-9033 or (781) 575-2718 (outside the U.S.).

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

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

COMMON STOCK

Listed on New York Stock Exchange
Stock Symbol JNJ

SHAREHOLDER RELATIONS CONTACT

Steven M. Rosenberg
Corporate Secretary
(732) 524-2455

INVESTOR RELATIONS CONTACT

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

TRANSFER AGENT AND REGISTRAR

Questions regarding stock holdings, certificate replacement/transfer, dividends and address changes should be directed to:
Computershare Trust Company, N.A.
250 Royall St.
Canton, MA 02021
(800) 328-9033 or
(781) 575-2718 (outside the U.S.)
Internet: www.computershare.com/jnj

DIVIDEND REINVESTMENT PLAN

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

HEARING IMPAIRED

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

Registered shareholders who wish to receive electronic notice of online access to future annual reports and proxy materials instead of paper copies may register online at www.econsent.com/jnj.

WEB SITE

www.jnj.com

For more information on Johnson & Johnson history:
www.kilmerhouse.com

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OUR CREDO

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

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

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

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

Johnson & Johnson

One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933