Johnson & Johnson

ANNUAL REPORT 2008

CARING

Comforts · Fulfills
Heals · Touches · Empowers
Transforms · Inspires
Endures

ON THE COVER Around the world, we're focused on making life-changing, long-term differences in the prevention and treatment of HIV/AIDS. Our HIV franchise continues to grow as we discover, develop and provide access to medicines like PREZISTA® (darunavir) and INTELENCE™ (etravirine). And our involvement in community-based programs, such as mothers2mothers in South Africa, continues to touch lives. Read about HIV-positive mentor mother Kangela and her son—who is HIV-negative—in the story on page 18.

To Our Shareholders

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

The men and women of Johnson & Johnson come to work each day driven by a shared passion: *caring*. Our caring touches the lives of people around the world. It motivates us to identify unmet health care needs, reach increasing numbers of patients and consumers, and create broader solutions—not only for the most serious medical conditions but also for the general health and well-being of the world's population.

Our caring empowers others. It touches patients and consumers across the world, and it inspires hope. It's grounded in the fundamental tenets of Our Credo and in a decentralized management approach that keeps our people close to their customers and their markets. It drove our business success in 2008, and it mobilizes us to capitalize on new health care opportunities while we meet the challenges ahead in an unprecedented, difficult global economic setting.

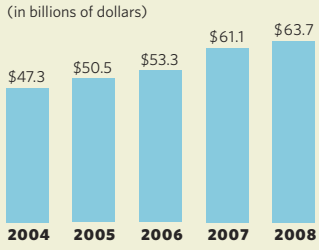
2008 HIGHLIGHTS We remember 2008 as a year of extraordinary economic events that shook our financial markets and global economies. Against this backdrop, I am proud of our accomplishments.

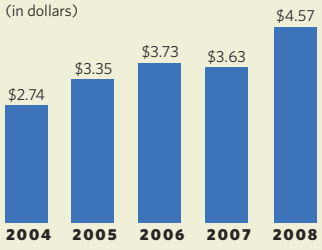
Johnson & Johnson delivered on its financial commitments, driven by the strength of a broad base of human health care businesses. We achieved these results despite anticipated market challenges—such as increased generic competition worldwide and patent expirations—even as we faced an unanticipated deterioration of the global economy.

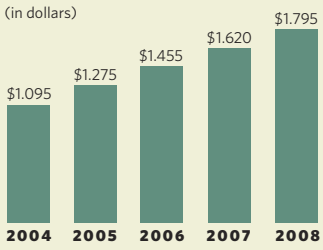
Worldwide sales grew to $63.7 billion, an increase of 4.3 percent. Operational growth was 1.9 percent. We achieved strong adjusted earnings growth of 6.8[(1)] percent and adjusted earnings per share growth of 9.6[(1)] percent, which was higher than adjusted earnings growth due to our share-repurchase program. Free cash flow was strong at approximately $12 billion.[(2)]

While growing our businesses, we also took thoughtful, disciplined actions to streamline and improve our cost structure. Within our Pharmaceuticals and Cordis businesses, approximately $1.6 billion in annual savings were realized. We anticipate additional savings in 2009 from standardization initiatives we have invested in over time.

Meanwhile, we remain on track to fulfill the potential of the Pfizer Consumer Healthcare acquisition, expecting to meet or







exceed our target of $500 million to $600 million in cost synergies. We expect this transaction to be break-even or modestly accretive this year, one year ahead of the original schedule.

These types of actions drove gains in our adjusted segment operating profit to $17.3[3] billion, or 27.1[3] percent to sales, in 2008 compared with $15.9[3] billion, or 26.0[3] percent to sales, in 2007. Our teams did an excellent job improving margins even as the volatile economic climate began driving increases in commodity costs and shifts in consumer and patient behaviors.

We also continued with our $10 billion share-repurchase program, and as of year-end, we had purchased approximately $8.1 billion of stock.

During the turbulent economic times of 2008, Johnson & Johnson was the third-best-performing stock on the Dow Jones Industrial Average. Our shareholder returns over one-, three-, five- and ten-year periods have exceeded our major comparative indices. While delivering financial results and cost structure improvements, we have been investing in our businesses for sustained growth. We made significant strides toward strengthening our market positions in the areas in which we compete today, identifying new high-growth opportunities and broadening our capabilities into more of the $4.1 trillion health care market. We continue to deliver on four major business priorities that remain fundamental to our long-term growth:

- Winning in Health Care
- Capitalizing on Convergence
- Accelerating Growth in Emerging Markets
- Developing Leadership and Talent

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WINNING IN HEALTH CARE Winning in health care requires a multi-pronged approach for long-term success. Accordingly, we continue to invest in internal development and to pursue selective licenses and acquisitions. Meanwhile, we are thoughtfully navigating the competitive and industry challenges affecting global health care.

Research and development remained strong at $7.6 billion in 2008. Driven by strong science and unmet patient needs, we have advanced our pipelines.

Last year was one of the most productive for our pharmaceutical pipeline in terms of filings, approvals and positive regulatory opinions. Our pipeline is diverse and well-balanced, in both biopharmaceuticals and small molecules, covering therapeutic areas with high unmet needs. We sustained research productivity, and we are on track to complete filings for seven to 10 new products between the beginning of 2008 and the end of 2010. In doing so, we'll meet our target set back in 2007.

Our late-stage pipeline is robust. Eight new compounds are currently in registration, five of which were filed with the U.S. Food and Drug Administration (FDA) in 2008. NUCYNTA™ (tapentadol) immediate-release tablets for the relief of moderate to severe acute pain in adults age 18 and older were granted FDA approval. Regulatory authorities in Canada, the European Union (EU) and the U.S. approved INTELENCE™ (etravirine) for HIV combination therapy. STELARA™ (ustekinumab) was approved in Canada and the EU for the treatment of moderate to severe plaque psoriasis; ustekinumab is currently under review with the FDA.

Our Medical Devices and Diagnostics pipeline is strong, both with new products and entries into new markets. For example, Ethicon Endo-Surgery, Inc. introduced the HARMONIC® Combination Hook Blade and HARMONIC® SYNERGY™ Curved Blade, taking these minimally invasive surgical instruments with proven clinical value and strong intellectual property into orthopaedic and plastic surgery, new specialties for the Company.

And our Vision Care Franchise continued its fifth year of solid growth with ACUVUE®, the world's most widely prescribed contact lens brand. It launched two new products: ACUVUE® OASYS™ Brand Contact Lenses *for ASTIGMATISM* and, introduced in the United Kingdom, 1-DAY ACUVUE® TruEye™, the world's first daily disposable silicone hydrogel contact lens.

While developing our core businesses, we also expanded into new markets through acquisitions. Johnson & Johnson acquired Mentor Corporation, a leading supplier of medical products for the global aesthetic market. This acquisition provides our Ethicon Franchise with an opportunity to grow in aesthetic and reconstructive medicine while raising the standard for innovation and patient outcomes. We believe Mentor will become the cornerstone of a broader Johnson & Johnson leadership strategy for aesthetic medicine—a high-growth market serving both consumers and medical professionals.

Winning in health care also means going beyond the $1.2 trillion market in which our businesses compete today and finding growth opportunities in the broader $4.1 trillion health care market. Our Office of Strategy & Growth is charged with this mission.

As an initial step in the creation of a Wellness & Prevention business platform, Johnson & Johnson made two acquisitions and began laying the groundwork for this new business. HealthMedia, Inc. offers a suite of interventions that provide personalized web-based coaching for wellness, disease management, behavioral health and medication adherence with proven outcomes, improved compliance, reduced medical utilization and increased productivity. Meanwhile, HUMAN PERFORMANCE INSTITUTE™ is developing science-based training programs to improve employee health and wellness. We expect this new business to contribute to the performance of workforces through products and services that keep employees healthy, engaged and productive.

While building our businesses, we are also actively participating in public policy discussions around the world. Given our breadth of businesses and long-standing reputation, we are often called upon for our perspectives. As always, our focus remains on the consumer and patient, preserving access to care and incentives for innovation.

Johnson & Johnson is uniquely positioned to thrive in the rapidly changing health care landscape. Our blend of industry perspectives, consumer insights, scientific innovation and finan-

cial strength provides us with a uniquely strong base for present and future growth.

CAPITALIZING ON CONVERGENCE For the future, breakthrough innovation lies in capitalizing on the convergence of products, technologies, patient-centric solutions and the power of the Johnson & Johnson enterprise. Our broad base of businesses working together creates this distinctive competitive advantage. And our diverse capabilities, expertise, talent and financial strength enable us to develop innovative solutions that advance health care around the world and build long-term success for Johnson & Johnson.

Good collaborative thinking leads to important new products. The Fibrin Pad, developed jointly by our scientists at Ethicon, Inc. and Centocor, Inc., along with Omrix Biopharmaceuticals, Inc., combines mechanical and biological action for advanced hemostasis, reducing surgery time and the need for blood transfusions. Johnson & Johnson acquired Omrix Biopharmaceuticals in late 2008 to further our capabilities in this area.

The companies that comprise our Diabetes Care Franchise are creating a full range of solutions that empower patients through technology, education and services. New product introductions allow patients to consistently monitor blood glucose levels and discreetly administer insulin. We also acquired two online communities—Children with Diabetes, Inc. and the Spanish-language Diabetes Juvenil—to help connect families virtually. Also, the Johnson & Johnson Diabetes Institute, LLC brings together diverse medical professionals with the common goal of improving outcomes for people with diabetes.

Capitalizing on the power and scope of the Johnson & Johnson enterprise is also a source of competitive advantage for our businesses. The launch of ZYRTEC® (cetirizine HCl) for sale without a prescription in the United States was our most successful product launch in 2008. It also marked the largest prescription to over-the-counter (OTC) switch in Company history. The ZYRTEC® launch demonstrated the unique advantage we have when our Consumer and Pharmaceuticals businesses work together to combine strong consumer marketing expertise with our in-depth knowledge of the managed-care market.

Our scientists and marketers continue to develop convergent and personalized health care solutions in other high-growth areas, such as skin care, obesity, oncology and cardiology. The potential for making an impact on standards of care in these categories is tremendous, and we believe the breadth of Johnson & Johnson makes us uniquely able to seize the opportunities that lie ahead.

ACCELERATING GROWTH IN EMERGING MARKETS One of the largest growth opportunities rests in emerging global markets such as Brazil, Russia, China and India. Other rapidly developing countries, such as Turkey and Mexico, are also showing solid growth. Johnson & Johnson has maintained a significant and well-established presence in these markets for decades, utilizing our decentralized operating model to stay close to patients, consumers and health care providers with local market insights, products and strategies.

Research and development remained strong at $7.6 billion in 2008. Driven by strong science and unmet patient needs, we have advanced our pipelines.

Three components are core to our emerging-markets strategy. First, we are training health care professionals to provide optimal patient care. We opened a professional education center in Beijing in conjunction with our 2008 Olympic Games sponsorship. We also established a professional education center in Russia. Meanwhile, the Vision Care Institute, LLC is providing important training and information on eye care in 11 diverse cities, including Shanghai, Dubai and Bangkok, and plans to continue its global expansion. We launched the Johnson & Johnson Diabetes Institute, LLC in four global markets. In all, we have more than 20 professional education centers across the world.

Second, we continue to build local capabilities to fully integrate with the market and its people. As the official health care sponsor of the Beijing 2008 Olympic and Paralympic Games, our Company and businesses built a lasting bond with the Chinese people, opening opportunities for sustained business growth and recruitment of the best talent. Local capabilities were further enhanced with the acquisition of Beijing Dabao Cosmetics Co., Ltd., maker of a well-known and respected skin care brand in China; this is our first significant acquisition in this market. Additionally, we began manufacturing at our new orthopaedic facility in Suzhou, China, and our Emerging Market Innovation Center in Shanghai develops products for emerging markets and gathers in-depth insights about the Chinese consumer.

Finally, we are developing a number of market-appropriate products, such as endosurgical instruments, sutures and baby care products, to better meet local needs.

DEVELOPING LEADERSHIP AND TALENT While we are well-positioned with long-term growth strategies, I remain most passionate about the people of Johnson & Johnson. Inspired by Our Credo, our teams overcome daily competitive challenges in their quests to discover new ways to improve health care, satisfy unmet needs and open new markets.

The professional development of our people remains a top priority. With more than 250 operating companies around the world, we have the capability to develop leaders by exposing them to a wide variety of businesses, with ever-increasing responsibility. We allow them to take prudent risks as they enhance their own judgment and business-building capabilities. Our focus on leadership development ensures smooth succession through our most senior management levels.

In addition to making excellent progress on our business priorities throughout 2008, we achieved sustained results in each of our business segments, driven by our solid management teams and dedicated employees.

CONSUMER HEALTH CARE Our Consumer Health Care business delivered strong growth in 2008, with sales of $16 billion and a total growth rate of 10.8 percent. Growth drivers included our

OTC/Nutritionals business, led by ZYRTEC®; skin care brands, led by AVEENO®, CLEAN & CLEAR® and NEUTROGENA®; LISTERINE® antiseptic mouth rinse; and international sales of baby care products. DABAO™, the leading moisturizer in China, also contributed to this growth.

Our Consumer business continues a history of strong revenue and operating profit growth. We maintain solid leadership positions, with the No. 1 or No. 2 positions in nine of the 15 major categories in which we compete.

Our focus on superior science differentiates us from competitors and builds long-term advantage. Science and deep consumer insights are the catalysts behind our growth strategies, which include organic growth of iconic brands, a focus on new ventures and a commitment to emerging-market development.

Johnson & Johnson is uniquely positioned to thrive in the rapidly changing health care landscape. Our blend of industry perspectives, consumer insights, scientific innovation and financial strength provides us with a uniquely strong base for present and future growth.

Across all franchises, clinical trial design and analysis are critical competencies, both for new products and innovative new claims. Our strong network of professional relationships, supported by science, has built many of our brands to the No. 1 place in professional recommendations in the United States and international markets. TYLENOL®, JOHNSON'S® Baby, NEUTROGENA®, LISTERINE® and NEOSPORIN® are just some of our brands that are trusted—and highly recommended—by medical professionals around the world.

MEDICAL DEVICES AND DIAGNOSTICS Our Medical Devices and Diagnostics (MD&D) franchises continue to comprise the world's largest medical technology business, with 2008 sales of $23.1 billion, a total increase of 6.4 percent over the prior year. Growth was driven by minimally invasive products, disposable contact lenses, and orthopaedic and sports medicine products.

The medical technology market offers significant growth opportunities in light of aging demographics, unmet medical needs and technological innovation. In addition, we see low penetration rates in many of our key categories, along with geographic development opportunities. We are well-positioned to capitalize on this market potential, with No. 1 or No. 2 positions in the majority of markets in which we compete.

Our opportunities are particularly solid in markets such as ophthalmology, cardiology and metabolic disease, where there is a strong need for patient-centric solutions to address chronic disease. Within this area, the Comprehensive Care Group is charged with developing novel approaches to care across the entire continuum of a disease while delivering cost-effective outcomes. Meanwhile, the Surgical Care Group focuses on developing surgical businesses with new technologies and solutions that support patients beyond the time of surgical intervention.

Our MD&D businesses achieved several significant milestones during 2008. In addition to Mentor Corporation and Omrix Biopharmaceuticals, the strategic acquisitions of several other companies strengthened our pipelines. Ethicon Endo-Surgery, Inc. acquired SurgRx, Inc., bringing together that company's ENSEAL® products with its own HARMONIC® line of ultrasonic medical devices, which offer surgeons greater functionality and flexibility for diverse surgical procedure requirements. Through the acquisition of Åmic AB, a privately held Swedish developer of in vitro diagnostics, Ortho-Clinical Diagnostics, Inc. has access to new delivery channels in point-of-care and near-patient settings outside the clinical laboratory.

Our businesses introduced several new products and strengthened pipelines to sustain future growth. DePuy Orthopaedics, Inc. introduced TRI-LOCK™, a bone-preserving hip stem with proprietary GRIPTION™ technology for stability, maintaining its leading position in hip replacement in the U.S. market. In Europe, LifeScan, Inc. launched the new ONETOUCH® VITA™ Blood Glucose Meter, particularly beneficial for people with type 2 diabetes who find their disease complex and difficult to manage. With the convergence of accurate, reliable and easy-to-use technology and patient insights about preferred sizes, shapes and colors, the ONETOUCH® ULTRAMINI™ Blood Glucose Meter has become the No. 1-selling blood glucose meter in the United States.

Given the competitive strengths of our MD&D businesses and opportunities for growth, we remain enthusiastic about the potential for sustained long-term growth in this segment.

PHARMACEUTICALS Our Pharmaceuticals businesses ended the year with sales of $24.6 billion, representing a total decrease of 1.2 percent versus the prior year. The breadth and depth of our growing product portfolio enabled us to lessen the impact of generic competition for RISPERDAL® (risperidone) and slower sales of PROCRIT® (Epoetin alfa).

Nine products had sales of more than $1 billion. Growth was driven by the strength of currently marketed products, fueled in some cases by new indications and in others by approvals in additional markets.

Growth products included VELCADE™ (bortezomib), which received European Commission approval for previously untreated multiple myeloma; REMICADE® (infliximab), a biologic approved for the treatment of a number of immune-mediated inflammatory diseases; and TOPAMAX® (topiramate) for treatment of epilepsy and migraines. In our HIV Franchise, the European Commission approved once-daily dosing of 800 mg PREZISTA® (darunavir) with low-dose ritonavir as part of combination therapy in treatment-naïve adults (those who have never taken HIV medication). This approval broadens the previous indication of darunavir for treatment-experienced HIV-1 patients. This means PREZISTA® will be used for the full spectrum of HIV/AIDS patients in the 27 EU member states.

Our antipsychotic franchise with INVEGA® (paliperidone), a once-daily atypical antipsychotic, and RISPERDAL® CONSTA® (risperidone) Long-Acting Injection continued to grow. We have filed an additional indication for RISPERDAL® CONSTA® in frequently relapsing bipolar disorder in the U.S. Other new indications for our existing products included CONCERTA® (methyl-

phenidate HCl) Extended-release Tablets in adult attention deficit hyper-activity disorder (ADHD) and DORIBAX™ (doripenem for injection) in the EU for urinary tract infections, intra-abdominal infections and nosocomial pneumonia infection.

Our late-stage pipeline is also promising, and we are poised for several potential launches. Rivaroxaban, which we are co-developing with Bayer HealthCare AG in the United States, is initially in development for prevention of deep vein thrombosis and pulmonary embolism in patients undergoing hip and knee replacement surgery. We are also encouraged by paliperidone palmitate, a long-acting injectable antipsychotic with monthly dosing.

In addition to concentrating on R&D productivity, we are carefully navigating the challenging regulatory and reimbursement environments and the growing competition from generics. With this combined focus, we remain confident in our pharmaceutical pipeline as we introduce new and better solutions for unmet medical needs.

Around the world, our people bring a passion for caring to work every day. This is perhaps the greatest reason for our enduring success.

OUR COMMITMENT TO GROWTH Unprecedented technologies, aging populations, strong emerging markets and more powerful consumers are creating a number of new opportunities for our businesses. We maintain a clear strategy for pursuing future growth. This is evident in the progress we made during 2008.

For 2009, we have entered an unusually challenging period, facing a global financial and business slowdown unlike anything we have seen during our lifetimes.

Every challenging period brings with it a corresponding opportunity for growth, and this is no exception. By working in a disciplined way, Johnson & Johnson will emerge stronger than ever. I believe this for several reasons:

We are fortunate to have an experienced management team in place with the right skills to capitalize on market conditions and build businesses for long-term growth.

We are strengthening our core franchises, advancing our pipelines and introducing new products that will replenish and grow our revenue streams.

We are building our market leadership positions and venturing into new growth spaces for Johnson & Johnson.

We are maintaining our financial strength and flexibility with a combination of strong cash flows and AAA credit rating, which gives us access to credit at favorable rates.

We have implemented cost structure improvements that should reap benefits for the bottom line and help us operate more efficiently.

We are actively participating in the dialogues on public policy that will shape our business environment for years to come.

Whenever the economy and health care markets return to more robust growth, we will be stronger and better-positioned for leadership in our markets.

OUR COMMITMENT TO CARING I am confident in the growth of Johnson & Johnson for many reasons, but perhaps most important, I am confident because of our people.

Around the world, our people bring a passion for caring to work every day. This is perhaps the greatest reason for our enduring success. Each day, our people remind me that caring is an extraordinary motivator that overcomes the many challenges of today's health care environment and difficult economic times.

As you browse the stories on the following pages, you will see some of what inspires the people of Johnson & Johnson. Added to these stories are countless other works throughout the Company. From great science ... to deep insights about our patients and consumers ... to innovative market approaches ... to a dedication to corporate citizenship ... our people bring a new definition to caring. They are inspired by Our Credo, which reminds us of who we are as a Company and what we believe.

Our operating model—broadly based in human health care, decentralized in approach, managed for the long term and focused on people and values—impels us to find the best possible solutions to today's most pressing health care needs. This focus has been passed from generation to generation of employees at Johnson & Johnson—all of whom share the inspiration of caring that remains our hallmark.

OUR COMMITMENT TO YOU During 2008, we achieved solid progress against our growth strategies. We strengthened our core franchises, advanced our pipelines and introduced new products to sustain revenue growth. We invested in new opportunities to fuel robust future growth. We maintained a strong balance sheet that allows us to capitalize on emerging opportunities for the future. We continued to operate under a business model that delivers sustained results and to be led by inspired people who take ingenuity and caring to new levels. For all these reasons, I remain confident that Johnson & Johnson will continue to grow stronger in the years ahead, delivering superior levels of performance that benefit patients, consumers, medical professionals, employees, our communities and our loyal shareholders.

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

March 11, 2009

(1) Excludes in-process research and development and other special items. See Reconciliation of Non-GAAP Financial Measures, page 72.

(2) Free cash flow is defined as operating cash flow less capital spending.

(3) Adjusted segment operating profit, before (income)/expenses not allocated to segments, which excludes in-process research and development and other special items. (See Note 11 to the Consolidated Financial Statements and Reconciliation of Non-GAAP Financial Measures, page 72.)

OUR CARING TRANSFORMS:

A Surgeon's Care

Many of the children that W. Fred Hess, M.D., treats for scoliosis and other spinal deformities have an uneven waist, asymmetrical shoulders or a large hump. Some are in such great pain that they're barely able to walk. The intricate surgery that Dr. Hess performs can last up to 12 hours and often requires transfusions due to major blood loss.

But when some patients go on to be football, tennis, swimming or diving champions, "it makes your day, your week, your year," says Dr. Hess, Chief of Spine Section, Department of Orthopaedic Surgery at Geisinger Medical Center in Danville, Pa.

In 2008 Dr. Hess began using two new surgical devices: the HARMONIC® Combination Hook and the HARMONIC SYNERGY™ Curved Blade. These latest innovations in HARMONIC® energy from Ethicon Endo-Surgery, Inc. take this proven technology into orthopaedic and plastic surgery, new specialties for Ethicon Endo-Surgery. Another device launched in 2008, the ergonomically enhanced HARMONIC ACE® Curved Shear, has an easy-to-use handle for laparoscopic procedures.

What's unique about HARMONIC® technology is that it uses ultrasonic energy to simultaneously cut and coagulate tissue during surgery. The benefits over traditional scalpel and electro-surgery techniques include minimal thermal tissue damage for the patient and more precise cutting for the surgeon, as well as fewer instrument exchanges in some cases. "It seems to impact the recovery process," says Dr. Hess. "It makes a difference in the care I can provide for my patients."

ENERGY PLATFORM DRIVES GROWTH HARMONIC® devices have been used worldwide in more than 6.5 million open and laparoscopic procedures, including general, gynecological, bariatric and colorectal surgeries. Feedback from hundreds of surgeons who regularly perform these procedures continues to play an important part in developing the devices.

"The vision we have is to use HARMONIC® technology as the cornerstone of a growing energy franchise that will offer multiple benefits to surgeons and patients in any procedure," says Hedy Hashemi, Ethicon Endo-Surgery marketing director with responsibility for the HARMONIC® line.

In 1995, there was only one HARMONIC® surgical device when Ethicon Endo-Surgery acquired the technology. Today the HARMONIC® product line comprises more than 50 devices, including seven products launched in a six-month period between November 2007 and April 2008. The energy franchise gained another platform in 2008 with the acquisition of SurgRx, Inc., makers of ENSEAL® devices, which seal large vessels during surgery.

A WINNING TOUCHDOWN Dr. Hess, a longtime user of surgical products by DePuy Spine, Inc., operates with the latest HARMONIC® devices. And his surgeries continue to touch lives.

When off-duty, he performs surgery on children in Ecuador, Ghana, Barbados and several other countries. His wife, Heather, son Andy, 21, and daughter Ashley, 23—a college student, volunteer firefighter and EMT—have joined Dr. Hess on trips to distribute food and medicine. He also brings children to Geisinger Medical Center for treatment, including a Bosnian boy who was injured in a landmine explosion and a Honduran girl who was becoming a paraplegic due to tuberculosis of the spine; after a 10-hour surgery, she can now walk.

An avid football fan who plays on the hospital team, Dr. Hess also volunteers as physician for the Danville High School Ironmen football team. One day he spotted an offensive tackle who looked familiar and realized he had operated on the teen after the boy broke his back in a car accident. Now, he was an all-state champion. Though the player was on the opposing team, Dr. Hess' heart swelled.

"It's wonderful to make a difference in someone's life," he says.

TOOLS TO TRANSFORM W. Fred Hess, M.D., Chief of Spine Section, Department of Orthopaedic Surgery at Geisinger Medical Center in Danville, Pa., began using two new surgical devices in 2008 that are the latest innovations in HARMONIC® energy from Ethicon Endo-Surgery, Inc. Says Dr. Hess: "It makes a difference in the care I can provide for my patients."


W.ted Hess MD
Orthopaedic Surger

OUR CARING DELIVERS:

Personalized Skin Care

Cherie Price says she used to be self-conscious about her face breaking out. "Being an actor, it's very frustrating," says the Los Angeles resident. "You don't want to worry about people judging you only by your face."

Cherie had tried for years to find the right acne treatment. While drugstore shelves offered so many options, she never knew which to choose, and those she tried just weren't right for her. Then she found out about skin iD™ from Neutrogena Corporation, the first personalized acne solution that's based on an individual's skin and lifestyle.

At Neutrogena, one of the Johnson & Johnson Consumer businesses, scientists sought a way to personalize skin care so that each person's acne treatment would meet his or her particular needs.

"We realized that if we could create a way to hear from each person about his or her needs, lifestyle and preferences, we could deliver a more effective, personalized solution," says Bobby Sheikh, launch Product Director for skin iD™. "Because most stores generally aren't equipped to help people through the personalization process, we developed products and a distribution model that sells the skin iD™ product line directly to consumers."

Available exclusively through www.skinid.com or a hotline (866-742-0201), skin iD™ uses a proprietary, dermatologist-developed skin evaluation. The result is a personalized regimen consisting of three products: a cleanser and two other products, such as a hydrator and an anti-acne treatment or a toner and a moisturizer.

"It takes you through the steps to define your acne problems," says Cherie, describing the free skin iD™ evaluation on www.skinid.com. "I liked it a lot. It was very personalized."

The skin iD™ regimens were tested in a randomized double-blind, placebo-controlled study with industry-leading acne treatments. Five hundred participants were treated for eight weeks. "The results were spectacular," says Sheikh. "We could see that we were improving people's lives."

"I felt amazing and couldn't stop looking in the mirror," says Cherie of her results. "It was a life-changing experience, and I saw my face change for the better."

TAKING SKIN CARE PERSONALLY Los Angeles actor Cherie Price says her face is her calling card, but her acne was giving the wrong impression. Then she found out about skin iD™ from Neutrogena Corporation, the first personalized acne solution that's based on an individual's skin and lifestyle. "It changed my complexion, my skin, my life," she says.

OUR CARING EMBRACES:

A TRUSTED BRAND

In a French advertisement for the new LE PETIT MARSEILLAIS™ orange blossom shower gel, a father and son encounter a tree covered in orange blossoms in the South of France. The scent reminds the father of when he met and fell in love with the boy's mother. His reminiscence is interrupted when the boy remarks that the smell makes him think of their shower at home.

Many Johnson & Johnson consumer brands are part of people's daily health and hygiene rituals around the world. LE PETIT MARSEILLAIS™, a trusted family brand with a 100-year heritage, leads the French market for personal cleansing. It was part of a 2006 strategic acquisition of Groupe Vendôme by Johnson & Johnson SA France and has enhanced the Johnson & Johnson adult and baby skin care businesses.

Each year, 40 percent of French households buy at least one LE PETIT MARSEILLAIS™ shower gel, soap, bath or hair care product. The products promote well-being and emphasize beneficial ingredients found in nature. LE PETIT MARSEILLAIS™ is enjoying double-digit sales growth as part of the Johnson & Johnson Family of Companies.

"Since the acquisition, we have access to greater marketing resources, and we've been able to accelerate plans to expand to additional markets," says Eric Panijel, General Manager, Laboratoires Vendôme. "We also benefit from research capabilities that fuel innovative product development."

An average of 30 new LE PETIT MARSEILLAIS™ products are launched each year. New in 2008, orange blossom shower gel quickly became one of the top three shower gels in France. While a lighthearted ad helps, so does the brand's heritage. Panijel says, "LE PETIT MARSEILLAIS™ has a special place in the minds of French people."

OUR CARING FULFILLS:

New Needs for New Markets

In northern China, young children like Ma Wenjuan's son, Zhang Chenyuan, spend lots of time playing outside. "I can see his chapped face and know that he's uncomfortable," says Ma.

Ma was one of the mothers followed by Lillian Xu, Consumer Science Manager, Asia Pacific & Emerging Markets, Johnson & Johnson Group of Consumer Companies, and her colleagues as part of a consumer closeness and bonding program. This program is an integral part of product design and development in emerging markets. "We found that most moms apply cream on their baby's face in the morning before they go out," says Xu. "But reapplication during the day or evening is regarded as wasteful and unnecessary."

These findings were considered in the development and September 2008 launch of JOHNSON'S® Baby Long Protecting Cream, clinically proven to replenish skin lipids lost in the chilly, dry wind of winter. The cream's natural ingredients and the competitively priced 25-gram package meet needs in China's emerging market. It was developed at the Emerging Market Innovation Center (EMIC), a 10,000-square-meter Johnson & Johnson facility that opened in Shanghai in 2007.

"Emerging markets like Brazil, India, China and others represent almost 80 percent of the world's population, and their spending power in categories we're serving is growing significantly," says Gerson Pinto, Vice President of Research & Development, Asia Pacific & Emerging Markets, Johnson & Johnson Group of Consumer Companies. "The mission of EMIC is to develop new and affordable products addressing the specific consumer needs of emerging markets."

EMIC researchers and product developers continue to observe and strive to meet needs in these growing markets. Having been part of a consumer closeness experience, Ma says, "I was excited to have Johnson & Johnson people get to know my needs and then be able to develop products directly for this problem."

ENJOYING THE OUTDOORS Ma Wenjuan and her son, Zhang Chenyuan, were part of a consumer bonding program in China that allowed researchers to see firsthand the need for a long-lasting cream to keep children's cheeks from chapping. JOHNSON'S® Baby Long Protecting Cream was launched in September 2008.

SHAPING OUR FUTURE IN CHINA

Beijing 2008

Johnson & Johnson
Family of Companies

WORLDWIDE PARTNER

Larger-than-life marionettes standing up to 22 feet tall told the story of an ancient terracotta warrior, brought to life by a young Chinese girl. The vibrant cultural performance, presented by Johnson & Johnson at Millennium Monument Park during the Beijing 2008 Olympic Games, introduced the past to the present and visibly demonstrated our strong past and future commitment to the people of China.

Johnson & Johnson served as an official health care sponsor of the Beijing 2008 Olympic Games and Paralympic Games. "Our sponsorship helped to shape our growth in China by creating a deeper emotional connection between the Chinese people and Johnson & Johnson," says Owen Rankin, Vice President of Corporate Equity, Johnson & Johnson. "We fundamentally changed the Johnson & Johnson role in China, and that will last for decades."

The sponsorship involved four years of planning, preparation and execution in conjunction with the 2008 Games and provided a successful boost to our businesses around the world, especially in China. Since establishing a joint venture in 1985, Johnson & Johnson has built on investments—including the recent acquisition of Beijing Dabao Cosmetics Co., Ltd. (see page 21)—that have helped to preserve Chinese heritage and accelerated growth in this important emerging market.

"The Beijing 2008 Olympic Games was an unprecedented opportunity to enhance our reputation in China as a caring, trusted health company, helping our businesses to grow faster while building deeper relationships with the government and people of China and making Johnson & Johnson a more attractive place to work," says Rankin. "All of these goals were achieved."

"Talent shortage is a potential bottleneck for accelerating our business growth in China," explains Wen Jian Xie, Managing Director, Johnson & Johnson Medical (China), Ltd. "By building our reputation, the sponsorship has led to much better talent recruitment and retention." Xie says people in China have expanded their view of Johnson & Johnson, "from providing the best and most effective medical products to our customers in China to serving many more patients and improving the quality of health care."

During the Olympic Games, Johnson & Johnson helped better the health and well-being of families and communities through education and information, and supported Olympic athletes and medical staff with training, products and education (see page 28). The Johnson & Johnson Beijing Science Center, built in 2005 to train medical professionals from the region, helped 80 Chinese physicians and 2,000 medical personnel prepare for the Games. It remains a functioning training facility, supporting the growing health care infrastructure in China.

The Johnson & Johnson Olympic Games Pavilion, located on the Beijing Olympic Green, has been donated to the city of Beijing as an enduring reminder of the spirit of caring and sharing that creates healthier societies around the world.

OUR CARING HEALS:

The Skin He's In

For 26 years, Troy DePriest endured the painful red lesions that covered much of his body and that characterize plaque psoriasis. Like so many others living with psoriasis, Troy was embarrassed by the physical signs of the disease. "When I'd go surfing, I'd go to the far end of the beach—I wanted to isolate myself, because people stared at me and made me feel like a leper," he says.

The itchy scales first appeared when Troy was 9. "I would scratch and dig at my scalp until it would bleed," he recalls.

Over time, the raised red spots took over portions of his back, legs, arms and abdomen. By age 18, Troy was diagnosed with chronic severe plaque psoriasis, an inflammatory disorder that is painful both physically and emotionally. "Plaque psoriasis is not contagious, but it makes you so self-conscious that you want to hide," says Troy. "It strips away your confidence."

To find relief, Troy says he tried multiple therapies. He even moved from his home in Massachusetts to the California desert, hoping the sun would help his skin. "Nothing worked," he says. "Every day I would get up and look in the mirror and have to see this disease getting worse and worse. At one point, I just gave up."

But in 2004, Troy learned about a clinical trial for an investigational therapy from Centocor, Inc. called ustekinumab and decided to enroll in the study. Ustekinumab is a new biologic medicine for which Johnson & Johnson has worldwide marketing rights under the trade name STELARA™. With his participation in the trial, "Troy went from having a significant percentage of his body involved with psoriasis to having significant improvement in his disease," says dermatologist Stacy Smith, President of Therapeutics Clinical Research in San Diego.

Centocor scientists discovered ustekinumab, a human monoclonal antibody, more than 10 years ago. It targets the proteins, or cytokines, that are thought to set off certain inflammatory disorders, including psoriasis.

"Ustekinumab binds to interleukin -12 and -23, and prevents their interaction with cell surface receptors—essentially, it neutralizes their bioactivity," explains Jacqueline Benson, Ph.D., Assistant Director, Immunology Research, Centocor, Inc. "We hope that the benefit ustekinumab has demonstrated in patients with psoriasis is just the beginning for the therapeutic use of ustekinumab in immune-mediated diseases."

Two large clinical studies have evaluated the efficacy and safety of ustekinumab as an infrequent subcutaneous injection, with patients receiving as few as four injections a year following two initial doses at weeks 0 and 4. More than two-thirds of clinical trial patients receiving ustekinumab had a significant response after 12 weeks of therapy. Both studies continue, with long-term extensions that will provide a total of five years of efficacy and safety data for ustekinumab.

STELARA™ (ustekinumab) has been approved by regulatory authorities in Canada and the 27 European Union countries for treatment of moderate to severe plaque psoriasis. STELARA™ is currently under review by the U.S. Food and Drug Administration, and marketing applications for the treatment of moderate to severe plaque psoriasis have been filed with local health authorities in numerous other regions around the world.

Today, Troy is active in raising awareness through the National Psoriasis Foundation. "When my psoriasis improved, I wanted to get out there and help others," he says. "You'll find me at a Foundation walk or speaking about the burden of psoriasis—or you may find me on the beach. Before, everything was focused on my psoriasis, but now I feel more comfortable living my life."

SELF-CONFIDENT AGAIN "Plaque psoriasis is not contagious, but it makes you so self-conscious that you want to hide," says Troy DePriest. But since he's found relief with an investigational treatment from Centocor, Inc., Troy is no longer hiding at the far end of the beach.

OUR CARING GENERATES:

Green Power

Cork is a very nice town, friendly people—the only drawback is the rain," says Ibrahim Khadra, Staff Engineer with Global Pharmaceutical Supply Group, LLC, Worldwide Engineering as he looks back on his recently completed three-year assignment in Ireland. "Of course, there's an advantage to the rain: It keeps the country green."

After all, green—green power—is what brought Khadra to Ireland. He was the project lead responsible for building a 2.1-megawatt biomass boiler that uses wood chips at the Centocor Biologics (Ireland) manufacturing facility ("BioCork"). The boiler replaces half the natural gas used at the facility and reduces its carbon dioxide (CO_2) emissions by 22 percent. The wood chips that fuel the boiler are the by-products (such as branches) from logging in sustainable forests near Cork.

BIOMASS A FIRST FOR BIOTECH Completed in September 2008, the biomass boiler is the first project of its kind within Johnson & Johnson in the biotech sector (a Cilag AG pharmaceutical manufacturing facility in Switzerland also uses a biomass boiler) and the first such installation for a pharmaceutical company in Ireland. "It was never a slam dunk," says Khadra. "Nobody has done this for a biotech facility, and when you think of biomass, and you think of burning wood chips, you think of a very dirty operation."

BioCork manufactures monoclonal antibodies, the basis for biologic medicines such as ustekinumab (see story on page 12). Khadra says making the biomass boiler a clean, contained operation was an intriguing challenge, given the delicate requirements for producing monoclonal antibodies.

"We came up with this idea of hook bins, essentially converted trailers designed with moving floors, which allow us to handle the wood chips in a very clean, contained way," says Khadra. The wood chips are fed by auger into the boiler, where they are burned to heat water. The resulting steam is used to heat the facility and run the manufacturing process.

As the wood chips burn, carbon dioxide is released into the atmosphere. Ash produced in the burning process is collected and used to fertilize new trees, which then absorb CO_2, completing a sustainable, carbon-neutral cycle.

REDUCING EMISSIONS Johnson & Johnson began setting environmental goals in 1987 and in 1999 established a goal to reduce CO_2 emissions from facilities worldwide by 7 percent in absolute terms by 2010. By improving energy efficiency, establishing on-site cogeneration and renewable-energy projects, using green power and purchasing carbon offsets, the company is on target to meet that goal. (See a map of worldwide sustainability projects on www. jnj.com.)

In 2005, when the BioCork facility was being built, there was a strong commitment to reduce the new site's carbon footprint by approximately 20 percent. "From the initial design, we looked at a

CARING FOR THE ENVIRONMENT "When you're outside here in Ireland, you feel alive," says Ibrahim Khadra, Staff Engineer with Global Pharmaceutical Supply Group, LLC, Worldwide Engineering. When Khadra got involved in building a biomass boiler for Centocor Biologics (Ireland), Ltd., he was motivated by the goal to reduce CO_2 emissions from Johnson & Johnson facilities worldwide by 7 percent in absolute terms by 2010. He says: "That fact alone makes me want to do everything I can to come up with innovative ideas and ways to reduce our carbon footprint."

number of ways of further minimizing our impact on the environment, including the biomass boiler," says Jonathan Sowerbutts, Director of Engineering, Centocor Biologics (Ireland), Ltd. "The financial and particularly the environmental benefits outweighed adding cost and complexity to the overall project."

MAKING THE IMPOSSIBLE POSSIBLE Sowerbutts and Khadra emphasize the project could not have happened without the significant organizational support it received. BioCork has since won internal and external awards, including an Excellence Award for design, construction and start-up from Johnson & Johnson Worldwide Environment, Health and Safety, and Category Winner in Sustainability for the 2009 Facility of the Year Award, from ISPE, INTERPHEX and *Pharmaceutical Processing* magazine.

Khadra, who worked on building the Centocor, Inc. biologic facility in Malvern, Pa., in 1999, readily sees how learning from the past makes BioCork a current best practice. And what can be learned from the biomass boiler? "What I'm hoping the biomass boiler project allows is for the impossible to become possible," Khadra says. "What you see today—the biomass boiler running, how clean of a process it is—you've seen the possible."

OUR CARING TOUCHES:

Diabetes Remotely

Madison, 13, has diabetes and needs to give herself insulin up to eight times a day. For an active teenager, that could easily be embarrassing if not debilitating. But with her new insulin pump, Madi gets the insulin she needs in class and on the roller rink, and her friends hardly notice. "It looks like I'm texting," she says. "People can see me as anyone else."

Madi uses the ONETOUCH® PING™ glucose management system, the first full-feature insulin pump with a meter-remote. Launched in 2008, it's the first integrated product from two of the companies that comprise the Diabetes Care Franchise: Animas Corporation, a maker of insulin pumps that Johnson & Johnson acquired in 2006, and LifeScan, Inc., maker of the ONETOUCH® brand of blood glucose meters.

Animas, LifeScan and other companies focus on patients like Madi to develop a full spectrum of solutions to manage diabetes: The patient is at the center, which leads to a holistic approach to patient care. The companies that comprise the Diabetes Care Franchise are committed to raising the standard of care worldwide for this global epidemic, which affects nearly 250 million people and is growing at an alarming rate.

To that end, the Johnson & Johnson Diabetes Institute, LLC launched its first center in the United States in 2008. The California facility provides product training and education for thousands of community-based health professionals. Led by former Acting U.S. Surgeon General Kenneth P. Moritsugu, M.D., M.P.H., Johnson & Johnson Diabetes Institute centers also operate in China, France and Japan, and there are plans to continue expanding globally.

ON THE GO Madi discreetly manages her diabetes and doesn't let it get in the way of being an active teenager. "I can reassure kids that everything is going to be OK because people would never think of me as, 'Oh, she has diabetes.' People say, 'Wow, she's so active.' That's the message I want to get out: You can live the same lifestyle that you did before."

Also in 2008, LifeScan acquired Children with Diabetes, Inc. (www.childrenwithdiabetes.com), a respected online community that offers science-based education and friendships, and also sponsors family conferences. A Spanish-language diabetes website, Diabetes Juvenil (www.diabetesjuvenil.com), joined Children with Diabetes (CWD) in October 2008. Diabetes Juvenil is one of the biggest online communities for Spanish-speaking families living with type 1 diabetes. Together, CWD and Diabetes Juvenil can help meet the needs of families affected by diabetes around the world.

"REALLY EASY" Diagnosed with type 1 diabetes at age 5, Madi felt embarrassed pulling out needles in public, and the welts from the multiple injections hurt when she danced and played roller hockey. At age 7 she switched to an ANIMAS® insulin pump, which delivered insulin through a small tube attached to her body. After checking her blood glucose level, Madi would make a quick calculation to determine her insulin needs, then press a few buttons on her pump to send the appropriate amount of insulin. "It made my life so much easier," she says.

Managing her diabetes became easier still with the ONETOUCH® PING™ glucose management system. Now, Madi doesn't have to touch her pump all day. Instead, the wireless meter-remote sends a signal to the pump to deliver her insulin. "I like to wear dresses, and that way I can take my insulin with a ladylike composure," Madi says.

In school she unzips her pink purse, pulls out her meter-remote—which looks like a cell phone—and checks her blood glucose level. After Madi makes a few calculations, her meter-remote can instruct the pump concealed under her clothes to deliver insulin. Not even the girls at her table notice. In less than a minute, Madi is back to her lesson. "It's really easy," the eighth grader says.

It also works for her active lifestyle. Madi often needs insulin during roller hockey games or when she sings and dances in shows, and she no longer has to access the pump secured under her uniform or costume. Some days she wears her pink pump on her belt loop. "It matches all my outfits," she says with a smile.

Madi is passionate about helping other kids with diabetes. An advocate for the American Diabetes Association (ADA), Madi organizes skating fundraisers at her local rink and creates colorful journals to sell. The captain of her own ADA walk team, Madison's Prayer, she is one of the biggest child fundraisers and raised $10,000 in 2007. Madi also visits children newly diagnosed with diabetes to share her story and deliver bags that she decorates and fills with gifts and information.

"I made a promise that I'm going to help them," she says. "My dream is finding a cure, and I'm doing everything in my power to help."

OUR CARING EMPOWERS:

Living Positively

At eight months pregnant, Kangela received heartbreaking news: She was HIV-positive.

"It was like the whole world had come to an end," says Kangela, who lives in South Africa's Eastern Cape region. "I didn't know what to do. I was thinking: Is my baby going to die? How am I going to tell this to my mom and deal with the community?"

Kangela was not alone in her fears. In sub-Saharan Africa, more than 22 million people are infected with HIV, representing about two-thirds of the world's HIV population, according to 2008 UNAIDS figures. Infected women who become pregnant risk passing the virus on to their children.

"When I first came to practice medicine in South Africa in 1999, there were no programs or resources for HIV-positive women," says obstetrician/gynecologist Mitch Besser, M.D., founder of the organization mothers2mothers (m2m). "People weren't getting tested, women didn't know how to feed their babies without passing on the virus, and they were terrified to disclose their HIV status to family members."

Overworked doctors and nurses had little time to provide support for HIV patients. "In 2001, we decided to train another kind of health care provider—mothers who were living with HIV," says Dr. Besser. "In Cape Town, we established the first mothers2mothers program, where HIV-positive mothers began serving as mentors and sharing their experiences and knowledge with other moms."

MOTHERS HELPING MOTHERS By 2008, the m2m program had grown to 400 program sites, reaching 130,000 women each month. More than 1,000 moms are trained as mentors, including Kangela. Dr. Besser says that nearly all the HIV-positive women who participate in the program have HIV-negative babies.

"Women come to us, and they are crying. They are scared. I tell them my story: that I am HIV-positive but my child is HIV-negative," says Kangela. "I tell them, 'You are going to make it, and you will raise a healthy baby.' "

The mentor mothers talk to women about condom use, the importance of early infant testing, proper diet, antiretroviral treatments and how to safely feed their babies. They encourage women to join an m2m support group, where moms share their stories and form friendships.

"The mentor mothers' strength has been transformational for families in South Africa," says Dr. Besser. "These women no longer feel like outcasts in society. They belong to a vibrant community where they are raising healthy babies and living positive lives."

THE POWER OF PARTNERING m2m program leaders say that partnerships with business, government and other groups have allowed the program to grow and reach more women every day. Johnson & Johnson helped establish two m2m sites in 2005 and currently supports 15 sites across East London, Port Elizabeth and the Cape Town area.

For its work with m2m, Johnson & Johnson received the 2008 Award for Business Excellence on HIV/AIDS Addressing Women and Girls from the Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria. The m2m program is among more than 100 HIV/AIDS programs that Johnson & Johnson supports across 50 countries.

"Our partnership with Johnson & Johnson has allowed us to reach enormous numbers of women," says Dr. Besser. "We want to take the m2m program everywhere it is needed. What began as a simple idea has changed the way thousands of women feel, cope and live."

THE MANTRA: 'NO MORE' "No more infected babies. No more dying mothers"—this is the m2m mantra, says Kangela. And each time she looks at her 4-year-old son, she smiles. "My son is healthy, very cute and playful. I am proof that there is hope. And I look forward to the day when we can all raise our children in an HIV-free generation."

FINDING HOPE Kangela is an HIV-positive mother and mentor with the mothers2mothers program in South Africa. Because of the program, her 4-year-old son was born without contracting the disease from his mother. m2m is among more than 100 HIV/AIDS programs that Johnson & Johnson supports across 50 countries.

Johnson & Johnson 2008 YEAR IN REVIEW:

Consumer Health Care

Over-the-Counter ZYRTEC® Launched

In January 2008, McNeil Consumer Healthcare Division of McNEIL-PPC, Inc. launched ZYRTEC® (cetirizine HCl) for sale without a prescription in the United States, in what was the largest Rx-to-OTC switch in the Company's history. The OTC rights to market ZYRTEC®, which until the launch was the No. 1 prescription allergy medicine in the U.S., were gained as part of the 2006 Pfizer Consumer Healthcare acquisition.

Early launch efforts focused on ensuring that a large percentage of ZYRTEC® prescription users followed the brand from Rx to the OTC side. We also worked to grow the market and capture share from allergy sufferers using other Rx and OTC medications for whom ZYRTEC® would be appropriate. ZYRTEC-D® (cetirizine HCl 5 mg/pseudoephedrine HCl 120 mg), which combines ZYRTEC® with a decongestant, was launched at the same time.

Working with the pharmaceutical business was an important component of the launch success, allowing McNeil Consumer Healthcare to work with health care plans, pharmacy benefit managers, national retailers and employers before the ZYRTEC® launch to educate and inform them about the switch. Thanks to these efforts, millions of ZYRTEC® prescription users received switch information and a coupon from their health plan, and millions more ZYRTEC® and allergy prescription users received a similar communication from their employer.

Science Drives Development in Skin Care

Science is the catalyst behind many of our growth strategies. This includes organic growth of iconic brands, new ventures and even emerging markets where the scientific and technical challenge is to develop and grow products that are effective, appealing and provide value to consumers across cultures and socioeconomic groups.

Worldwide demand for products using natural ingredients continues to drive growth for the AVEENO® brand, which uses a science-based approach to develop ACTIVE NATURALS™ with superior efficacy. Long known for its natural oatmeal products, AVEENO® has expanded its lineup of natural ingredients to include soy, Feverfew PFE™ and Natural Shiitake Complex, among others.

In 2008, AVEENO® continued to grow, introducing the AVEENO® POSITIVELY AGELESS™ Lifting and Firming Facial Skincare line with Natural Shiitake Complex and Natural Wheat Protein. The line includes a daily exfoliating facial cleanser, a rejuvenating serum, an eye cream, a daily moisturizer with SPF 30 and a night cream. All are designed to work with the skin's chemistry to deliver anti-aging benefits. In clinical studies, 97 percent of women showed improvement in four weeks.

In other skin care news, CLEAN & CLEAR®, the No. 1 skin care brand for young women, built on its leadership position with the continued success of the ADVANTAGE® Acne Control Kit. It also launched the ADVANTAGE® BLACKHEAD ERASER™ Exfoliating Cleanser, a water-resistant battery-operated, hand-held applicator that helps get rid of stubborn blackheads and prevent new ones from forming. The brand continued to expand internationally, launching successfully in India with a campaign of culturally relevant television advertising.

JOHNSON'S® GROWS GLOBALLY With a presence in 175 countries, JOHNSON'S® Baby continued to gain new users and to grow its business in international markets. Growth was driven by a focus on the core business, including the original pink JOHNSON'S® Baby Lotion, which now has a clinically superior formulation and moisturizes for 24 hours.

JOHNSON'S® Body Care experienced strong growth in Japan, thanks to a successful extension into adult moisturizers and cleansers. The JOHNSON'S® brand is now No. 1 in the Japanese body lotion market and No. 2 in body cleansers.

JOHNSON'S® also has been providing innovative solutions to consumers in emerging markets, most notably by driving a switch from bar soap to JOHNSON'S® liquid cleansers, which are milder and less irritating.

A SCIENCE-BASED APPROACH TO GROWTH

CONNECTING CLINICALLY PROVEN EFFICACY WITH CONSUMER INSIGHTS

MANY BRANDS RECOMMENDED BY HEALTH CARE PROFESSIONALS

Oral Care Reaches New Markets

The Johnson & Johnson Healthcare Products Division of McNEIL-PPC, Inc. continues to be a driving force in the oral care category, marketing the world's No. 1 mouthwash, LISTERINE®. We continue to see strong growth from brands like LISTERINE®, which has thrived for generations thanks to innovative products and science-based claims that are based on deep consumer insights.

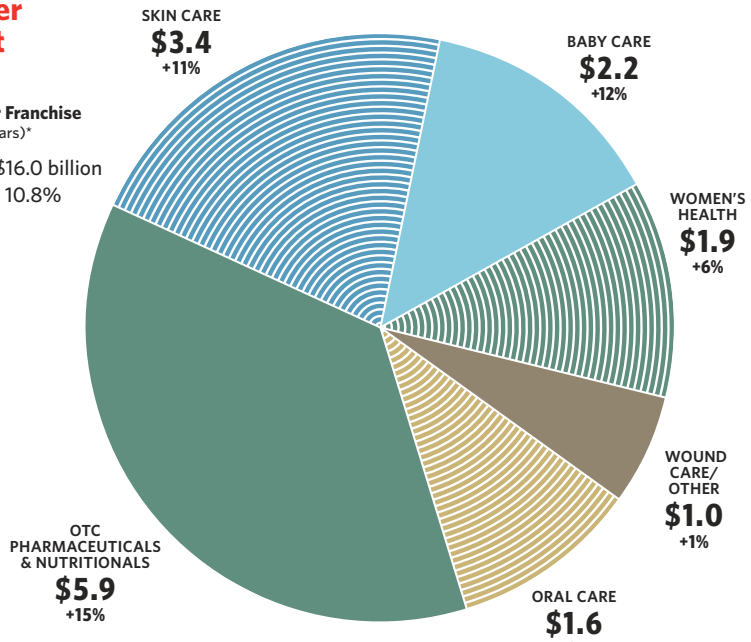
Geographic expansion is helping to drive growth. In August 2008 we launched LISTERINE® TOTAL CARE® in the United Kingdom, which helped deliver strong results for the LISTERINE® brand in Europe. TOTAL CARE®, the most advanced and complete LISTERINE® mouthwash, is the first to combine a range of benefits: It reduces plaque, kills bacteria, fights bad breath, keeps gums healthy, strengthens teeth with fluoride and keeps teeth naturally white.

We also reinforced REACH® lines in 2008, emphasizing the angled neck of the REACH® toothbrush with the introduction of the REACH® ULTRACLEAN™ brush, which removes up to 90 percent of plaque in hard-to-reach places. At the same time, ULTRACLEAN™ floss, with its revolutionary MICRO GROOVES™ technology, gives consumers what they've been looking for—a floss that slides easily and removes plaque effectively.

Consumer Segment Sales

Sales by Major Franchise
(in billions of dollars)*

2008 Sales: $16.0 billion
Growth Rate: 10.8%



* includes rounding

Expanding Our Presence in China

For 20 years, Johnson & Johnson has promoted health and well-being in China. We built on this presence in 2008 with the acquisition of Beijing Dabao Cosmetics Company, Ltd.

Our first personal care acquisition in China brings with it the country's No. 1 moisturizer and a brand that is well-known and respected among Chinese consumers. This transaction is an extension of our commitment to China and to the continued development of its consumer health care sector. Since establishing our first joint venture in China in 1985, the Johnson & Johnson Family of Companies has continuously demonstrated our commitment to improving the health and well-being of Chinese families and to China as an important market.

The DABAO® skin care line includes various products well-known in Chinese households, including SOD Milk, Beauty Day Cream and SOD Protein Milk.

Pharmaceuticals

R&D Productivity Key to Future Growth

Sustaining R&D productivity, reducing time and cost, and maintaining quality have been fundamental imperatives for our pharmaceutical business. Recently the pharmaceutical industry, while facing growing generic competition and a more demanding regulatory environment, has seen its once-strong pipelines soften. During this time, however, we have sustained research productivity and are on track to complete filings for seven to 10 new products between the beginning of 2008 and the end of 2010. In doing so, we'll meet a goal set back in 2007. We are demonstrating what can be achieved when dedicated employees work together in moving new compounds from concept to reality.

Organic growth, as well as strategic in-licensing and partnerships, have contributed to reaching regulatory milestones. Success has been driven by research and development where we use our expertise in biopharmaceuticals and small molecules to focus effectively on the discovery and development of new molecular entities while pursuing innovative platforms and technologies for drug delivery.

Here are highlights of significant regulatory milestones in 2008.

NEW BIOLOGIC Members of the ustekinumab compound development team (above) discovered the human monoclonal antibody more than 10 years ago. It has been approved in Canada and the 27 EU countries and is under review with the U.S. FDA.

IMMUNOLOGY

• STELARA™ (ustekinumab) is a new biologic medicine for which Johnson & Johnson has worldwide marketing rights. It has been approved by regulatory authorities in Canada and the 27 European Union countries for treatment of moderate to severe plaque psoriasis. STELARA™ is currently under review by the U.S. Food and Drug Administration (FDA), and marketing applications for the treatment of moderate to severe plaque psoriasis have been filed with local health authorities in numerous other regions around the world.

• A Biologics License Application (BLA) was submitted to the FDA requesting approval of golimumab (CNTO 148), a next-generation human anti-TNF-alpha monoclonal antibody, as a monthly subcutaneous treatment for adults with active forms of rheumatoid arthritis, psoriatic arthritis and ankylosing spondylitis. It is being developed as both a subcutaneous injection and an intravenous infusion therapy. Other potential claims and uses being studied include impact on structural damage related to rheumatoid arthritis and ulcerative colitis.

PAIN MANAGEMENT

• NUCYNTA™ (tapentadol) immediate-release tablets were granted FDA approval for the relief of moderate to severe acute pain in adults age 18 and older. NUCYNTA™ is a centrally acting oral analgesic with a comprehensive dual mechanism of action, combining mu-opioid receptor agonism and norepinephrine reuptake inhibition to significantly relieve moderate to severe acute pain with a low incidence of gastrointestinal side effects. NUCYNTA™ is being co-developed by Grünenthal and Johnson & Johnson Pharmaceutical Research & Development, LLC (J&JPRD).

CARDIOVASCULAR

• A New Drug Application (NDA) was filed with the FDA for rivaroxaban, an investigational oral, once-daily anticoagulant for the prevention of deep vein thrombosis (DVT) and pulmonary embolism (PE) in patients undergoing hip or knee replacement surgery. Initially developed for prevention of DVT and PE in hip and knee replacements,

INNOVATIVE PLATFORMS AND TECHNOLOGIES DRIVING GROWTH

PROMISING EARLY- AND LATE-STAGE PIPELINE

NINE PRODUCTS WITH REVENUE OF MORE THAN $1 BILLION EACH

larger opportunities exist for rivaroxaban, with possible additional indications for venous thromboembolism treatment, stroke prevention in atrial fibrillation, prevention of DVT and PE in patients hospitalized with medical illnesses, and acute coronary syndrome. J&JPRD is co-developing rivaroxaban with Bayer HealthCare AG, which holds marketing rights in countries outside the U.S. If the drug is approved by the FDA, Ortho-McNeil, a division of Ortho-McNeil-Janssen Pharmaceuticals, Inc., will market it in the U.S.

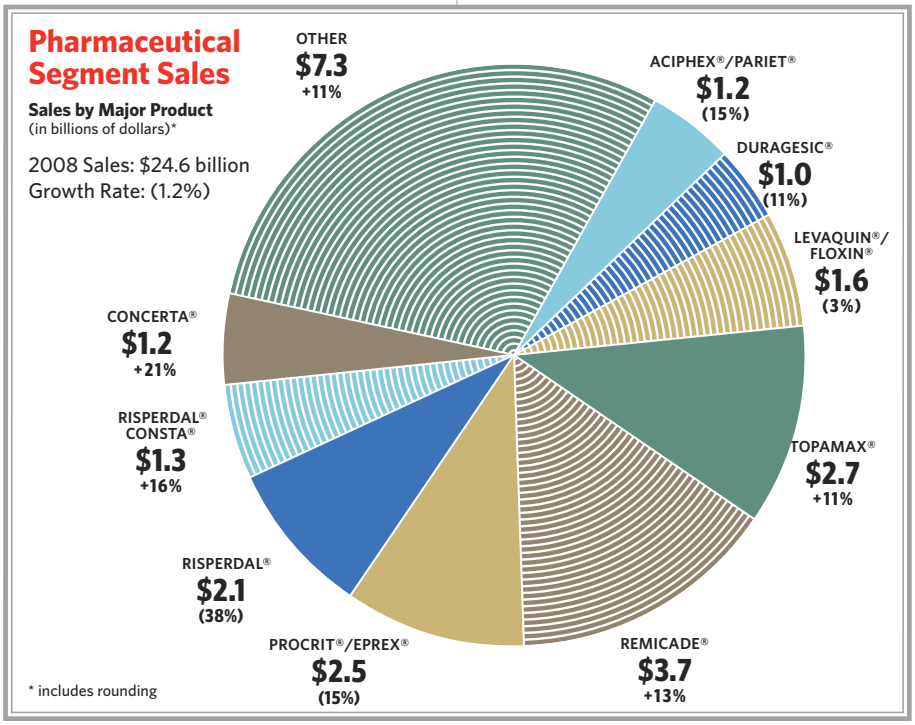
CENTRAL NERVOUS SYSTEM

• Two supplemental New Drug Applications (sNDAs) were submitted to the FDA requesting approval for the use of INVEGA® (paliperidone) tablets for the treatment of schizoaffective disorder as monotherapy and for use in combination with antidepressants and/or mood stabilizers.

• An NDA was submitted to the FDA for carisbamate, an investigational compound for the adjunctive treatment of partial-onset seizures in patients age 16 and older. In 1999, J&JPRD and SK Holdings Co., Ltd. entered into a license agreement to develop and commercialize carisbamate, with J&JPRD receiving global marketing rights.

INFECTIOUS DISEASE

• ZEFTERA™ (ceftobiprole) has been approved in Switzerland, Canada and the Ukraine for the treatment of complicated skin and soft tissue infections. It is under review in the U.S., Europe, Australia and several other countries and has the ability to address a broad range of serious bacteria, including methicillin-resistant staphylococcus aureus (MRSA). Janssen-Cilag will market the drug, which is licensed from and co-developed with Basilea Pharmaceutica Ltd., as ZEVTERA™ in Switzerland.



CONTINUED GROWTH

In addition, several of our currently marketed and well-performing products received regulatory approval for new indications or received approvals in additional markets in 2008:

• The European Commission approved once-daily dosing of 800 mg PREZISTA® (darunavir) with low-dose ritonavir as part of combination therapy in treatment-naïve adults (those who have never taken HIV medication). This approval broadens the previous indication of darunavir for treatment-experienced HIV-1 patients and means that PREZISTA® can be used for the full spectrum of adult HIV/AIDS patients in the 27 EU member states. In the U.S., PREZISTA® received full approval for twice-daily use in treatment-experienced adult patients and an expanded indication for once-daily dosing as part of HIV combination therapy in patients who have never taken HIV medicines.

• INTELENCE™ (etravirine), which the FDA approved in early 2008, received marketing authorization in Canada and the EU for HIV combination therapy.

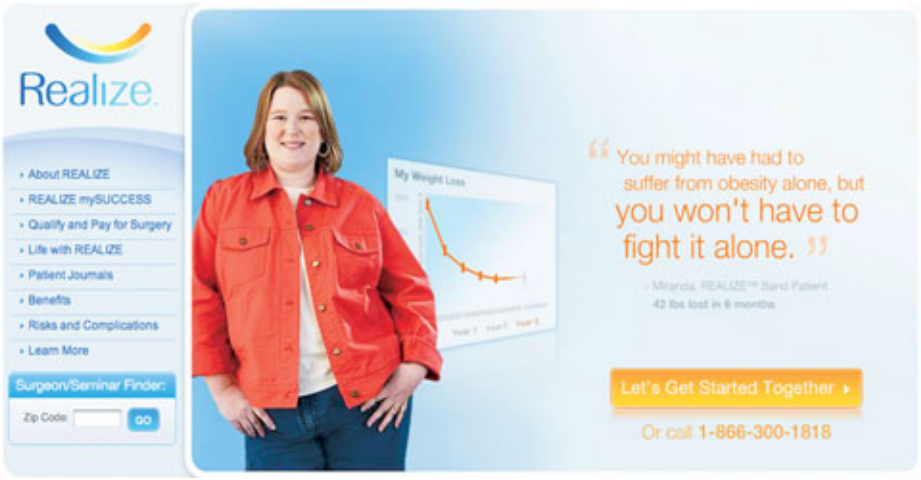
• An sNDA was submitted for the combination of DOXIL® (doxorubicin HCl liposome injection) and TAXOTERE® (docetaxel) for the treatment of women with advanced breast cancer who have received prior anthracycline treatment.

• An NDA was submitted for the use of trabectedin in combination with DOXIL® for the treatment of women with relapsed ovarian cancer. Trabectedin is being developed under a license from PharmaMar, and DOXIL® is marketed by Ortho Biotech Products, LP in the United States.

Johnson & Johnson 2008 YEAR IN REVIEW:

Medical Devices & Diagnostics

Ethicon Endo-Surgery Transforms Patient Care



Ethicon Endo-Surgery, Inc. continued to drive business growth in 2008 with a number of strategic achievements in new and existing markets. In March, the company submitted a Premarket Approval application to the U.S. Food and Drug Administration (FDA) for the SEDASYS® System, the first computer-assisted personalized sedation (CAPS) system. It is intended for use by physician/nurse teams administering minimal to moderate propofol sedation to patients undergoing screening and diagnostic procedures for colorectal cancer and disorders of the upper gastrointestinal tract.

Building on its commitment to long-term patient outcomes, Ethicon Endo-Surgery received FDA approval for the REALIZE™ Adjustable Gastric Band-C, the newest addition to the REALIZE™ Personalized Banding Solution for weight reduction in people suffering from morbid obesity. The REALIZE™ Band-C offers a streamlined, curved design, an expanded adjustment range to accommodate larger patients and a re-lockable closing mechanism for intra-operative repositioning. In addition, the REALIZE mySUCCESS™ program extends the continuum of care through a web-based interactive, one-of-a-kind support system that guides patients on a path of lifestyle changes to help them sustain weight loss. Use of the REALIZE mySUCCESS™ program starts before surgery and continues well after.

In October, Ethicon Endo-Surgery advanced its rich history of investing in R&D by completing the acquisition of SurgRx, Inc., a privately held developer of the advanced bipolar vessel-sealing technology used in the ENSEAL® family of devices. This acquisition brings together two leading complementary energy technologies in the rapidly evolving global energy segment. The combined portfolio of ENSEAL® products and the Ethicon Endo-Surgery HARMONIC® line of ultrasonic medical devices offers greater functionality and flexibility for diverse surgical procedure requirements.

REALIZE™ BAND PATIENTS: Go to www.realizeband.com to learn about real people receiving support to achieve long-term weight loss with the REALIZE™ Personalized Banding Solution.

Ethicon Strengthens Foundation

In late 2008, Johnson & Johnson acquired Omrix Biopharmaceuticals, Inc., a fully integrated biopharmaceutical company that develops and markets biosurgical and immunotherapy products. Omrix is expected to operate as a stand-alone entity reporting through Ethicon, Inc. The acquisition provides Ethicon with an opportunity to strengthen its presence in active, biologic-based hemostats and convergent products for various surgical applications.

Ethicon currently has exclusive U.S. and European Union distribution rights for EVITHROM™ Thrombin Topical (Human) and EVICEL™ Fibrin Sealant (Human), two active, biologic-based hemostats manufactured by Omrix. Ethicon and Omrix are also partnering on a Fibrin Pad product candidate, currently in Phase II clinical trials, as an adjunct to control mild to moderate soft tissue bleeding.

In early 2009, Johnson & Johnson completed the acquisition of Mentor Corporation, a leading supplier of medical products for the global aesthetic market. Mentor is expected to operate as a stand-alone business unit reporting through Ethicon. The acquisition will provide Ethicon with an opportunity to strengthen its presence in aesthetic and reconstructive medicine while expanding our capacity to provide physicians with products that can restore patients' appearance, self-esteem and quality of life.

Ethicon and Mentor are two companies that are committed to bringing evidence-based medicine and the highest standards of quality to the aesthetic and reconstructive medical device category, and both companies share a commitment to science, health and wellness. Mentor will become the cornerstone of a broader Johnson & Johnson leadership strategy for aesthetic medicine, serving both consumers and medical professionals.

LARGEST MEDICAL DEVICE COMPANY IN THE WORLD

NO. 1 OR NO. 2 IN THE MAJORITY OF MARKETS IN WHICH WE COMPETE

WELL-POISED FOR GROWTH

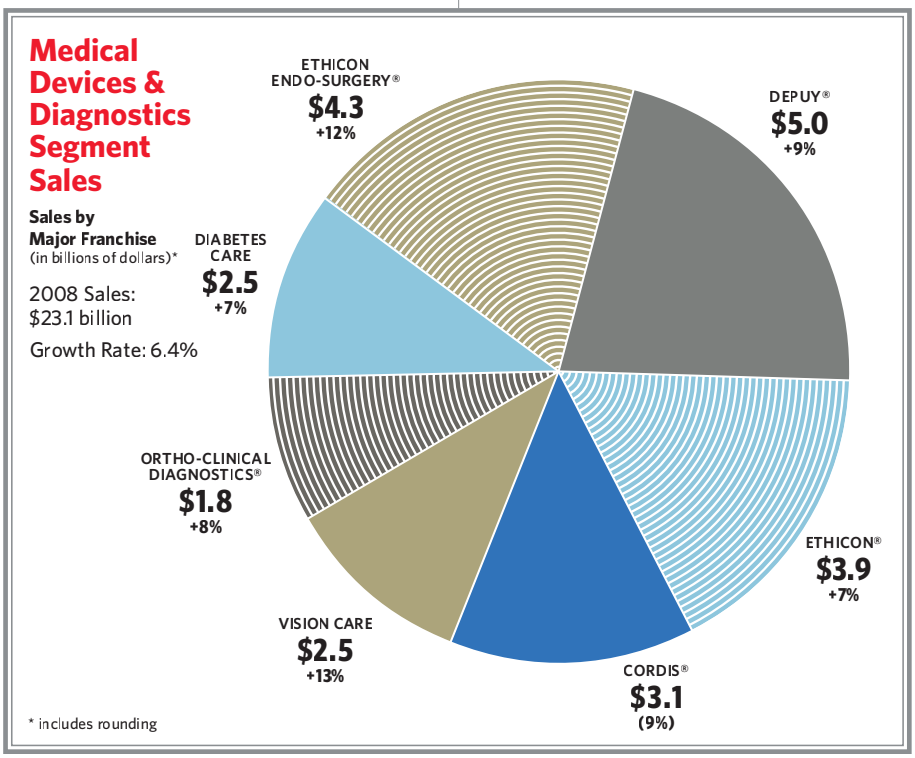
A New Era in Diagnostics

The Ortho-Clinical Diagnostics, Inc. (OCD) fully integrated, global business comprises laboratory tests and instrumentation for use in transfusion medicine and clinical laboratories. OCD is driving growth in its core businesses with new products and launching high-impact medical tests in molecular and cellular diagnostics that will create an entirely new type of value for the medical system.

In 2008, the company brought to market two new laboratory systems: the VITROS® 5600 Integrated System and the VITROS® 3600 Immunodiagnostic System. These next-generation instruments are designed to run more than 100 clinical chemistry and immunoassay tests.

OCD has a strong pipeline that is supported by recent investments, including a new state-of-the-art manufacturing plant in Pencoed, Wales, and an acquisition securing a point-of-care channel that will allow the company to bring diagnostics directly to the physician.

Diagnostics play a major role in health care outcomes: More than 60 percent of health care decisions are made using diagnostic test results. Matching diagnostics with therapies allows for a more targeted approach, providing information that physicians can use to improve patient outcomes. Diagnostics can help Johnson & Johnson achieve organic convergence, leveraging its broad-based position in health care to drive new approaches in patient care. OCD is committed to bringing products to market that can identify illnesses in advance of disease, potentially avoiding progression to more serious disorders.



Vision Care Franchise Continues to Grow

Johnson & Johnson Vision Care, Inc. continues to maintain its leadership position, launching numerous innovative eye care products designed to improve the lives of patients everywhere.

ACUVUE® remains the world's most widely prescribed contact lens brand. In 2008 the brand grew with the addition of two new products: ACUVUE® OASYS™ Brand Contact Lenses *for ASTIGMATISM* and, introduced in the United Kingdom, 1-DAY ACUVUE® TruEye™, the world's first daily disposable silicone hydrogel contact lens.

Building on its partnership with eye care practitioners, the Vision Care Institute™, LLC now has more than 11 sister institutes in such diverse cities as Bangkok, Shanghai, Tokyo, Prague and Dubai. Launched in 2004 as a source of continuous learning and information, the Vision Care Institute™, LLC and its sister units have trained more than 30,000 eye practitioners worldwide.

ACUVUE® continues to be innovative in other ways, such as using digital media with tools like ACUMINDER™, a complimentary online service (www.acuminder.com) that sends an automatic reminder via e-mail, text message or computer prompt to change or order new contact lenses. The expanded functionality of ACUMINDER™ Facebook (www.acuminder.com/facebook) also allows users to send out reminders for just about anything, such as taking daily medications, doctors' visits, work deadlines, social events and more.

DePuy Helps Patients "Never Stop Moving"

Within the orthopaedic market, the DePuy franchise is the leading full-line player. Its products and services span the entire orthopaedic care continuum, from early intervention through joint replacement, trauma, spinal fusion and neuro-surgical care. Its companies—DePuy Orthopaedics, Inc., DePuy Spine, Inc., DePuy Mitek, Inc. and Codman & Shurtleff, Inc.—are increasingly focused on meeting patient needs earlier in the care continuum.

The franchise introduced more than 20 products in 2008. Significant new joint-replacement products include TRI-LOCK™ Bone Preservation Stem with proprietary GRIPTION™ technology for stability, and enhancements to the SIGMA® Knee System; these include SIGMA® High Performance instruments to enhance procedure efficiency, surgical precision and flexibility, and the SIGMA® PS Femur, which optimizes function and fit for high-demand patients. Entering into the growing aging-spine market, DePuy Spine introduced the CONFIDENCE™ SPINAL CEMENT SYSTEM™ for vertebral compression fractures.

To enhance patient education about orthopaedic procedures, DePuy developed an integrated initiative in the U.S. themed "Never Stop Moving™." The campaign featured Mike Krzyzewski, "Coach K," a DePuy hip patient and coach of the 2008 U.S. Olympic Team of Men's Basketball and Duke University Basketball. The goal is to motivate osteoarthritis sufferers to learn more about treatment options and seek the care of an orthopaedic surgeon. Patients can visit www.depuyusa.com to learn more.

Cordis Transforms Cardiovascular Care

Cardiologists worldwide have chosen Cordis Corporation's flagship product, the CYPHER® Sirolimus-eluting Coronary Stent, to treat more than 3 million patients with coronary artery disease. Now clinical trials are under way around the world in support of two new drug-eluting stents from Cordis, the CYPHER® ELITE™ Sirolimus-eluting Coronary Stent and the NEVO™ Sirolimus-eluting Coronary Stent. The NEVO™ Stent utilizes a new reservoir (RES) technology and avoids the need for surface coating. Rather, the stent has hundreds of small holes (reservoirs) in the stent struts, loaded with a bioresorbable drug-polymer matrix. After the drug has been delivered, the biodegradable coating dissolves, leaving behind only the bare-metal stent. This approach is intended to provide the same degree of restenosis prevention as a conventional drug-eluting stent but faster and more complete vessel healing after stent implantation.

Also in 2008, Cordis announced the placement of the one millionth S.M.A.R.T.™ Nitinol Self-Expandable Stent System, which is used to treat a range of peripheral vascular diseases.

In early 2009, Cordis' Biosense Webster unit received U.S. FDA approval for the NAVISTAR® THERMOCOOL® catheter for treatment of atrial fibrillation, an abnormal heart rhythm that affects 10 million people worldwide. During cardiac ablation, energy is delivered through the catheter to those areas of the heart muscle causing the abnormal heart rhythm. This energy "disconnects" the pathway of the abnormal rhythm. This is the first ablation catheter approved in the U.S. for the treatment of atrial fibrillation.

LifeScan Reaches More Patients

In 2008, LifeScan, Inc., a leading maker of blood glucose monitoring products, demonstrated its commitment to people with diabetes through continuous innovation.

LifeScan introduced the ONETOUCH® ULTRALINK™ Blood Glucose Meter as the new, exclusive meter with wireless communications for use with Medtronic insulin pumps in the United States. It uses Medtronic-certified wireless technology to transmit glucose readings directly to MINIMED PARADIGM® insulin pumps, making bolus dosing more accurate and easier than with manual entry of blood glucose readings. LifeScan also introduced two new colors for its ONETOUCH® ULTRAMINI® Blood Glucose Meter: Purple Twilight™ and Blue Comet™. It is now offered in six colors and has become the No. 1-selling blood glucose meter in the U.S.

In Europe, where approximately 50 million people have diabetes, LifeScan launched the ONETOUCH® VITA™ Blood Glucose Meter. Using MealMemory™ technology to calculate blood glucose averages based on 7-, 14- and 30-day periods, this new meter may be of particular benefit to people with type 2 diabetes who find their disease complex and difficult to manage. Users can also attach an "after meal" flag to their test result to help them link the effects of what they've eaten to their blood glucose level.

Wellness & Prevention

Wellness & Prevention Platform Keeps Employees Healthy and Engaged

Judy Herlich tried many diets over the years, but the weight always crept back on. Then in 2005, Herlich received an e-mail from her company's Health & Benefits group, inviting employees to try HealthMedia®, a web-based program that helps people improve their behaviors in areas such as weight and stress management, sleep quality, smoking cessation and medication adherence. Herlich lost the 36 pounds HealthMedia® recommended through its online plan tailored just for her. Four years later, she has kept off the weight.

"I definitely have more energy, and I rarely call in sick," say Herlich, Associate Scientist, Johnson & Johnson Pharmaceutical Research & Development, LLC (J&JPRD), Raritan, N.J.

In 2008 Johnson & Johnson established a Wellness & Prevention business platform to deliver new growth for the Company through a portfolio of products and services focused on preventing chronic disease, keeping people well and restoring faculties lost to aging. Global health care systems, including governments, employers and individuals, are seeking new solutions to spiraling health care costs. The Wellness & Prevention platform recognizes that a comprehensive solution must begin long before the onset of illness and that investing in wellness and prevention now can avoid more costly health care expenses later.

Also in 2008, we concluded two strategic acquisitions as initial steps in building the Wellness & Prevention business. In October, we acquired HealthMedia, Inc., which offers online health coaching for users like Herlich and has proven outcomes in increased productivity and decreased medical usage. In December, we acquired LGE Performance Systems, Inc., known as HUMAN PERFORMANCE INSTITUTE™, which develops science-based training programs to improve employee engagement and productivity. Grounded in the sciences of performance psychology, exercise physiology and nutrition, it teaches employees to manage their energy so they can perform their best. HUMAN PERFORMANCE INSTITUTE™ was co-founded in 1991 by best-selling author Dr. Jim Loehr and Dr. Jack Groppel. Their work over the past 30 years has helped athletes, military elite and corporations optimize performance.

Initially, the Johnson & Johnson Wellness & Prevention platform is focused on employers. Health care expenses are among the most rapidly growing costs for employers, and efforts that keep employees well and engaged will save money and improve productivity.

Herlich says she feels more energetic since she began the HealthMedia® weight management program and started exercising daily at her company's fitness center. She likes the moderate exercise and eating plans, which don't eliminate food groups, and the "90/10 Rule," which says that as long as you stick to your plan 90 percent of the time, you'll succeed. From time to time she updates her personalized plan. While HealthMedia® programs are grounded in science, they are appealing to participants because they are personalized, easy to understand and they make sense. "It's a real common-sense approach," Herlich says.

STAYING HEALTHY Judy Herlich, an associate scientist at J&JPRD, uses many of her company's wellness programs to stay healthy. The Johnson & Johnson health and wellness program focuses on keeping employees healthy while containing health care costs and increasing productivity.

Johnson & Johnson 2008 YEAR IN REVIEW:

Caring for the World

Caring for Family and Communities at the Olympics

For 20 years, Johnson & Johnson has promoted health and well-being through its local affiliates in China. We continued to carry that torch as a proud sponsor and Official Partner of the Beijing 2008 Olympic and Paralympic Games, a worldwide partner of the International Olympic Committee and the Official Health Care Products Partner of National Olympic Committees in more than 200 countries.

During the Olympics, Johnson & Johnson helped better the health and well-being of families and communities through education and information programs such as the Johnson & Johnson Family Health Initiative, a comprehensive campaign featuring a number of national health education programs that will help families in China enjoy happier, healthier lives. The Company supported Olympic athletes and medical staff with training, products and education, and celebrated and inspired extraordinary acts of caring by everyday people and athletes through the Caring Hearts contest and the Hearts of Gold program.

For years, Johnson & Johnson has partnered with the China Qin Shi Huang Terracotta Army Museum to use technology and establish a center of excellence in historic relic preservation in Xi'an, helping to preserve the life-size terracotta warriors and horses, which are more than 2,000 years old. During the Beijing Games, the Company honored this partnership by providing visitors to the Johnson & Johnson Olympic Games Pavilion a rare opportunity to view five Qin Shi Huang terracotta warriors, which are among the 20th century's most significant archaeological finds. Also at the Pavilion, larger-than-life marionettes told the story of an ancient terracotta warrior brought to life by a young girl. These marionettes will be preserved at the Xi'an museum. For more on the Company's work in China, see page 10.

Legacy of Philanthropy Continues

Johnson & Johnson has a long history of giving, dating back more than 100 years. This legacy of philanthropy is guided by Our Credo responsibility to the communities in which we live and work, and to the world community as well. We work with hundreds of partners worldwide as we strive to make life-changing, long-term differences in human health.

In India, Nepal, and Pakistan, our partnership with UNICEF helps save newborns' lives. We support training of community health workers in underserved areas and provide home-based newborn care interventions—breastfeeding support and treatment for sepsis and hypothermia—to reduce infant mortality.

In Europe, we partner with INSEAD on the European Health Leadership Program, providing health care industry managers with leadership training to help advance their roles in a rapidly changing industry. In North America, our partnership with The Wharton School has provided more than 1,000 senior nurse executives with business and management skills over the past 25 years.

In Mexico, 1,400 underserved school-children and 1,600 parents and teachers have benefited from awareness campaigns on the connection between diabetes and obesity, also known as "diabesity." In partnership with Project HOPE, we promote children's eating and exercise habits and educate families and teachers on conveying positive nutrition messages to children.

Following the earthquake in Sichuan, China, we provided product and monetary donations for acute relief and long-term psychological health and rehabilitation efforts for thousands of families. And our chairman and CEO co-led the U.S. government's public-private partnership mission to China to explore long-term rebuilding efforts.

A Paperless Notification Process for Doctors

As a company with a longstanding commitment to patient and product safety, Johnson & Johnson is pleased to be a partner in the Health Care Notification Network (HCNN), which rolled out in October 2008. Using electronic communication methods, the HCNN dramatically improves the process of notifying U.S. physicians of time-sensitive and important patient safety information. It provides timely, effective and efficient delivery of information to the nation's physicians, and now other manufacturers are recognizing the importance of this groundbreaking communication system.

Free to all licensed U.S. physicians and their staff, the HCNN is used solely for FDA-mandated Patient Safety Alerts, fulfilling the recently updated FDA guidance for the electronic delivery of these alerts. Physicians and health care providers can register to receive electronic alerts at www.hcnn.net or through participating medical societies and other HCNN partners. The HCNN is a green initiative in that it reduces paper usage and the need for mail delivery.

Partnering in Russia for Patients

In a unique partnership, Johnson & Johnson Medical Russia, along with Janssen-Cilag, is working with the Russian Ministry of Health to achieve a professional-education goal by creating the Russian Center for Professional Education in Kazan. The center has the capacity to train up to 3,000 physicians every year; two more training centers in Russia are being planned. This partnership will help improve health care access for patients while providing better training to physicians and, ultimately, more access to improved medical technologies.

Sustainability Measures

Sustainability is an important part of our business efforts, our ability to protect the environment, respect our employees and be responsible to the world community. This data summary table provides a sampling of the sustainability programs of Johnson & Johnson and its operating companies. To learn more about all our programs, visit www.jnj.com.

ENVIRONMENTAL INDICATORS	Unit	2005	2006	2007
Carbon Dioxide Net Emissions	Thousand metric tons	961	891	923
Voluntary CO_2 Offsets (incl. REC's)	Thousand metric tons	317	395	400
Water Use	Million m3	12.5	13.0	11.8
Non-Hazardous Waste	Million kg	60.0	57.2	54.0
Hazardous Waste	Million kg	35.2	38.9	33.8

EMPLOYEE HEALTH INDICATORS	Unit	2005	2006	2007
Tobacco Use	% of profiled employees	5	4	4
High Blood Pressure (above 140/90)	% of profiled employees	10	6	6
High Cholesterol (above 240 mg/dl)	% of profiled employees	8	6	7
Inactivity (below 30 min/day, 4 days/week)	% of profiled employees	38	35	36

EMPLOYEE SAFETY INDICATORS	Unit	2005	2006	2007
Serious Injury/Illness Rate	Incidents per 100 employees	0.03	0.03	0.02
Lost Workday Case Rate	Incidents per 100 employees	0.06	0.07	0.08
Fleet Car Accidents	Accidents per million miles driven	4.86	5.32	5.30
Ergonomic Injuries	% of lost workday cases	21	28	33

ACCESS2WELLNESS™ Expands Language Options

ACCESS2WELLNESS™, a program that offers a single entry point into one of the broadest selections of patient assistance programs, is now available in Spanish. Located at www.access2wellness.com, this Spanish-language service provides access to more than 1,000 free and discounted prescription medications for uninsured and underinsured people who qualify.

ACCESS2WELLNESS™ is divided into sections developed to address the specific needs of patients, caregivers, health care professionals, hospital administrators and advocate organizations. The exclusive ACCESS2WELLNESS™ Online Eligibility Tool offers a quick and easy way to find out which assistance programs are available and who qualifies for them.










Board of Directors

First Row, Left to Right

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

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

Second Row, Left to Right

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

MICHAEL M. E. JOHNS, M.D.
Chancellor, Emory University

Third Row, Left to Right

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

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

Fourth Row, Left to Right

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

WILLIAM D. PEREZ
Retired President and Chief Executive Officer, Wm. Wrigley Jr. Company

Fifth Row, Left to Right

CHARLES PRINCE
Chairman, Sconset Group; Vice Chairman and Chairman of the Board of Advisors, Stonebridge International, LLC; Retired Chairman and Chief Executive Officer, Citigroup Inc.

DAVID SATCHER, M.D., PH.D.
Director, Center of Excellence on Health Disparities, Director, Satcher Health Leadership Institute and Poussaint-Satcher-Cosby Chair in Mental Health, Morehouse School of Medicine; Former U.S. Surgeon General

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, establishes the Company's executive compensation philosophy and principles and approves the annual compensation and long-term incentives for the Company's directors and executive officers. The Committee also reviews the philosophy and policies of the non-Board Management Compensation Committee, which determines management compensation and establishes perquisites and other compensation policies for non-executive employees. Additionally, the Committee oversees the management of the various retirement, pension, long-term incentive, savings, health and welfare plans that cover the Company's employees.

Arnold G. Langbo, *Chairman*
Michael M. E. Johns, M.D.
William D. Perez
Charles Prince

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 of the Board and the Presiding Director.

William C. Weldon, *Chairman*
James G. Cullen

NOMINATING & 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.

Charles Prince, *Chairman*
James G. Cullen
Arnold G. Langbo

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, Government Affairs and Policy, and Worldwide Operations.

Leo F. Mullin, *Chairman*
Russell C. Deyo
Clifford E. Holland
Susan L. Lindquist, Ph.D.
William D. Perez
Brian D. Perkins
David Satcher, M.D., Ph.D.
Ajit Shetty, Ph.D.

SCIENCE & TECHNOLOGY

The Science & Technology Advisory Committee, comprised of independent Directors and the Company's Vice President, Science and Technology, 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.
Garry Neil, M.D.

CORPORATE OFFICERS

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

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

DONALD M. CASEY, JR.
Worldwide Chairman,
Comprehensive Care Group
Executive Committee

STEPHEN J. COSGROVE
Corporate Controller

LAVERNE H. COUNCIL
Vice President
Chief Information Officer

RUSSELL C. DEYO
Vice President, General Counsel
Executive Committee

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

COLLEEN A. GOGGINS
Worldwide Chairman,
Consumer Group
Executive Committee

ALEX GORSKY
Worldwide Chairman,
Surgical Care Group
Executive Committee

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

SHERILYN S. MCCOY
Worldwide Chairman,
Pharmaceuticals Group
Executive Committee

JOHN A. PAPA
Treasurer

BRIAN D. PERKINS
Vice President, Corporate Affairs

STEVEN M. ROSENBERG
Secretary
Associate General Counsel

NICHOLAS J. VALERIANI
Vice President, Office of
Strategy & Growth
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

JOAQUIN DUATO

SETH H. Z. FISCHER

GUY J. LEBEAU, M.D.

KAREN A. LICITRA

MICHAEL F. MAHONEY

PATRICK D. MUTCHLER

DAVID Y. NORTON

MICHEL PAUL

KRISTINE PETERSON

GARY J. PRUDEN

MARC E. ROBINSON

JOSE V. SARTARELLI, PH.D.

MICHAEL E. SNEED

PERICLES P. STAMATIADES

PAUL A. STOFFELS, M.D.

JESSE J. WU

Corporate Governance and Management's Responsibility

Johnson & Johnson is guided 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 2008, 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 28, 2008. We refer you to Management's Report on Internal Control over Financial Reporting on page 69.

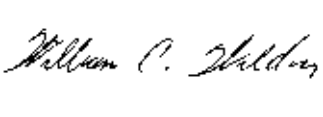
We require the management teams of our operating companies to certify their compliance with our Policy on Business Conduct and we have a systematic program designed to ensure compliance with these policies. To view our Policy on Business Conduct, please visit our website at www.investor.jnj.com/governance/conduct.cfm.

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. The Report of Independent Registered Public Accounting Firm is on page 69.

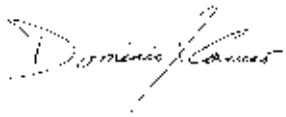
The Audit Committee of our Board of Directors is composed solely of independent directors with the financial knowledge and experience to provide appropriate oversight. We review internal control matters and key accounting and financial reporting issues with the Audit Committee on a regular basis. In 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

Table of Contents

Organization and Business Segments

DESCRIPTION OF THE COMPANY AND BUSINESS SEGMENTS

Johnson & Johnson and its subsidiaries (the "Company") have approximately 118,700 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world with the primary focus on products related to human health and well-being.

The Company is organized into three business segments: Consumer, Pharmaceutical and Medical Devices and Diagnostics. The Consumer segment includes a broad range of products used in the baby care, skin care, oral care, wound care and women's health care fields, as well as nutritional and over-the-counter pharmaceutical products. These products are marketed to the general public and sold both to distributors and directly to independent and chain retail outlets throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology and virology. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use. The Medical Devices and Diagnostics segment includes a broad range of products 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, spinal care and sports medicine products; Ethicon's surgical 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 Vistakon's disposable contact lenses.

The Company's structure is based upon the principle of decentralized management. The Executive Committee of Johnson & Johnson is the principal management group responsible for the operations and allocation of the resources of the Company. This Committee oversees and coordinates the activities of the Consumer, Pharmaceutical and Medical Devices and Diagnostics business segments.

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

MANAGEMENT'S OBJECTIVES

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 areas through the development of innovative products and services. New products introduced within the past five years accounted for approximately 30% of 2008 sales. In 2008, $7.6 billion, or 11.9% of sales, was invested in research and development, consistent with 2007. This investment reflects management's commitment to the importance of ongoing development of new and differentiated products and services to sustain long-term growth.

With more than 250 operating companies located in 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

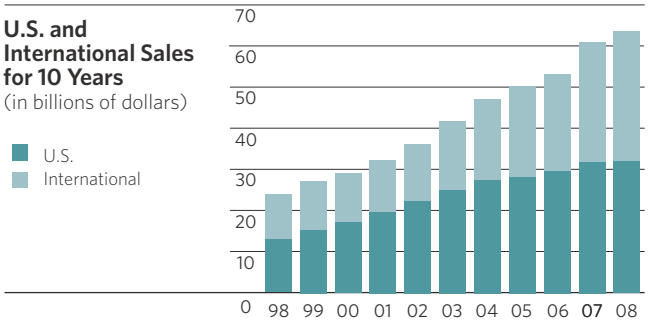
ANALYSIS OF CONSOLIDATED SALES

In 2008, worldwide sales increased 4.3% to $63.7 billion, compared to increases of 14.6% in 2007 and 5.6% in 2006. These sales increases consisted of the following:

Sales increase due to:	2008	2007	2006
Volume	1.1%	10.1	3.8
Price	0.8	1.4	1.5
Currency	2.4	3.1	0.3
Total	**4.3%**	**14.6**	**5.6**

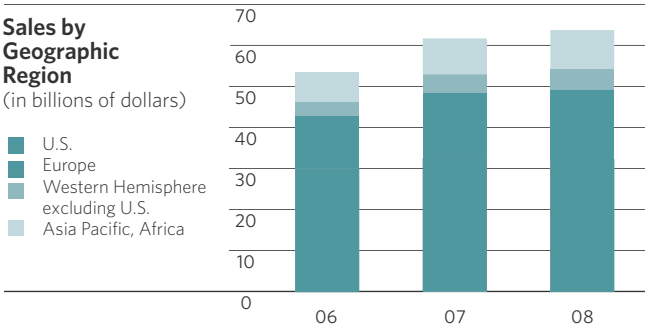
Sales by U.S. companies were $32.3 billion in 2008, $32.4 billion in 2007 and $29.8 billion in 2006. This represents a decrease of 0.4% in 2008 and increases of 9.0% and 4.9% in 2007 and 2006, respectively. Sales by international companies were $31.4 billion in 2008, $28.7 billion in 2007 and $23.5 billion in 2006. This represents an increase of 9.7% in 2008, 21.7% in 2007 and 6.4% in 2006.

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 8.8%, 5.0% and 13.6%, respectively. The ten-year compound annual growth rates for worldwide, U.S. and international sales were 10.3%, 9.6% and 11.2%, respectively.

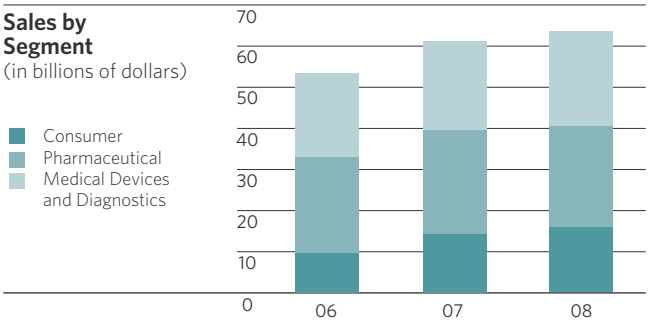
Sales by Geographic Region
(in billions of dollars)



All international geographic regions experienced sales growth during 2008, consisting of 7.3% in Europe, 10.5% in the Western Hemisphere (excluding the U.S.) and 13.9% 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 5.5% in Europe, 2.8% in the Western Hemisphere (excluding the U.S.) and 5.5% in the Asia-Pacific, Africa region.

In 2008, 2007 and 2006, the Company did not have a customer that represented 10% or more of total consolidated revenues.

Sales by Segment
(in billions of dollars)



Analysis of Sales by Business Segments

CONSUMER SEGMENT

Consumer segment sales in 2008 were $16.0 billion, an increase of 10.8% over 2007 with 8.3% of this change due to operational growth and the remaining 2.5% due to positive currency fluctuations. U.S. Consumer segment sales were $6.9 billion, an increase of 8.3%. International sales were $9.1 billion, an increase of 12.8%, with 8.3% as a result of operations and 4.5% due to currency fluctuations over 2007.

The Over-the-Counter (OTC) Pharmaceuticals and Nutritionals franchise sales were $5.9 billion, an increase of 14.6% from 2007. The primary contributor to the growth was the successful launch of over-the-counter ZYRTEC® allergy product line in the U.S. In 2008, the Company announced a voluntary labeling change on children's cough and cold medicines regarding usage for children under the age of 4 years, to encourage the safe, effective use of these products. These actions did not have a significant impact on sales for the OTC Pharmaceuticals and Nutritionals franchise.

The Skin Care franchise sales grew by 10.8% to $3.4 billion in 2008. The sales growth was primarily due to the AVEENO®, CLEAN & CLEAR®, NEUTROGENA® and JOHNSON'S® Adult product lines, as well as new products related to the acquisition of Beijing Dabao Cosmetics Co. Ltd. The Baby Care franchise sales grew by 11.7% to $2.2 billion in 2008. This growth was primarily in international markets across all product lines. The Women's Health franchise sales grew by 5.8% to $1.9 billion in 2008 primarily due to the successful launch of new products. The Oral Care franchise sales grew by 9.1% to $1.6 billion in 2008. Sales growth was driven by the performance of the LISTERINE® mouthwash product line.

Consumer segment sales in 2007 were $14.5 billion, an increase of 48.3% over 2006 with 44.2% of this change due to operational growth and the remaining 4.1% due to positive currency fluctuations. U.S. Consumer segment sales were $6.4 billion, an increase of 40.1%. International sales were $8.1 billion, an increase of 55.5%, with 47.8% as a result of operations and 7.7% due to currency fluctuations over 2006. The acquisition of Pfizer Inc.'s Consumer Healthcare business, net of the related divestitures, increased both total sales growth and operational growth for the total Consumer segment by 40.3% in 2007.

Major Consumer Franchise Sales:

(Dollars in Millions)	2008	2007	2006	% Change '08 vs. '07	% Change '07 vs. '06
OTC Pharmaceuticals & Nutritionals	$ 5,894	5,142	2,742	14.6%	87.5
Skin Care	3,381	3,051	2,633	10.8	15.9
Baby Care	2,214	1,982	1,740	11.7	13.9
Women's Health	1,911	1,806	1,666	5.8	8.4
Oral Care	1,624	1,488	406	9.1	266.5
Wound Care/Other	1,030	1,024	587	0.6	74.4
Total	**$16,054**	**14,493**	**9,774**	**10.8%**	**48.3**

PHARMACEUTICAL SEGMENT

Pharmaceutical segment sales in 2008 were $24.6 billion, a decrease of 1.2% over 2007, with an operational decline of 3.1% and 1.9% increase due to the positive impact of currency fluctuations. U.S. Pharmaceutical segment sales were $14.9 billion, a decrease of 4.9%. International Pharmaceutical segment sales were $9.7 billion, an increase of 5.1%, which included 0.1% of operational growth and 5.0% related to the positive impact of currency fluctuations.

REMICADE® (infliximab), a biologic approved for the treatment of Crohn's disease, ankylosing spondylitis, psoriasis, psoriatic arthritis, ulcerative colitis and use in the treatment of rheumatoid arthritis, achieved sales of $3.7 billion in 2008, with growth of 12.7% over prior year. Growth was driven by increased demand due to the introduction of new clinical data and overall market growth. REMICADE® is competing in a market which is experiencing increased competition due to new entrants and the expansion of indications for existing competitors.

TOPAMAX® (topiramate), which has been approved for adjunctive and monotherapy use in epilepsy, as well as for the prophylactic treatment of migraines, achieved sales of $2.7 billion in 2008, an increase of 11.3% over prior year. The growth was primarily due to increases in the migraine category partially offset by generic competition in certain markets outside the U.S. The patent for TOPAMAX® (topiramate) in the U.S. expired in September 2008. In July 2008, the U.S. Food and Drug Administration (FDA) granted pediatric exclusivity for TOPAMAX®, which extends market exclusivity in the U.S. until March 2009. In 2008, U.S. sales of TOPAMAX® were $2.3 billion. The expiration of the product patent or loss of market exclusivity is likely to result in a significant reduction in sales.

PROCRIT® (Epoetin alfa) and EPREX® (Epoetin alfa) had combined sales of $2.5 billion in 2008, a decline of 14.7% compared to prior year. The decline was primarily due to the declining markets for Erythropoiesis Stimulating Agents (ESAs) in the U.S. The FDA issued an order requiring a labeling supplement making specific revisions to the label for ESAs, including PROCRIT®. The label for PROCRIT® was updated July 30, 2008, based on review of emerging safety data for the use of ESAs in patients with cancer. Outside the U.S., new competition and the emerging safety data issues have contributed to the lower sales results for EPREX®. Discussions with European regulators regarding changes to the label for ESAs, including EPREX®, are nearing finalization.

RISPERDAL® (risperidone), a medication that treats the symptoms of schizophrenia, bipolar mania and irritability associated with autistic behavior in indicated patients, experienced a sales decline of 37.8% to $2.1 billion in 2008. Market exclusivity for RISPERDAL® oral in the U.S. expired on June 29, 2008. Loss of market exclusivity for the RISPERDAL® oral patent has resulted in a significant reduction in sales in the U.S. In 2008, U.S. sales of RISPERDAL® oral were $1.3 billion. In the first half of the 2008 fiscal year U.S. sales of RISPERDAL® oral were $1.1 billion and $0.2 billion in the second half.

RISPERDAL® CONSTA® (risperidone), a long-acting injectable for the treatment of schizophrenia, achieved sales of $1.3 billion in 2008, representing an increase of 16.0% as compared to the prior year. The growth was due to a positive shift from once per day therapies to longer-acting RISPERDAL® CONSTA®.

CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder (ADHD), achieved sales of $1.2 billion in 2008, representing an increase of 21.3% over 2007. Sales results were favorably impacted by approximately $115 million related to a change in the estimate of accrued sales reserves. An additional contributor to the sales growth was market growth. Although the original CONCERTA® patent expired in 2004, the FDA has not approved any generic version that is substitutable for CONCERTA®. Two parties have filed Abbreviated New Drug Applications (ANDAs) for generic versions of CONCERTA®, which are pending and may be approved at any time.

LEVAQUIN® (levofloxacin)/FLOXIN® (ofloxacin) and ACIPHEX®/PARIET® (rabeprazole sodium) experienced sales declines of 3.3% and 14.7%, respectively, versus the prior year due to competition in the category. DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system) sales declined 11.0% versus the prior year due to generic competition.

In 2008, Other Pharmaceutical sales were $7.2 billion, representing a growth of 10.9% over prior year. Contributors to the increase were sales of VELCADE® (bortezomib), a product for the treatment of multiple myeloma, PREZISTA® (darunavir), for the treatment of HIV/AIDS patients and INVEGA® (paliperidone), a once-daily atypical antipsychotic.

During 2008, the Company received regulatory approval in the U.S., Canada and European Union for INTELENCE™ (etravirine) for HIV combination therapy. STELARA™ (ustekinumab) was approved in Canada and the European Union for the treatment of moderate to severe plaque psoriasis and is currently under review with the FDA. In addition, NUCYNTA™ (tapentadol) immediate-release tablets for the relief of moderate to severe acute pain in adults 18 years of age or older was approved in the U.S.

The Company also received approvals expanding the indications for several key products, including CONCERTA®, to treat ADHD in adults 18 to 65 in the U.S., VELCADE®, in combination with melphalan and prednisone for the treatment of patients with previously untreated multiple myeloma in the European Union

Major Pharmaceutical Product Revenues*:

(Dollars in Millions)	2008	2007	2006	% Change '08 vs. '07	% Change '07 vs. '06
REMICADE® (infliximab)	$ 3,748	3,327	3,013	12.7%	10.4
TOPAMAX® (topiramate)	2,731	2,453	2,027	11.3	21.0
PROCRIT®/EPREX® (Epoetin alfa)	2,460	2,885	3,180	(14.7)	(9.3)
RISPERDAL® (risperidone)	2,126	3,420	3,334	(37.8)	2.6
LEVAQUIN®/FLOXIN® (levofloxacin/ofloxacin)	1,591	1,646	1,530	(3.3)	7.6
RISPERDAL® CONSTA® (risperidone)	1,309	1,128	849	16.0	32.9
CONCERTA® (methylphenidate HCl)	1,247	1,028	930	21.3	10.5
ACIPHEX®/PARIET® (rabeprazole sodium)	1,158	1,357	1,239	(14.7)	9.5
DURAGESIC®/Fentanyl Transdermal (fentanyl transdermal system)	1,036	1,164	1,295	(11.0)	(10.1)
Other	7,161	6,458	5,870	10.9	10.0
Total	**$24,567**	**24,866**	**23,267**	**(1.2)%**	**6.9**

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

and PREZISTA®, for once-daily dosing as part of HIV combination therapy in treatment-naïve adults and traditional approval as a twice-daily dose for use in treatment-experienced adult patients in the U.S. Outside the U.S., the European Commission granted full approval of PREZISTA® in combination with ritonavir and other antiretroviral medicinal products for the treatment of HIV-1 infection, and extended the indication to include all treatment-experienced adult patients.

The Company submitted applications for regulatory approval of four additional compounds in 2008. Golimumab, a monthly subcutaneous treatment for adults with active forms of rheumatoid arthritis, psoriatic arthritis and ankylosing spondylitis, was filed in the U.S. and European Union. In the U.S., filings were submitted for rivaroxaban, an oral, once-daily anticoagulant for the prevention of deep vein thrombosis (DVT) and pulmonary embolism (PE) in patients undergoing hip or knee replacement surgery, carisbamate, for the adjunctive treatment of partial-onset seizures in patients 16 years of age and older, and trabectedin, known as YONDELIS® outside the U.S., administered in combination with DOXIL® (doxorubicin HCl liposome injection) for the treatment of women with relapsed ovarian cancer.

Pharmaceutical segment sales in 2007 were $24.9 billion, an increase of 6.9% over 2006, with 4.3% of this change due to operational growth and the remaining 2.6% increase related to the positive impact of currency fluctuations. U.S. Pharmaceutical segment sales were $15.6 billion, an increase of 3.4%. International Pharmaceutical segment sales were $9.3 billion, an increase of 13.3%, which included 5.9% of operational growth and 7.4% related to the positive impact of currency fluctuations.

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

The Medical Devices and Diagnostics segment achieved sales of $23.1 billion in 2008, representing an increase of 6.4% over the prior year, with operational growth of 3.5% and 2.9% due to a positive impact from currency fluctuations. U.S. sales were $10.5 billion, an increase of 1.0%. International sales were $12.6 billion, an increase of 11.3%, with 5.8% from operations and a positive currency impact of 5.5%.

The DePuy franchise achieved sales of $5.0 billion in 2008, an 8.8% increase over prior year. This growth was primarily due to DePuy's orthopaedic joint reconstruction products, including the hip and knee product lines. Additionally, new product launches in the Mitek sports medicine product line contributed to the growth.

The Ethicon Endo-Surgery franchise achieved sales of $4.3 billion in 2008, an 11.8% increase over prior year. This growth was mainly driven by the HARMONIC® technology business due to the success of newly launched products and the underlying strength of the technology. Additional contributors to the growth were the REALIZE® Gastric Band in the U.S. and endoscopy products outside the U.S.

The Ethicon franchise achieved sales of $3.8 billion in 2008, a 6.6% increase over prior year. This was a result of growth in the hemostasis, meshes and biosurgical product lines.

Sales in the Cordis franchise were $3.1 billion, a decline of 8.5% over 2007. The decline reflects lower sales of the CYPHER® Sirolimus-eluting Coronary Stent due to increased global competition. The decline was partially offset by the performance of the Biosense Webster and neurovascular businesses.

The Diabetes Care franchise achieved sales of $2.5 billion in 2008, a 6.8% increase over prior year. This growth was driven by sales in the Animas business due to new product launches and sales growth in the ULTRA® product lines outside the U.S.

The Vision Care franchise achieved sales of $2.5 billion in 2008, a 13.2% increase over prior year. Sales of ACUVUE® OASYS™, 1-DAY ACUVUE® MOIST™, and ACUVUE® OASYS™ *for ASTIGMATISM* were the major contributors to this growth.

The Ortho-Clinical Diagnostics franchise achieved sales of $1.8 billion in 2008, an 8.0% increase over prior year resulting from growth in both immunohematology and immunodiagnostics products.

The Medical Devices and Diagnostics segment achieved sales of $21.7 billion in 2007, representing an increase over prior year of 7.2%, with operational growth of 3.9% and 3.3% due to a positive impact from currency fluctuations. U.S. sales were $10.4 billion, an increase of 3.2%. International sales were $11.3 billion, an increase of 11.1%, with 4.6% from operations and a positive currency impact of 6.5%.

Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income increased by $3.6 billion to $16.9 billion in 2008 as compared to the $13.3 billion earned in 2007. Contributing to the $3.6 billion increase in 2008 were lower in-process research and development charges of $0.6 billion, higher income from divestitures of $0.5 billion and higher litigation gains of $0.5 billion versus restructuring charges of $0.7 billion and the write-down of the NATRECOR® intangible asset of $0.7 billion recorded in 2007. The decrease in 2007 of 8.9% over the $14.6 billion in 2006 was primarily due to restructuring charges and the write-down of the NATRECOR® intangible asset in 2007. As a percent to sales, consolidated earnings before provision for taxes on income in 2008 was 26.5% versus 21.7% in 2007. The sections that follow highlight the significant components of the changes in consolidated earnings before provision for taxes on income.

Major Medical Devices and Diagnostics Franchise Sales*:

				% Change	
(Dollars in Millions)	2008	2007	2006	'08 vs. '07	'07 vs. '06
DEPUY®	$ 4,989	4,587	4,105	8.8%	11.7
ETHICON ENDO-SURGERY®	4,286	3,834	3,376	11.8	13.6
ETHICON®	3,840	3,603	3,223	6.6	11.8
CORDIS®	3,135	3,425	4,088	(8.5)	(16.2)
Diabetes Care	2,535	2,373	2,074	6.8	14.4
Vision Care	2,500	2,209	1,879	13.2	17.6
ORTHO-CLINICAL DIAGNOSTICS®	1,841	1,705	1,538	8.0	10.9
Total	**$23,126**	**21,736**	**20,283**	**6.4%**	**7.2**

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

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	2008	2007	2006
Cost of products sold	29.1%	29.1	28.2
Percent point increase over the prior year	—	0.9	0.5
Selling, marketing and administrative expenses	33.7	33.5	32.7
Percent point increase/(decrease) over the prior year	0.2	0.8	(1.4)

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

In 2007, there was an increase in the percent to sales of cost of products sold primarily due to the impact of newly acquired consumer brands. There was an increase in the percent to sales of selling, marketing and administrative expenses in 2007 primarily due to the impact of newly acquired consumer brands partially offset by cost containment efforts.

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.

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

	2008		2007		2006	
(Dollars in Millions)	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Consumer	$ 624	3.9%	564	3.9	395	4.0
Pharmaceutical	5,095	20.7	5,265	21.2	4,964	21.3
Medical Devices and Diagnostics	1,858	8.0	1,851	8.5	1,766	8.7
Total research and development expense	$7,577	11.9	7,680	12.6	7,125	13.4
Percent (decrease)/increase over the prior year	(1.3)%		7.8		10.3	

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.

In 2008, the reduction in the Pharmaceutical research and development spending was primarily due to increased efficiencies in Pharmaceutical research and development activities.

Restructuring: The Company has achieved approximately $1.6 billion in annual cost savings as outlined in the restructuring program announced in 2007. See Note 22 to the Consolidated Financial Statements for additional details related to the restructuring.

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

In 2007, the Company recorded a charge for IPR&D of $807 million before and after tax related to the acquisition of Conor Medsystems, Inc. The IPR&D charge was included in the operating profit of the Medical Devices and Diagnostics segment.

In 2006, the Company recorded 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 charge related to the Consumer Healthcare business acquired from 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.

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 favorable change of $1.5 billion in other (income) expense, net from 2008 to 2007 was primarily due to an increase in income from net litigation settlements and awards of $0.5 billion, a gain of $0.5 billion from the divestiture of the Professional Wound Care business of Ethicon, Inc. in 2008 and the NATRECOR® intangible asset write-down of $0.7 billion in 2007.

In 2007, other (income) expense, net included a charge of $678 million before tax related to the NATRECOR® intangible asset write-down. A gain of $622 million associated with the Guidant acquisition agreement termination fee, less associated expenses, was included in 2006. In addition, 2006 also included expenses associated with the recording of additional product liability reserves and the integration costs associated with the acquisition of the Consumer Healthcare business of Pfizer Inc.

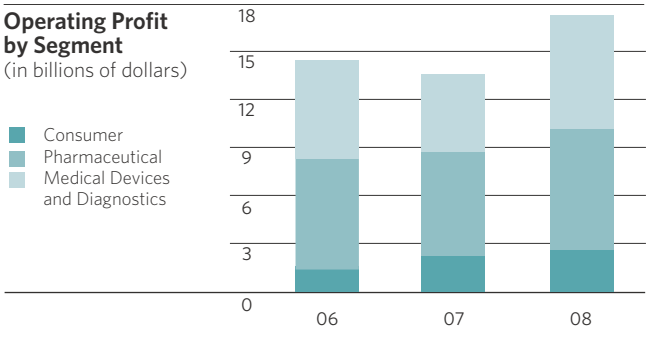
OPERATING PROFIT BY SEGMENT

Operating profits by segment of business were as follows:

			Percent of Segment Sales	
(Dollars in Millions)	2008	2007	2008	2007
Consumer	$2,674	2,277	16.7%	15.7
Pharmaceutical	7,605	6,540	31.0	26.3
Med Devices and Diagnostics	7,223	4,846	31.2	22.3
Total [1]	17,502	13,663	27.4	22.4
Less: Expenses not allocated to segments [2]	573	380		
Earnings before provision for taxes on income	$16,929	13,283	26.5%	21.7

[1] See Note 11 to the Consolidated Financial Statements for more details.

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



Consumer Segment: In 2008, Consumer segment operating profit increased 17.4% from 2007. As a percent to sales, 2008 operating profit increased to 16.7%. Cost synergies, lower integration costs in 2008 related to the acquisition of the Consumer Healthcare business of Pfizer Inc., and other cost containment initiatives contributed to the increased operating profit. In 2007, Consumer segment operating profit increased 65.7% from 2006 due to the acquisition costs associated with the Consumer Healthcare business of Pfizer Inc. in 2006. As a percent to sales, 2007 operating profit increased to 15.7%. IPR&D expenses of $320 million as well as expenses associated with the Consumer Healthcare business of Pfizer Inc. integration were recorded during 2006.

Pharmaceutical Segment: In 2008, Pharmaceutical segment operating profit increased 16.3% from 2007. As a percent to sales, 2008 operating profit increased to 31.0%. The primary driver of the improved operating profit was due to the restructuring charges of $429 million and $678 million for the NATRECOR® intangible asset write-down recorded in 2007. In 2007, Pharmaceutical segment operating profit decreased 5.1% from 2006. As a percent to sales, 2007 operating profit decreased to 26.3% resulting from $429 million of restructuring charges and $678 million for the NATRECOR® intangible asset write-down in 2007.

Medical Devices and Diagnostics Segment: In 2008, the operating profit in the Medical Devices and Diagnostics segment increased 49.1% from 2007. As a percent to sales, 2008 operating profit increased to 31.2%. The improved operating profit was the result of the $429 million gain from net litigation settlements, favorable product mix, manufacturing efficiencies and lower IPR&D charges of $174 million in 2008 versus $807 million in 2007. Additionally, $301 million of restructuring charges were recorded in 2007. In 2007, the operating profit in the Medical Devices and Diagnostics segment decreased 20.9% from 2006. As a percent to sales, 2007 operating profit decreased to 22.3%, resulting from $807 million of IPR&D charges and $301 million of restructuring charges in 2007, while 2006 included the gain associated with the Guidant acquisition agreement termination fee, less associated expenses, of $622 million.

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

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

Interest income in 2007 decreased by $377 million due to lower average cash balances. The decline in the average cash balance was primarily due to the acquisition of the Consumer Healthcare business of Pfizer Inc. on December 20, 2006.

Interest expense in 2007 increased by $233 million as compared to prior year due to a higher average debt balance. The net debt balance at the end of 2007 was $9.5 billion as compared to $6.6 billion at the end of 2006. The higher debt balance in 2007 was due to the debt associated with the acquisition of the Consumer Healthcare business of Pfizer Inc. and the Common Stock repurchase program announced in 2007.

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 as compared to prior year.

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.

Provision for Taxes on Income: The worldwide effective income tax rate was 23.5% in 2008, 20.4% in 2007 and 24.2% in 2006. The 2008 tax rate increased as compared to 2007 due to increases in taxable income in higher tax jurisdictions relative to taxable income in lower jurisdictions. In addition, the 2007 tax rate benefited from a one-time gain of $267 million related to a business restructuring of certain international subsidiaries, as well as increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions and lower international tax rates in certain countries as compared to the prior year.

Liquidity and Capital Resources

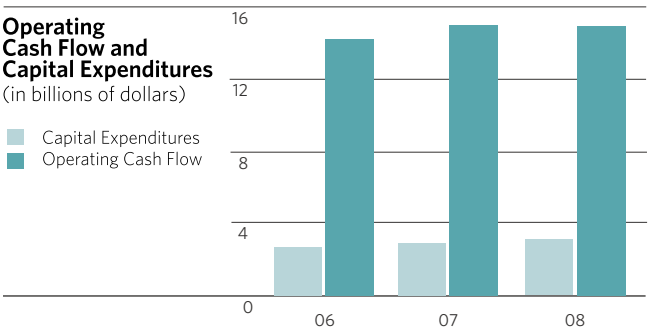
LIQUIDITY & CASH FLOWS

Cash and cash equivalents were $10.8 billion at the end of 2008 as compared with $7.8 billion at the end of 2007. The primary sources of cash that contributed to the $3.0 billion increase versus prior year were $15.0 billion of cash generated from operating activities and $2.7 billion net proceeds from long and short-term debt. The major uses of cash were capital spending of $3.1 billion, acquisitions of $1.2 billion, dividends to shareholders of $5.0 billion and the repurchase of common stock, net of proceeds from the exercise of options, of $5.2 billion.

Cash flow from operations of $15.0 billion is the result of $12.9 billion of net earnings and $3.5 billion of non-cash charges related to depreciation and amortization, stock based compensation, and $0.2 billion of IPR&D offset by increased working capital of $0.8 billion and a net use related to changes in assets and liabilities net of effects from acquisitions of $0.8 billion.

In 2008, the Company continued to have access to liquidity through the commercial paper market. For additional details on borrowings, see Note 6 to the Consolidated Financial Statements.

The Company anticipates that operating cash flows, existing credit facilities and access to the commercial paper markets will provide sufficient resources to fund operating needs in 2009.



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 28, 2008 market rates would increase the unrealized value of the Company's forward contracts by $226 million. Conversely, a 10% depreciation of the U.S. Dollar from the December 28, 2008 market rates would decrease the unrealized value of the Company's forward contracts by $276 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 $97 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.

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2008, the Company secured a new 364-day and 5-year Credit Facility. Total credit available to the Company approximates $7.7 billion, of which $6.3 billion expires September 24, 2009, and $1.4 billion expires September 25, 2013. 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.

Total borrowings at the end of 2008 and 2007 were $11.9 billion and $9.5 billion, respectively. The increase in borrowings between 2008 and 2007 was a result of financing general corporate purposes and the continuation of the Common Stock repurchase program announced in 2007. In 2008, net cash (cash and current marketable securities, net of debt) was $1.0 billion compared to net debt of $0.2 billion in 2007. Total debt represented 21.8% of total capital (shareholders' equity and total debt) in 2008 and 18.0% of total capital in 2007. Shareholders' equity per share at the end of 2008 was $15.35 compared with $15.25 at year-end 2007, an increase of 0.7%.

Johnson & Johnson continues to be one of a few industrial companies with a Triple A credit rating and to have access to credit at commercially favorable terms. A summary of borrowings can be found in Note 6 to the Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has contractual obligations, primarily lease, debt and unfunded retirement plans, with no other significant obligations. To satisfy these obligations, the Company will use cash from operations. The following table summarizes the Company's contractual obligations and their aggregate maturities as of December 28, 2008 (see Notes 4, 6 and 13 to the Consolidated Financial Statements for further details):

(Dollars in Millions)	Operating Leases	Debt Obligations[1]	Unfunded Retirement Plans	Total
2009	$171	221	56	448
2010	145	22	58	225
2011	123	18	62	203
2012	107	620	66	793
2013	89	507	70	666
After 2013	93	6,953	436	7,482
Total	**$728**	**8,341**	**748**	**9,817**

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

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

SHARE REPURCHASE AND DIVIDENDS

On July 9, 2007, the Company announced that its Board of Directors approved a stock repurchase program, authorizing the Company to buy back up to $10.0 billion of the Company's Common Stock. The repurchase program has no time limit and may be suspended for periods or discontinued at any time. Any shares acquired will be available for general corporate purposes. The Company funds the share repurchase program through a combination of available cash and debt. As of December 28, 2008, the Company repurchased an aggregate of 124.9 million shares of Johnson & Johnson common stock under the current repurchase program at a cost of $8.1 billion. 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 2008 for the 46th consecutive year. Cash dividends paid were $1.795 per share in 2008, compared with dividends of $1.620 per share in 2007 and $1.455 per share in 2006. The dividends were distributed as follows:

	2008	2007	2006
First quarter	$0.415	0.375	0.330
Second quarter	0.460	0.415	0.375
Third quarter	0.460	0.415	0.375
Fourth quarter	0.460	0.415	0.375
Total	**$1.795**	**1.620**	**1.455**

On January 5, 2009, the Board of Directors declared a regular cash dividend of $0.460 per share, payable on March 10, 2009, to shareholders of record as of February 24, 2009. 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 contractual terms, historical experience, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third-party sell-through and market research data, as well as internally generated information.

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

Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The returns reserve is based on historical return trends by product and by market as a percent to gross sales.

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

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

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

Below are tables which show the progression of accrued rebates, returns, promotions, reserve for doubtful accounts and reserve for cash discounts by segment of business for the fiscal years ended December 28, 2008 and December 30, 2007.

CONSUMER SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2008				
Accrued rebates[1]	$217	300	(386)	131
Accrued returns	113	135	(133)	115
Accrued promotions	297	2,369	(2,464)	202
Subtotal	$627	2,804	(2,983)	448
Reserve for doubtful accounts	71	41	(2)	110
Reserve for cash discounts	23	272	(273)	22
Total	**$721**	**3,117**	**(3,258)**	**580**
2007				
Accrued rebates[1]	$164	492	(439)	217
Accrued returns	92	257	(236)	113
Accrued promotions	211	2,249	(2,163)	297
Subtotal	$467	2,998	(2,838)	627
Reserve for doubtful accounts	42	17	12	71
Reserve for cash discounts	15	278	(270)	23
Total	**$524**	**3,293**	**(3,096)**	**721**

[1] *Includes reserve for customer rebates of $73 million at December 28, 2008 and $76 million at December 30, 2007, recorded as a contra asset.*

PHARMACEUTICAL SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2008				
Accrued rebates[1]	$1,249	3,331	(3,319)	1,261
Accrued returns	345	168	(23)	490
Accrued promotions	263	414	(570)	107
Subtotal	$1,857	3,913	(3,912)	1,858
Reserve for doubtful accounts	26	24	(2)	48
Reserve for cash discounts	24	376	(377)	23
Total	**$1,907**	**4,313**[2]	**(4,291)**	**1,929**
2007				
Accrued rebates[1]	$1,233	3,175	(3,159)	1,249
Accrued returns	324	36	(15)	345
Accrued promotions	205	523	(465)	263
Subtotal	$1,762	3,734	(3,639)	1,857
Reserve for doubtful accounts	30	—	(4)	26
Reserve for cash discounts	29	531	(536)	24
Total	**$1,821**	**4,265**	**(4,179)**	**1,907**

[1] Includes reserve for customer rebates of $344 million at December 28, 2008 and $321 million at December 30, 2007, recorded as a contra asset.

[2] Includes $115 million adjustment related to previously estimated accrued sales reserves.

MEDICAL DEVICES AND DIAGNOSTICS SEGMENT

(Dollars in Millions)	Balance at Beginning of Period	Accruals	Payments/ Other	Balance at End of Period
2008				
Accrued rebates[1]	$336	1,947	(1,867)	416
Accrued returns	190	99	(100)	189
Accrued promotions	18	208	(179)	47
Subtotal	$544	2,254	(2,146)	652
Reserve for doubtful accounts	96	36	(23)	109
Reserve for cash discounts	24	257	(247)	34
Total	**$664**	**2,547**[2]	**(2,416)**	**795**
2007				
Accrued rebates[1]	$294	1,576	(1,534)	336
Accrued returns	183	102	(95)	190
Accrued promotions	41	136	(159)	18
Subtotal	$518	1,814	(1,788)	544
Reserve for doubtful accounts	88	25	(17)	96
Reserve for cash discounts	18	213	(207)	24
Total	**$624**	**2,052**	**(2,012)**	**664**

[1] Includes reserve for customer rebates of $304 million at December 28, 2008 and $313 million at December 30, 2007, recorded as a contra asset.

[2] Includes $56 million adjustment related to previously estimated sales rebate reserve.

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 GAAP accounting and tax reporting, recorded as deferred tax assets or liabilities. The Company estimates deferred tax assets and liabilities based on current tax regulations and rates. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities in the future. Management believes that changes in these estimates would not have a material effect on the Company's results of operations, cash flows or financial position.

In 2007, the Company adopted FASB Interpretation 48 (FIN48), *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. See Note 8 to the Consolidated Financial Statements for further information regarding income taxes.

At December 28, 2008 and December 30, 2007, the cumulative amounts of undistributed international earnings were approximately $27.7 billion and $23.7 billion, respectively. The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded with respect to the undistributed portion not intended for repatriation.

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

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

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

Stock Options: During the fiscal first quarter of 2006, the Company adopted Statement of Financial Accounting Standards (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 PRONOUNCEMENTS

Refer to Note 1 to the Consolidated Financial Statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of December 28, 2008.

ECONOMIC AND MARKET FACTORS

The Company is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concerns about the rising cost of health care. In response to these concerns, the Company has a long-standing policy of pricing products responsibly. For the period 1998–2008, in the United States, the weighted average compound annual growth rate of the Company's net price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI).

Inflation rates continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases.

The Company is exposed to fluctuations in currency exchange rates. A 1% change in the value of the U.S. dollar as compared to all foreign currencies in which the Company had sales, income or expense in 2008 would have increased or decreased the translation of foreign sales by $300 million and income by $50 million.

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

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

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

LEGAL PROCEEDINGS

The Company is involved in numerous product liability cases in the United States, many of which concern alleged adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use 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, as well as investigations, incidental to its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings referred to above cannot be 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 condition, 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 to the Consolidated Financial Statements for further information regarding legal proceedings.

COMMON STOCK MARKET PRICES

The Company's common stock is listed on the New York Stock Exchange under the symbol JNJ. The composite market price ranges for Johnson & Johnson common stock during 2008 and 2007 were:

	2008		2007	
	High	Low	High	Low
First quarter	$68.85	61.17	68.22	59.87
Second quarter	68.32	63.40	65.45	59.95
Third quarter	72.76	63.10	65.75	59.72
Fourth quarter	69.86	52.06	68.75	63.55
Year-end close	$58.56		67.38	

Cautionary Factors That May Affect Future Results

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

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

Risks and uncertainties include 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 28, 2008 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 28, 2008 and December 30, 2007 (Dollars in Millions Except Share and Per Share Data) (Note 1)	2008	2007
Assets		
Current assets		
Cash and cash equivalents (Notes 1 and 14)	$10,768	7,770
Marketable securities (Notes 1 and 14)	2,041	1,545
Accounts receivable trade, less allowances for doubtful accounts $268 (2007, $193)	9,719	9,444
Inventories (Notes 1 and 2)	5,052	5,110
Deferred taxes on income (Note 8)	3,430	2,609
Prepaid expenses and other receivables	3,367	3,467
Total current assets	**34,377**	**29,945**
Marketable securities, non-current (Notes 1 and 14)	4	2
Property, plant and equipment, net (Notes 1 and 3)	14,365	14,185
Intangible assets, net (Notes 1 and 7)	13,976	14,640
Goodwill, net (Notes 1 and 7)	13,719	14,123
Deferred taxes on income (Note 8)	5,841	4,889
Other assets (Note 5)	2,630	3,170
Total assets	**$84,912**	**80,954**
Liabilities and Shareholders' Equity		
Current liabilities		
Loans and notes payable (Note 6)	$ 3,732	2,463
Accounts payable	7,503	6,909
Accrued liabilities	5,531	6,412
Accrued rebates, returns and promotions	2,237	2,318
Accrued salaries, wages and commissions	1,432	1,512
Accrued taxes on income	417	223
Total current liabilities	**20,852**	**19,837**
Long-term debt (Note 6)	8,120	7,074
Deferred taxes on income (Note 8)	1,432	1,493
Employee related obligations (Notes 5 and 13)	7,791	5,402
Other liabilities	4,206	3,829
Total liabilities	**42,401**	**37,635**
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 3,119,843,000 shares)	3,120	3,120
Accumulated other comprehensive income (Note 12)	(4,955)	(693)
Retained earnings	63,379	55,280
	61,544	57,707
Less: common stock held in treasury, at cost (Note 20) (350,665,000 shares and 279,620,000 shares)	19,033	14,388
Total shareholders' equity	**42,511**	**43,319**
Total liabilities and shareholders' equity	**$84,912**	**80,954**

See Notes to Consolidated Financial Statements

Consolidated Statements of Earnings

Johnson & Johnson and Subsidiaries

(Dollars in Millions Except Per Share Figures) (Note 1)	2008	2007	2006
Sales to customers	$63,747	61,095	53,324
Cost of products sold	18,511	17,751	15,057
Gross profit	45,236	43,344	38,267
Selling, marketing and administrative expenses	21,490	20,451	17,433
Research expense	7,577	7,680	7,125
Purchased in-process research and development (Note 17)	181	807	559
Restructuring (Note 22)	—	745	—
Interest income	(361)	(452)	(829)
Interest expense, net of portion capitalized (Note 3)	435	296	63
Other (income) expense, net	(1,015)	534	(671)
	28,307	30,061	23,680
Earnings before provision for taxes on income	16,929	13,283	14,587
Provision for taxes on income (Note 8)	3,980	2,707	3,534
Net earnings	**$12,949**	**10,576**	**11,053**
Basic net earnings per share (Notes 1 and 19)	$ 4.62	3.67	3.76
Diluted net earnings per share (Notes 1 and 19)	$ 4.57	3.63	3.73

See Notes to Consolidated Financial Statements

Consolidated Statements of Equity

Johnson & Johnson and Subsidiaries

(Dollars in Millions) (Note 1)	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock Issued Amount	Treasury Stock Amount
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)**
Net earnings	10,576	10,576	10,576			
Cash dividends paid	(4,670)		(4,670)			
Employee compensation and stock option plans	2,311		131			2,180
Conversion of subordinated debentures	9		(4)			13
Repurchase of common stock	(5,607)					(5,607)
Adoption of FIN 48	(19)		(19)			
Other	(24)		(24)			
Other comprehensive income, net of tax:						
Currency translation adjustment	786	786		786		
Unrealized gains on securities	23	23		23		
Employee benefit plans	670	670		670		
Losses on derivatives & hedges	(54)	(54)		(54)		
Reclassification adjustment		(5)				
Total comprehensive income		**11,996**				
Balance, December 30, 2007	**$43,319**		**55,280**	**(693)**	**3,120**	**(14,388)**
Net earnings	12,949	12,949	12,949			
Cash dividends paid	(5,024)		(5,024)			
Employee compensation and stock option plans	2,180		175			2,005
Conversion of subordinated debentures	—		(1)			1
Repurchase of common stock	(6,651)					(6,651)
Other comprehensive income, net of tax:						
Currency translation adjustment	(2,499)	(2,499)		(2,499)		
Unrealized losses on securities	(59)	(59)		(59)		
Employee benefit plans	(1,870)	(1,870)		(1,870)		
Gains on derivatives & hedges	166	166		166		
Reclassification adjustment		(27)				
Total comprehensive income		**8,660**				
Balance, December 28, 2008	**$42,511**		**63,379**	**(4,955)**	**3,120**	**(19,033)**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Johnson & Johnson and Subsidiaries

(Dollars in Millions) (Note 1)	2008	2007	2006
Cash flows from operating activities			
Net earnings	$ 12,949	10,576	11,053
Adjustments to reconcile net earnings to cash flows from operating activities:			
Depreciation and amortization of property and intangibles	2,832	2,777	2,177
Stock based compensation	627	698	659
Purchased in-process research and development	181	807	559
Intangible asset write-down (NATRECOR®)	—	678	—
Decrease/(increase) in deferred tax provision	22	(1,762)	(1,168)
Accounts receivable allowances	86	22	(14)
Changes in assets and liabilities, net of effects from acquisitions:			
Increase in accounts receivable	(736)	(416)	(699)
(Increase)/decrease in inventories	(101)	14	(210)
(Decrease)/increase in accounts payable and accrued liabilities	(272)	2,642	1,750
Increase in other current and non-current assets	(1,600)	(1,578)	(269)
Increase in other current and non-current liabilities	984	564	410
Net cash flows from operating activities	**14,972**	**15,022**	**14,248**
Cash flows from investing activities			
Additions to property, plant and equipment	(3,066)	(2,942)	(2,666)
Proceeds from the disposal of assets	785	457	511
Acquisitions, net of cash acquired (Note 17)	(1,214)	(1,388)	(18,023)
Purchases of investments	(3,668)	(9,659)	(467)
Sales of investments	3,059	7,988	426
Other (primarily intangibles)	(83)	(368)	(72)
Net cash used by investing activities	**(4,187)**	**(5,912)**	**(20,291)**
Cash flows from financing activities			
Dividends to shareholders	(5,024)	(4,670)	(4,267)
Repurchase of common stock	(6,651)	(5,607)	(6,722)
Proceeds from short-term debt	8,430	19,626	6,385
Retirement of short-term debt	(7,319)	(21,691)	(2,633)
Proceeds from long-term debt	1,638	5,100	6
Retirement of long-term debt	(24)	(18)	(13)
Proceeds from the exercise of stock options/excess tax benefits	1,486	1,562	1,135
Net cash used by financing activities	**(7,464)**	**(5,698)**	**(6,109)**
Effect of exchange rate changes on cash and cash equivalents	(323)	275	180
Increase/(decrease) in cash and cash equivalents	2,998	3,687	(11,972)
Cash and cash equivalents, beginning of year (Note 1)	7,770	4,083	16,055
Cash and cash equivalents, end of year (Note 1)	**$ 10,768**	**7,770**	**4,083**
Supplemental cash flow data			
Cash paid during the year for:			
Interest	$ 525	314	143
Income taxes	4,068	4,099	4,250
Supplemental schedule of noncash investing and financing activities			
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	$ 593	738	622
Conversion of debt	—	9	26
Acquisitions			
Fair value of assets acquired	$ 1,328	1,620	19,306
Fair value of liabilities assumed	(114)	(232)	(1,283)
Net cash paid for acquisitions	**$ 1,214**	**1,388**	**18,023**

See Notes to Consolidated Financial Statements

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 118,700 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 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 to the general public and sold both to distributors and directly to independent and chain retail outlets throughout the world. The Pharmaceutical segment includes products in the following therapeutic areas: anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology and virology. These products are distributed directly to retailers, wholesalers and health care professionals for prescription use. The Medical Devices and Diagnostics segment includes a broad range of products 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, spinal care and sports medicine products; Ethicon's surgical 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 Vistakon's disposable contact lenses.

NEW ACCOUNTING PRONOUNCEMENTS

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 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 was effective in the fiscal first quarter of 2008 except for non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis, for which the effective date is for fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 in the fiscal first quarter of 2008, the impact of which is discussed in Note 23.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities,* which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 was effective for fiscal year 2008 and the Company adopted it in the fiscal first quarter of 2008. The adoption of SFAS No. 159 did not have a material effect on the Company's results of operations, cash flows or financial position.

EITF Issue 07-03: *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities.* This issue is effective for financial statements issued for fiscal years beginning after December 15, 2007 and was adopted by the Company in the fiscal first quarter of 2008. This issue requires nonrefundable advance payments for research and development to be capitalized and recognized as an expense as related goods are delivered or services are performed. The adoption of EITF 07-03 did not have a significant impact on the Company's results of operations, cash flows or financial position.

RECENTLY ISSUED ACCOUNTING STANDARDS, NOT ADOPTED AS OF DECEMBER 28, 2008

In December 2007, FASB issued SFAS No. 141(R), *Business Combinations,* and No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. These statements aim to improve, simplify and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. These statements are effective for fiscal years beginning after December 15, 2008. SFAS No. 141(R) will have a significant impact on the manner in which the Company accounts for future acquisitions beginning in the fiscal year 2009. Significant changes include the capitalization of in-process research and development (IPR&D), expensing of acquisition related restructuring actions and transaction related costs and the recognition of contingent purchase price consideration at fair value at the acquisition date. In addition, changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will be recognized in earnings rather than as an adjustment to the cost of acquisition. This accounting treatment for taxes is applicable to acquisitions that occurred both prior and subsequent to the adoption of SFAS No. 141(R). The Company believes that the adoption of SFAS No. 141(R) and SFAS No. 160 will not have a material effect on its results of operations, cash flows or financial position.

In March 2008, the FASB issued SFAS Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities,* an amendment of FASB Statement No. 133, to enhance the disclosure regarding the Company's derivative and hedging activities, to improve the transparency of financial reporting. This statement is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 161 will have no impact on the Company's results of operations, cash flows or financial position.

EITF Issue 07-01: *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property*. This issue is effective for financial statements issued for fiscal years beginning after December 15, 2008. This issue addresses the income statement classification of payments made between parties in a collaborative arrangement. The adoption of EITF 07-01 is not expected to have a significant impact on the Company's results of operations, cash flows or financial position.

EITF Issue 08-07: *Accounting for Defensive Intangible Assets.* This issue applies to acquired intangible assets in situations in which an entity does not intend to actively use the asset, but intends to hold the asset to prevent others from obtaining access to the asset, except for intangible assets that are used in research and development activities. This issue is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 08-07 is not expected to have a significant impact on the Company's results of operations, cash flows or financial position.

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

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

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

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

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

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

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

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

Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals. Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The returns reserve is based on historical return trends by product and by market as a percent to gross sales.

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. Promotional arrangements are evaluated to determine the appropriate amounts to be deferred.

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

SHIPPING AND HANDLING
Shipping and handling costs incurred were $1,017 million, $934 million and $693 million in 2008, 2007 and 2006, 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.

INTANGIBLE ASSETS AND GOODWILL
SFAS No. 142 requires that goodwill and non-amortizable intangible assets be assessed annually for impairment. The Company completed the annual impairment test for 2008 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 denominated assets and liabilities. These forward exchange contracts are not designated as hedges and therefore, changes in the fair values of these derivatives are recognized currently 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 2008, 2007 and 2006.

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

PRODUCT LIABILITY

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

RESEARCH AND DEVELOPMENT

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

ADVERTISING

Costs associated with advertising are expensed in the year incurred and are included in the selling, marketing and administrative expenses. Advertising expenses worldwide, which are comprised of television, radio, print media and Internet advertising, were $2.9 billion in 2008, $2.7 billion in 2007 and $1.9 billion in 2006.

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 with respect to the undistributed portion not intended for repatriation. At December 28, 2008 and December 30, 2007, the cumulative amount of undistributed international earnings were approximately $27.7 billion and $23.7 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, as will be the case in 2009, the fiscal year consists of 53 weeks.

RECLASSIFICATION

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

2. Inventories

At the end of 2008 and 2007, inventories were comprised of:

(Dollars in Millions)	2008	2007
Raw materials and supplies	$ 839	905
Goods in process	1,372	1,384
Finished goods	2,841	2,821
	$5,052	**5,110**

3. Property, Plant and Equipment

At the end of 2008 and 2007, property, plant and equipment at cost and accumulated depreciation were:

(Dollars in Millions)	2008	2007
Land and land improvements	$ 886	756
Buildings and building equipment	7,720	7,913
Machinery and equipment	15,234	14,554
Construction in progress	3,552	3,243
	27,392	26,466
Less accumulated depreciation	13,027	12,281
	$14,365	**14,185**

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2008, 2007 and 2006 was $147 million, $130 million and $118 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2008, 2007 and 2006, was $2.0 billion, $1.9 billion and $1.6 billion, respectively.

Upon retirement or other disposal of property, plant and equipment, the costs and related amounts 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 are 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 $309 million in 2008, $302 million in 2007 and $285 million in 2006.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 28, 2008 are:

(Dollars in Millions) 2009	2010	2011	2012	2013	After 2013	Total
$171	145	123	107	89	93	728

Commitments under capital leases are not significant.

5. Employee Related Obligations

At the end of 2008 and 2007, employee related obligations were:

(Dollars in Millions)	2008	2007
Pension benefits	$4,382	2,014
Postretirement benefits	2,217	2,134
Postemployment benefits	870	1,119
Deferred compensation	772	740
Total employee obligations	8,241	6,007
Less current benefits payable	450	605
Employee related obligations — long-term	**$7,791**	**5,402**

Prepaid employee related obligations of $136 million and $481 million for 2008 and 2007, respectively, are included in other assets on the consolidated balance sheet.

6. Borrowings

The components of long-term debt are as follows:

(Dollars in Millions)	2008	Effective Rate %	2007	Effective Rate %
3% Zero Coupon Convertible Subordinated Debentures due 2020	$ 183	3.00%	178	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	294	7.14	294	7.14
6.73% Debentures due 2023	250	6.73	250	6.73
6.625% Notes due 2009	199	6.80	199	6.80
5.55% Debentures due 2017	1,000	5.55	1,000	5.55
5.95% Notes due 2037	995	5.99	995	5.99
5.50% Notes due 2024 (500 GBP 1.4759)[2]/(500 GBP 1.9944)[3]	731[2]	5.71	989[3]	5.71
4.75% Notes due 2019 (1B Euro 1.4000)[2]/(1B Euro 1.4573)[3]	1,390[2]	5.35	1,447[3]	5.35
5.15% Debentures due 2012	599	5.18	599	5.18
5.86% Debentures due 2038	700	5.86		
5.15% Debentures due 2018	898	5.15		
Other (Includes Industrial Revenue Bonds)	102	—	132	—
	8,341[4]	**5.46[1]**	**7,083[4]**	**5.47[1]**
Less current portion	221		9	—
	$8,120		**7,074**	

[1] *Weighted average effective rate.*
[2] *Translation rate at December 28, 2008.*
[3] *Translation rate at December 30, 2007.*
[4] *The excess of the fair value over the carrying value of debt was $1.4 billion in 2008 and $0.3 billion in 2007.*

The Company has access to substantial sources of funds at numerous banks worldwide. In September 2008, the Company secured a new 364-day and 5-year Credit Facility. Total credit available to the Company approximates $7.7 billion of which $6.3 billion expires September 24, 2009, and $1.4 billion expires September 25, 2013. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material.

The Company filed a shelf registration with the Securities and Exchange Commission that became effective March 11, 2008 which enables the Company to issue an unlimited aggregate principal amount in debt securities and warrants to purchase debt securities. The Company issued bonds in June 2008 for a total of $1.6 billion for general corporate purposes.

On July 28, 2000, ALZA Corporation, a subsidiary of the Company, 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. 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 11.4 million shares have been issued as of December 28, 2008, 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, 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 also redeem any or all of the 3% Debentures after July 28, 2003 at the issue price plus accreted original issue discount.

Throughout 2008 the Company continued to have access to liquidity through the commercial paper market. Short-term borrowings and the current portion of long-term debt amounted to approximately $3.7 billion at the end of 2008, of which $3.1 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 2008 are:

(Dollars in Millions) 2009	2010	2011	2012	2013	After 2013
$221	22	18	620	507	6,953

7. Intangible Assets and Goodwill

At the end of 2008 and 2007, the gross and net amounts of intangible assets and goodwill were:

(Dollars in Millions)	2008	2007
Trademarks (non-amortizable) — gross	$ 5,879	6,457
Less accumulated amortization	145	144
Trademarks (non-amortizable) — net	**$ 5,734**	**6,313**
Patents and trademarks — gross	$ 5,119	4,597
Less accumulated amortization	1,820	1,615
Patents and trademarks — net	**$ 3,299**	**2,982**
Other intangibles — gross	$ 7,376	7,399
Less accumulated amortization	2,433	2,054
Other intangibles — net	**$ 4,943**	**5,345**
Subtotal intangible assets — gross	$18,374	18,453
Less accumulated amortization	4,398	3,813
Subtotal intangible assets — net	**$13,976**	**14,640**
Goodwill — gross	$14,441	14,866
Less accumulated amortization	722	743
Goodwill — net	**$13,719**	**14,123**
Total intangible assets and goodwill — gross	$32,815	33,319
Less accumulated amortization	5,120	4,556
Total intangible assets and goodwill — net	**$27,695**	**28,763**

Goodwill as of December 28, 2008 and December 30, 2007, as allocated by segment of business is as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev and Diag	Total
Goodwill at December 31, 2006	$7,866	902	4,572	13,340
Acquisitions	3	—	449	452
Translation/other	256	62	13	331
Goodwill at December 30, 2007	$8,125	964	5,034	14,123
Acquisitions	191	—	286	477
Translation/other	(842)	(1)	(38)	(881)
Goodwill at December 28, 2008	$7,474	963	5,282	13,719

The weighted average amortization periods for patents and trademarks and other intangible assets are 16 years and 28 years, respectively. The amortization expense of amortizable assets for the fiscal years ended December 28, 2008, December 30, 2007 and December 31, 2006 was $788 million, $844 million and $594 million before tax, respectively. Certain patents and intangible assets were written down to fair value during fiscal years 2008, 2007 and 2006, with the resulting charge included in amortization expense.

The estimated amortization expense for the five succeeding years approximates $814 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)	2008	2007	2006
Currently payable:			
U.S. taxes	$2,334	2,990	3,625
International taxes	1,624	1,479	1,077
	3,958	4,469	4,702
Deferred:			
U.S. taxes	126	(722)	(726)
International taxes	(104)	(1,040)	(442)
	22	(1,762)	(1,168)
	$3,980	**2,707**	**3,534**

A comparison of income tax expense at the U.S. statutory rate of 35% in 2008, 2007 and 2006, to the Company's effective tax rate is as follows:

(Dollars in Millions)	2008	2007	2006
U.S.	$ 6,579	5,237	8,110
International	10,350	8,046	6,477
Earnings before taxes on income:	$16,929	13,283	14,587
Tax rates:			
U.S. statutory rate	35.0%	35.0	35.0
Puerto Rico and Ireland operations	(6.8)	(8.8)	(7.5)
Research and orphan drug tax credits	(0.6)	(0.8)	(0.7)
U.S. state and local	1.6	2.1	1.6
International subsidiaries excluding Ireland	(5.6)	(7.3)	(3.5)
U.S. manufacturing deduction	(0.4)	(0.3)	(0.2)
In process research and development (IPR&D)	0.4	2.1	0.6
U.S. Tax international income	(0.5)	(1.9)	(0.7)
All other	0.4	0.3	(0.4)
Effective tax rate	23.5%	20.4	24.2

The Company has subsidiaries manufacturing in Ireland under an incentive tax rate. In addition, the Company has subsidiaries operating in Puerto Rico under various tax incentive grants. The increase in the 2008 tax rate was mainly attributed to increases in taxable income in higher tax jurisdictions relative to taxable income in lower jurisdictions. The decrease in the 2007 tax rate was mainly attributed to a business restructuring of certain international subsidiaries, resulting in a one-time benefit of $267 million, which reduced the effective tax rate by 2%.

Temporary differences and carry forwards for 2008 and 2007 are as follows:

	2008 Deferred Tax		2007 Deferred Tax	
(Dollars in Millions)	Asset	Liability	Asset	Liability
Employee related obligations	$ 2,615		1,727	
Stock based compensation	1,296		1,173	
Depreciation		(523)		(463)
Non-deductible intangibles		(1,791)		(1,554)
International R&D capitalized for tax	1,914		1,773	
Reserves & liabilities	688		1,155	
Income reported for tax purposes	629		487	
Miscellaneous international	1,357	(251)	1,177	(127)
Capitalized intangibles	74		89	
Miscellaneous U.S.	1,754		542	
Total deferred income taxes	**$10,327**	**(2,565)**	**8,123**	**(2,144)**

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. The 2008 deferred tax Miscellaneous U.S. includes current year tax receivables.

The Company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes* effective January 1, 2007. The Company had $1.7 billion of gross unrecognized tax benefits, as of December 30, 2007. The Company classifies liabilities for unrecognized tax benefits and related interest and penalties as long-term liabilities. Interest expense and penalties related to unrecognized tax benefits are classified as income tax expense. During the fiscal year ended December 28, 2008, the Company recognized $106 million of interest expense with an after-tax impact of $69 million. For the year ended December 30, 2007, the Company recognized $58 million of interest expense and $42 million of interest income with an after-tax impact of $10 million expense. The total amount of accrued interest was $227 million and $187 million in 2008 and 2007, respectively.

The following table summarizes the activity related to unrecognized tax benefits:

(Dollars in Millions)	2008	2007
Beginning of year	$1,653	1,262
Increases related to current year tax positions	545	487
Increases related to prior period tax positions	87	77
Decreases related to prior period tax positions	(142)	(117)
Settlements	(137)	(14)
Lapse of statute of limitations	(28)	(42)
End of year	**$1,978**	1,653

All of the unrecognized tax benefits of approximately $2.0 billion at December 28, 2008, if recognized, would affect the Company's annual effective tax rate. The Company conducts business and files tax returns in numerous countries and currently has tax audits in progress with a number of tax authorities. The U.S. Internal Revenue Service (IRS) has completed its audit for the tax years through 2002. In other major jurisdictions where the Company conducts business, the years remain open generally back to the year 2002 with some jurisdictions remaining open as far back as 1995. The Company does not expect that the total amount of unrecognized tax benefits will significantly change over the next twelve months. The Company does not expect a significant payment within the next twelve months, and is not able to provide a reasonably reliable estimate of the timing of any future tax payments relating to uncertain tax positions.

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. The translation of balance sheet accounts for highly inflationary economies are reflected in the operating results.

An analysis of the changes during 2008, 2007 and 2006 for foreign currency translation adjustments is included in Note 12.

Net currency transaction and translation gains and losses included in other (income) expense were losses of $31 million, $23 million and $18 million in 2008, 2007 and 2006, respectively.

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

STOCK OPTIONS

At December 28, 2008, the Company had 14 stock-based compensation plans. The shares outstanding are for contracts under the Company's 1995 and 2000 Stock Option Plans, the 2005 Long-Term Incentive Plan, the 1997 Non-Employee Director's Plan and the Centocor, Innovasive Devices, ALZA, Inverness, and Scios Stock Option Plans. During 2008, no options or restricted shares were granted under any of these plans except under 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 $627 million for 2008, $698 million for 2007 and $659 million for 2006. The total income tax benefit recognized in the income statement for share-based compensation costs was $210 million for 2008, $238 million for 2007 and $228 million for 2006. 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 the average of the high and low prices of the Company's common stock on the New York Stock Exchange 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 167.6 million at the end of 2008.

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. 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. 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 $7.66, $11.67 and $12.22 in 2008, 2007 and 2006, respectively. The fair value was estimated based on the weighted average assumptions of:

	2008	2007	2006
Risk-free rate	2.97%	4.78%	4.60%
Expected volatility	15.0%	14.7%	19.6%
Expected life	6.0 yrs	6.0 yrs	6.0 yrs
Dividend yield	2.90%	2.50%	2.50%

A summary of option activity under the Plan as of December 28, 2008, December 30, 2007 and December 31, 2006 and changes during the years ending on those dates is presented below:

(Shares in Thousands)	Outstanding Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (Dollars in Millions)
Shares at January 1, 2006	248,542	$53.05	$2,031
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	$2,788
Options granted	26,789	65.61	
Options exercised	(33,224)	45.92	
Options canceled/forfeited	(7,863)	63.00	
Shares at December 30, 2007	228,629	56.83	$2,411
Options granted	22,428	61.80	
Options exercised	(30,033)	50.27	
Options canceled/forfeited	(5,525)	61.90	
Shares at December 28, 2008	215,499	$58.14	$ 597

The total intrinsic value of options exercised was $506 million, $625 million and $542 million in 2008, 2007 and 2006, respectively. The total unrecognized compensation cost was $632 million as of December 28, 2008, $652 million as of December 30, 2007 and $649 million as of December 31, 2006. The weighted average period for this cost to be recognized was 1.06 years, 1.01 years and 0.99 years for 2008, 2007 and 2006, respectively.

The following table summarizes stock options outstanding and exercisable at December 28, 2008:

(Shares in Thousands)	Outstanding			Exercisable	
Exercise Price Range	Options	Average Life[1]	Average Exercise Price	Options	Average Exercise Price
$ 3.62–$29.07	325	1.5	$18.00	325	$18.00
$31.27–$40.08	349	0.9	35.22	349	35.22
$40.98–$50.08	11,263	1.1	49.61	11,263	49.61
$50.50–$52.11	19,600	1.8	50.70	19,600	50.70
$52.20–$53.77	23,759	4.1	52.22	23,759	52.22
$53.93–$54.89	27,992	5.0	53.93	27,992	53.93
$55.01–$58.25	27,803	3.1	57.30	27,775	57.30
$58.34–$66.08	69,136	8.0	61.90	815	62.76
$66.18–$68.37	35,272	6.1	66.20	33,084	66.19
	215,499	**5.3**	**$58.14**	**144,962**	**$56.25**

[1] *Average contractual life remaining in years.*

Stock options exercisable at December 30, 2007 and December 31, 2006 were 137,310 at an average price of $52.33 and an average life of 5.6 years and 131,077 at an average price of $50.23 and an average life of 5.9 years, respectively.

RESTRICTED SHARE UNITS

The Company grants restricted share 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 share activity under the Plan as of December 28, 2008:

(Shares in Thousands)	Outstanding Shares
Shares at January 1, 2006	111
Shares granted	7,320
Shares issued	(33)
Shares canceled/forfeited	(513)
Shares at December 31, 2006	6,885
Shares granted	8,029
Shares issued	(33)
Shares canceled/forfeited	(1,220)
Shares at December 30, 2007	13,661
Shares granted	10,105
Shares issued	(40)
Shares canceled/forfeited	(1,468)
Shares at December 28, 2008	22,258

The average fair value of the restricted share units granted was $56.70, $60.86 and $54.17 in 2008, 2007 and 2006, respectively, using the fair market value at the date of grant. The fair value of restricted share units was discounted for dividends, which are not paid on the restricted share units during the vesting period. The fair value of restricted share units settled was $2.5 million, $1.8 million and $1.7 million in 2008, 2007 and 2006, respectively.

11. Segments of Business[1] and Geographic Areas

(Dollars in Millions)	Sales to Customers[2] 2008	2007	2006
Consumer —			
United States	$ 6,937	6,408	4,573
International	9,117	8,085	5,201
Total	**16,054**	**14,493**	**9,774**
Pharmaceutical —			
United States	14,831	15,603	15,092
International	9,736	9,263	8,175
Total	**24,567**	**24,866**	**23,267**
Medical Devices and Diagnostics —			
United States	10,541	10,433	10,110
International	12,585	11,303	10,173
Total	**23,126**	**21,736**	**20,283**
Worldwide total	**$63,747**	**61,095**	**53,324**

(Dollars in Millions)	Operating Profit 2008[5]	2007[6]	2006[7]	Identifiable Assets 2008	2007	2006
Consumer	$ 2,674	2,277	1,374	$23,765	26,550	25,380
Pharmaceutical	7,605	6,540	6,894	19,544	19,780	18,799
Medical Devices and Diagnostics	7,223	4,846	6,126	20,779	19,978	18,601
Total	17,502	13,663	14,394	64,088	66,308	62,780
Less: (Income) Expense not allocated to segments[3]	573	380	(193)			
General corporate[4]				20,824	14,646	7,776
Worldwide total	**$16,929**	**13,283**	**14,587**	**$84,912**	**80,954**	**70,556**

(Dollars in Millions)	Additions to Property, Plant & Equipment 2008	2007	2006	Depreciation and Amortization 2008	2007	2006
Consumer	$ 499	504	344	$ 489	472	255
Pharmaceutical	920	1,137	1,246	986	1,033	929
Medical Devices and Diagnostics	1,251	919	823	1,146	1,080	861
Segments total	2,670	2,560	2,413	2,621	2,585	2,045
General corporate	396	382	253	211	192	132
Worldwide total	**$3,066**	**2,942**	**2,666**	**$2,832**	**2,777**	**2,177**

(Dollars in Millions)	Sales to Customers[2] 2008	2007	2006	Long-Lived Assets[8] 2008	2007	2006
United States	$32,309	32,444	29,775	$21,674	21,685	22,432
Europe	16,782	15,644	12,786	14,375	15,578	14,443
Western Hemisphere excluding U.S.	5,173	4,681	3,542	3,328	3,722	3,108
Asia-Pacific, Africa	9,483	8,326	7,221	1,898	1,261	1,206
Segments total	63,747	61,095	53,324	41,275	42,246	41,189
General corporate				785	702	543
Other non long-lived assets				42,852	38,006	28,824
Worldwide total	**$63,747**	**61,095**	**53,324**	**$84,912**	**80,954**	**70,556**

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

[2] Export sales are not significant. In 2008, 2007 and 2006, the Company did not have a customer that represented 10% of total revenues.

[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 $7 million and $174 million of In-Process Research and Development (IPR&D) for the Consumer and Medical Devices and Diagnostics segments, respectively. Includes $379 million of fourth quarter net litigation gain, comprised of a $50 million expense in the Consumer segment and a gain of $429 million in the Medical Devices and Diagnostics segment. The Medical Devices and Diagnostics segment also includes $536 million gain on the divestiture of the Professional Wound Care business of Ethicon, Inc.

[6] Includes $745 million of restructuring expense, comprised of $15 million, $429 million, and $301 million for the Consumer, Pharmaceutical, and Medical Devices and Diagnostics segments, respectively. The Medical Devices and Diagnostics segment includes $807 million of IPR&D. The Pharmaceutical segment also includes $678 million for the write-down of the NATRECOR® intangible asset.

[7] Includes $320 million and $239 million of 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.

[8] Long-lived assets include property, plant and equipment, net for 2008, 2007 and 2006 of $14,365, $14,185 and $13,044, respectively, and intangible assets and goodwill, net for 2008, 2007 and 2006 of $27,695, $28,763 and $28,688, 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)
January 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)
December 31, 2006	$ (158)	61	(2,030)	9	(2,118)
2007 changes					
Net change due to hedging transactions	—	—	—	(78)	
Net amount reclassed to net earnings	—	—	—	24	
Net 2007 changes	786	23	670	(54)	1,425
December 30, 2007	$ 628	84	(1,360)	(45)	(693)
2008 changes					
Net change due to hedging transactions	—	—	—	94	
Net amount reclassed to net earnings	—	—	—	72	
Net 2008 changes	(2,499)	(59)	(1,870)	166	(4,262)
December 28, 2008	$(1,871)	25	(3,230)	121	(4,955)

Total comprehensive income for 2008 includes reclassification adjustment gains of $41 million realized from the sale of equity securities and the associated tax expense of $14 million.

Total comprehensive income for 2007 includes reclassification adjustment gains of $7 million realized from the sale of equity securities and the associated tax expense of $2 million.

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.

The tax effect on the unrealized gains/(losses) on the equity securities was an expense of $14 million, $46 million and $33 million in 2008, 2007 and 2006, respectively. The tax effect related to employee benefit plans was $1,090 million, $349 million and $891 million in 2008, 2007 and 2006, respectively. The tax effect on the gains/(losses) on derivatives and hedges are losses of $70 million in 2008, gains of $24 million in 2007, and losses of $4 million in 2006. See Note 15 for additional information relating to derivatives and hedging.

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

13. Pensions and Other Benefit Plans

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

Many international employees are covered by government-sponsored programs and the 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 28, 2008 and December 30, 2007, respectively) as the measurement date for all U.S. and international retirement and other benefit plans.

In September 2006, Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* was issued and amends further the disclosure requirements for pensions and other postretirement benefits. This Statement was an amendment of FASB Statements No. 87, 88, 106 and 132(R). The incremental effect of applying FASB No. 158 was a $1.7 billion reduction in Shareholder Equity, net of deferred taxes.

Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for 2008, 2007 and 2006 include the following components:

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2008	2007	2006	2008	2007	2006
Service cost	$ 545	597	552	$142	140	122
Interest cost	701	656	570	166	149	136
Expected return on plan assets	(876)	(809)	(701)	(2)	(2)	(3)
Amortization of prior service cost	10	10	10	(4)	(7)	(7)
Amortization of net transition asset	2	1	(1)	—	—	—
Recognized actuarial losses	62	186	251	64	66	74
Curtailments and settlements	7	5	4	—	—	—
Net periodic benefit cost	**$ 451**	**646**	**685**	**$366**	**346**	**322**

The net periodic benefit cost attributable to U.S. retirement plans was $220 million, $379 million and $423 million in 2008, 2007 and 2006, respectively.

Amounts expected to be recognized in net periodic benefit cost in the coming year for the Company's defined benefit retirement plans and other postretirement plans:

(Dollars in Millions)	
Amortization of net transition obligation	$ 1
Amortization of net actuarial losses	236
Amortization of prior service cost	5

Unrecognized gains and losses for the U.S. pension plans are amortized over the average remaining future service for each plan. For plans with no active employees, they are amortized over the average life expectancy. The amortization of gains and losses for the other U.S. benefit plans is determined by using a 10% corridor of the greater of the market value of assets or the projected benefit obligation. Total unamortized gains and losses in excess of the corridor are amortized over the average remaining future service.

Prior service costs/benefits for the U.S. pension plans are amortized over the remaining future service of plan participants at the time of the plan amendment. Prior service cost/benefit for the other U.S. benefit plans is amortized over the average remaining service to full eligibility age of plan participants at the time of the plan amendment.

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

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2008	2007	2006	2008	2007	2006
U.S. Benefit Plans						
Discount rate	6.50%	6.50	6.00	6.50%	6.50	6.00
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	6.00%	5.50	5.00	7.25%	6.50	6.00
Expected long-term rate of return on plan assets	8.00	8.25	8.00	—	—	—
Rate of increase in compensation levels	4.00	4.00	3.75	4.50	4.50	4.50

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 assumption 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	2008	2007
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)	5.00%	5.00
Year the rate reaches the ultimate trend rate	2015	2014

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	$ (28)
Postretirement benefit obligation	320	(258)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2008 and 2007 for the Company's defined benefit retirement plans and other postretirement plans:

(Dollars in Millions)	Retirement Plans 2008	Retirement Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Change in Benefit Obligation				
Projected benefit obligation — beginning of year	$12,002	11,660	$ 2,721	2,668
Service cost	545	597	142	140
Interest cost	701	656	166	149
Plan participant contributions	60	62	—	—
Amendments	10	14	1	—
Actuarial (gains) losses	(318)	(876)	(124)	(1)
Divestitures & acquisitions	—	79	(2)	8
Curtailments & settlements	(2)	(46)	—	—
Benefits paid from plan	(535)	(481)	(122)	(255)
Effect of exchange rates	(540)	337	(17)	12
Projected benefit obligation — end of year*	**$11,923**	**12,002**	**$ 2,765**	**2,721**
Change in Plan Assets				
Plan assets at fair value — beginning of year	$10,469	9,538	$ 29	30
Actual return (loss) on plan assets	(2,787)	743	(7)	4
Company contributions	978	317	117	250
Plan participant contributions	60	62	—	—
Settlements	(1)	(38)	—	—
Divestitures & acquisitions	—	55	—	—
Benefits paid from plan assets	(535)	(481)	(122)	(255)
Effect of exchange rates	(507)	273	—	—
Plan assets at fair value — end of year	**$ 7,677**	**10,469**	**$ 17**	**29**
Funded status at — end of year*	**$ (4,246)**	**(1,533)**	**$(2,748)**	**(2,692)**
Amounts Recognized in the Company's Balance Sheet consist of the following:				
Non-current assets	$ 136	481	—	—
Current liabilities	(45)	(43)	(212)	(262)
Non-current liabilities	(4,337)	(1,971)	(2,536)	(2,430)
Total recognized in the consolidated balance sheet — end of year	**$ (4,246)**	**(1,533)**	**$(2,748)**	**(2,692)**
Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:				
Net actuarial (gain) loss	$ (2,064)	1,027	$ (472)	1,013
Prior service cost (credit)	5	51	31	(36)
Unrecognized net transition asset	6	7	—	—
Total before tax effects	**$ (2,053)**	**1,085**	**$ (441)**	**977**
Accumulated Benefit Obligations — end of year*	**$10,357**	**10,282**		
Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income				
Net periodic benefit cost	**$ 451**	**646**	**$ 366**	**346**
Net actuarial loss (gain)	3,344	(555)	60	11
Amortization of net actuarial loss	(68)	(435)	(65)	(13)
Prior service cost	(11)	(9)	1	(34)
Amortization of prior service cost	10	14	6	6
Effect of exchange rates	(102)	23	(1)	3
Total recognized in other comprehensive income, before tax	**$ 3,173**	**(962)**	**$ 1**	**(27)**
Total recognized in net periodic benefit cost and other comprehensive income	**$ 3,624**	**(316)**	**$ 367**	**319**

**The Company does not fund certain plans, as funding is not required. $1.2 billion of the projected benefit obligation, $1.2 billion of the underfunded status, and $0.9 billion of the accumulated benefit obligation for the fiscal years 2008 and 2007 relates to these unfunded pension plans.*

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

(Dollars in Millions)	Retirement Plans 2008	Retirement Plans 2007
Accumulated benefit obligation	$ (9,885)	(4,914)
Projected benefit obligation	(11,379)	(5,233)
Plan assets at fair value	7,021	3,735

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)	2009	2010	2011	2012	2013	2014-2018
Projected future benefit payments						
Retirement plans	$489	485	523	543	571	3,480
Other benefit plans — gross	$229	185	189	191	193	1,049
Medicare rebates	(9)	(10)	(11)	(12)	(13)	(85)
Other benefit plans — net	$220	$175	$178	$179	$180	$ 964

In 2008, the Company contributed $399 million and $579 million to its U.S. and international pension plans, respectively. In addition, the Company funded $450 million to its U.S. plans in the first two months of 2009.

In 2006, Congress passed the Pension Protection Act of 2006. The Act amended the Employee Retirement Income Security Act (ERISA) for plan years beginning after 2007 and established new minimum funding standards for U.S. employer defined benefit plans. The Company plans to continue to fund its U.S. defined benefit plans to comply with the Act.

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. For certain plans, funding is not a common practice, as funding provides no economic benefit. Consequently the Company has several pension plans that 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)	2009	2010	2011	2012	2013	2014-2018
Projected future contributions						
Unfunded U.S. retirement plans	$31	33	36	39	42	283
Unfunded International retirement plans	$25	25	26	27	28	153

The Company's retirement plan asset allocation at the end of 2008 and 2007 and target allocations for 2009 are as follows:

	Percent of Plan Assets		Target Allocation
	2008	2007	2009
U.S. Retirement Plans			
Equity securities	70%	79%	75%
Debt securities	30	21	25
Total plan assets	**100%**	**100%**	**100%**
International Retirement Plans			
Equity securities	61%	67%	67%
Debt securities	38	32	33
Real estate and other	1	1	
Total plan assets	**100%**	**100%**	**100%**

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of $17 million and $29 million at December 28, 2008 and December 30, 2007, respectively.

The fair value of Johnson & Johnson common stock directly held in plan assets was $416 million (5.4% of total plan assets) at December 28, 2008 and $462 million (4.4% of total plan assets) at December 30, 2007.

14. Cash, Cash Equivalents and Marketable Securities

(Dollars in Millions)	December 28, 2008 Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value	December 30, 2007 Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value
Current Investments						
Cash	$ 3,276	—	3,276	2,978	—	2,978
Government securities and obligations	7,486	4	7,490	2,722	1	2,723
Corporate debt securities	627	1	628	1,805	3	1,808
Money market funds	813	—	813	407	—	407
Time deposits	607	—	607	1,403	—	1,403
Total cash, cash equivalents and current marketable securities	$12,809	5	12,814	9,315	4	9,319
Non-Current Investments						
Marketable securities	$ 4	—	4	2	—	2

As of December 28, 2008, current marketable securities consist of $1,663 million, $342 million and $36 million of government securities and obligations, corporate debt securities and time deposits, respectively.

As of December 30, 2007, current marketable securities consist of $251 million and $1,294 million of government securities and obligations and corporate debt, respectively.

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.

15. Financial Instruments

All derivative instruments are recorded on the balance sheet at fair value. See Note 23 for additional details.

As of December 28, 2008, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $121 million after-tax. For additional information, see Note 12. The Company expects that substantially all of this amount will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months. The amount ultimately realized in earnings will differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative. Derivative gains/(losses), initially reported as a component of other comprehensive income, are reclassified to earnings in the period when the forecasted transactions affect earnings.

For the fiscal years ended December 28, 2008, December 30, 2007 and December 31, 2006, 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.

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. Total Company matching contributions to the plans were $166 million in 2008, $169 million in 2007 and $158 million in 2006.

17. Mergers, Acquisitions and Divestitures

Certain businesses were acquired for $1,214 million in cash and $114 million of liabilities assumed during 2008. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2008 acquisitions included: Amic AB, a privately held Swedish developer of in vitro diagnostic technologies for use in point-of-care and near-patient settings; Beijing Dabao Cosmetics Co., Ltd., a company that sells personal care brands in China; SurgRx, Inc., a privately held developer of the advanced bipolar tissue sealing system used in the ENSEAL® family of devices; HealthMedia, Inc., a privately held company that creates web-based behavior change interventions; LGE Performance Systems, Inc., a privately held company known as Human Performance Institute™, which develops science-based training programs to improve employee engagement and productivity and Omrix Biopharmaceuticals, Inc., a fully integrated biopharmaceutical company that develops and markets biosurgical and immunotherapy products.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $891 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately $181 million has been identified as the value of IPR&D associated with the acquisitions of Omrix Biopharmaceuticals, Inc., Amic AB, SurgRx, Inc. and HealthMedia, Inc.

The IPR&D charge related to the acquisition of Omrix Biopharmaceuticals, Inc. was $127 million and is associated with stand-alone and combination biosurgical technologies used to achieve hemostasis. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 60 – 90% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 14%. As of the end of the 2008 fiscal year, 97.8% of the outstanding shares of Common Stock of Omrix Biopharmaceuticals, Inc. had been tendered by stockholders. Excluding shares that were tendered subject to guaranteed delivery procedures, 90.2% of the outstanding shares of Common Stock had been tendered. On December 30, 2008 the Company completed the acquisition of Omrix Biopharmaceuticals, Inc.

The IPR&D charge related to the acquisition of Amic AB was $40 million and is associated with point-of-care device and 4CAST Chip technologies. 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 20%.

The IPR&D charge related to the acquisition of SurgRx, Inc. was $7 million and is associated with vessel cutting and sealing surgical devices. The value of the IPR&D was calculated using cash flow projections discounted for the risk inherent in such projects. Probability of success factors ranging from 90 – 95% were used to reflect inherent clinical and regulatory risk. The discount rate applied was 18%.

The IPR&D charge related to the acquisition of HealthMedia, Inc. was $7 million and is associated primarily with process enhancements to software 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 90% was used to reflect inherent risk. The discount rate applied was 14%.

Certain businesses were acquired for $1,388 million in cash and $232 million of liabilities assumed during 2007. These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2007 acquisitions included: Conor Medsystems, Inc., a cardiovascular device company, with new drug delivery technology; Robert Reid, Inc., a Japanese orthopedic product distributor; and Maya's Mom, Inc., a social media company.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $636 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Approximately $807 million has been identified as the value of IPR&D associated with the acquisition of Conor Medsystems, Inc.

The IPR&D charge related to the acquisition of Conor Medsystems, Inc. was $807 million and is associated with research related to the discovery and application of the stent technology. 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 19%.

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 acquisition 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. were 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 December 31, 2006, as if the Consumer Healthcare business of Pfizer Inc. had been acquired as of the beginning of the 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.

(Unaudited) (Shares in Millions Except Per Share Data)	Pro forma results Year ended December 31, 2006
Net sales	$57,115
Net earnings	$10,770
Diluted net earnings per share	$ 3.64

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 switch of ZYRTEC® from U.S. prescription to over-the-counter status. The switch was approved by the FDA effective November 2007. 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 as of the acquisition date and the discount rate applied was 11%.

The Company completed the analysis of integration plans, pursuant to which the Company is incurring 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 in 2006 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. Probability of success factors ranging from 38 – 95% were 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. Probability of success factors ranging from 70 – 80% were 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%.

With the exception of the Consumer Healthcare business of Pfizer Inc., supplemental pro forma information for 2008, 2007 and 2006 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.

With the exception of the divestiture of the Professional Wound Care business of Ethicon, Inc., which resulted in a gain of $536 million before tax, and is recorded in other (income) expense, net, in 2008, divestitures in 2008, 2007 and 2006 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's subsidiaries are involved in numerous product liability cases in the United States, many of which concern alleged adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use that accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any product 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®, CYPHER® Stent and the CHARITÉ™ Artificial Disc. There are approximately 900 claimants who have pending lawsuits or claims regarding injuries allegedly due to ORTHO EVRA®, 507 with respect to RISPERDAL®, 267 with respect to CHARITÉ™, 85 with respect to CYPHER® and 65 with respect to DURAGESIC®. These claimants seek substantial compensatory and, where available, punitive damages.

With respect to RISPERDAL®, the Attorneys General of eight states and the Office of General Counsel of the Commonwealth of Pennsylvania have filed actions seeking reimbursement of Medicaid or other public funds for RISPERDAL® prescriptions written for off-label use, compensation for treating their citizens for alleged adverse reactions to RISPERDAL®, civil fines or penalties, punitive damages, or other relief. The Attorney General of Texas has joined a qui tam action in that state seeking similar relief. Certain of these actions also seek injunctive relief relating to the promotion of RISPERDAL®. The Attorneys General of more than 40 other states have indicated a potential interest in pursuing similar litigation against the Company's Janssen subsidiary (now Ortho-McNeil-Janssen Pharmaceuticals Inc.) (OMJPI), and have obtained a tolling agreement staying the running of the statute of limitations while they inquire into the issues. In addition, there are six cases filed by union health plans seeking damages for alleged overpayments for RISPERDAL®, several of which seek certification as class actions. In the case brought by the Attorney General of West Virginia, based on claims for alleged consumer fraud as to DURAGESIC® as well as RISPERDAL®, Janssen was found liable on motion, and damages are likely to be assessed at less than $20 million. Janssen intends to seek to appeal.

Numerous claims and lawsuits in the United States relating to the drug PROPULSID®, withdrawn from general sale by the Company's Janssen subsidiary in 2000, have been resolved or are currently enrolled in settlement programs with an aggregate cap below $100 million. Litigation concerning PROPULSID® is pending in Canada, where a class action of persons alleging adverse reactions to the drug has been certified.

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. The Court of Appeals for the Federal Circuit has upheld liability in these cases, and on September 30, 2008, the district court entered judgments, including interest, in the amounts of $702 million and $521 million against Boston Scientific and Medtronic, respectively. Medtronic paid $472 million in October 2008, representing the judgment, net of amounts exchanged in settlement of a number of other litigations between the companies. The net settlement of $472 million was recorded as a credit to other (income) expense, net in the 2008 consolidated statement of earnings. The $702 million judgment against Boston Scientific is not reflected in the 2008 financial statements as Boston Scientific has appealed the judgments, and no amounts have been received.

Cordis also has two arbitrations against Medtronic seeking royalties for the sale of stent products introduced by Medtronic subsequent to December 2000 pursuant to a 1997 cross-license agreement between Cordis and Medtronic. The hearing on the first of these arbitrations will take place in March 2009.

In January 2003, Cordis filed a patent infringement action against Boston Scientific in Delaware Federal District Court accusing its Express2™, Taxus® and Liberte® stents of infringing the Palmaz patent that expired in November 2005. The Liberte® stent was also accused of infringing Cordis' Gray patent that expires in 2016. In June 2005, a jury found that the Express2™, Taxus® and Liberte® stents infringed the Palmaz patent and that the Liberte® stent also infringed the Gray patent. Boston Scientific has appealed to the U.S. Court of Appeals for the Federal Circuit.

Cordis has filed several lawsuits in New Jersey Federal District Court against Guidant Corporation (Guidant), Abbott Laboratories, Inc. (Abbott), Boston Scientific and Medtronic alleging that the Xience V™ (Abbott), Promus™ (Boston Scientific) and Endeavor® (Medtronic) drug eluting stents infringe several patents owned by or licensed to Cordis. In October 2008, Cordis filed suit against Boston Scientific in Delaware Federal Court accusing the Taxus Liberte® stent of infringing the Gray patent.

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.

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 those actions. Cordis appealed. On January 15, 2009, the Court of Appeals for the Federal Circuit held the Ding patent invalid. It is expected that Boston Scientific will move for reconsideration. The appeal of the Jang patent case is still pending and if the judgment is upheld it will be remanded for a trial on the issues of damages and injunctive relief.

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. Boston Scientific has brought actions in Belgium, the Netherlands, Germany, France and Italy under its Kastenhofer patent, which purports to cover two-layer catheters such as those used to deliver the CYPHER® Stent, to enjoin the manufacture and sale of allegedly infringing catheters in those countries, and to recover damages. A decision by the lower court in the Netherlands in Boston Scientific's favor was reversed on appeal in April 2007. Boston Scientific has filed an appeal to the Dutch Supreme Court. In October 2007, Boston Scientific prevailed in the nullity action challenging the validity of the Kastenhofer patent filed by Cordis in Germany. Cordis has appealed. No substantive hearings have been scheduled in the French or Italian actions.

Trial in Boston Scientific's U.S. case based on the Kastenhofer patent in Federal District Court in California concluded in October 2007 with a jury finding that the patent was invalid. The jury also found for Cordis on its counterclaim that sale by Boston Scientific of its balloon catheters and stent delivery systems infringe Cordis' Fontirroche patent. The Court has denied Boston Scientific's post trial motions and is considering the appropriate remedy for future infringement.

In May 2008, Centocor, Inc. (now COBI) filed a lawsuit against Genentech, Inc. (Genentech) in U.S. District Court for the Central District of California seeking to invalidate the Cabilly II patent. Prior to filing suit, Centocor had a sublicense under this patent from Celltech (who was licensed by Genentech) for REMICADE® and had been paying royalties to Celltech. Centocor has terminated that sublicense and stopped paying royalties. Genentech has filed a counterclaim alleging that REMICADE® infringes its Cabilly II patents and that the manufacture of REMICADE®, ustekinumab, golimumab and ReoPro infringe various of its patents relating to the purification of antibodies made through recombinant DNA techniques.

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
Two-layer Catheters	Cordis	Kastenhofer	Boston Scientific Corp.	Multiple European	*	09/07
Contact Lenses	Vision Care	Nicolson	CIBA Vision	M.D. FL	03/09	09/03
CYPHER® Stent	Cordis	Wall	Wall	E.D. TX	04/11	11/07
CYPHER® Stent	Cordis	Bonutti	MarcTec	S.D. IL	05/09	11/07
CYPHER® Stent	Cordis	Saffran	Saffran	E.D. TX	01/11	10/07
Stent/Catheter Delivery Systems	Cordis/Ethicon	Schock	Cardio Access LLC	E.D. TX	*	06/08
LISTERINE® Tooth Whitening Strips	McNeil-PPC	Sagel	Procter & Gamble	W.D. WI	*	05/08
Blood Glucose Meters and Strips	Lifescan	Wilsey	Roche Diagnostics	D. DE	*	11/07
REMICADE®, ustekinumab, golimumab, ReoPro	Centocor	Cabilly II	Genentech	C.D. CA	*	05/08

** Trial date to be scheduled.*

LITIGATION AGAINST FILERS OF ABBREVIATED NEW DRUG APPLICATIONS (ANDAs)

The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications (ANDAs) 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, 2007 and 2008, and will expire in 2009, 2010 and 2011 with respect to ANDA challenges regarding various products:

Brand Name Product	Patent/NDA Holder	Generic Challenger	Court	Trial Date	Date Filed	30-Month Stay Expiration
CONCERTA® 18, 27, 36 and 54 mg controlled release tablet	McNeil-PPC ALZA	Andrx	D. DE	12/07	09/05	None
LEVAQUIN® 250, 500, 750 mg tablet	Ortho-McNeil	Lupin	D. NJ	*	10/06	03/09
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 Watson	D. NJ D. NJ	* *	10/03 10/08	02/06 03/11
RAZADYNE®	Janssen	Teva Mylan Dr. Reddy's Purepac Barr AlphaPharm	D. DE D. DE D. DE D. DE D. DE D. DE	05/07 05/07 05/07 05/07 05/07 05/07	07/05 07/05 07/05 07/05 07/05 07/05	08/08 08/08 08/08 08/08 08/08 08/08
RAZADYNE® ER	Janssen	Barr Sandoz KV Pharma	D. NJ D. NJ D. NJ	* * *	06/06 05/07 12/07	None None 05/10
ULTRAM® ER 100, 200, 300 mg tablet	Ortho-McNeil	Par	D. DE	01/09	05/07	09/09
ULTRAM® ER 100 mg tablet	Ortho-McNeil-Janssen	Impax	D. DE	*	08/08	01/11

** Trial date to be scheduled.*

In the action against Barr Pharmaceuticals, Inc. (Barr) regarding ORTHO TRI-CYCLEN® LO, on January 22, 2008, the Company's subsidiary Ortho Women's Health & Urology, a Division of Ortho-McNeil-Janssen Pharmaceuticals, Inc., and Barr agreed to a non-binding term sheet to settle the litigation, which settlement discussions are still underway. The trial court postponed the January 22, 2008 trial without setting a new trial date.

On October 16, 2008, the Company's subsidiary Ortho-McNeil-Janssen Pharmaceuticals, Inc. (OMJPI) filed suit in Federal District Court in New Jersey against Watson Laboratories, Inc. (Watson) in response to Watson's ANDA regarding ORTHO TRI-CYCLEN® LO.

In the action against Barr and AlphaPharm with respect to their ANDA challenges to the RAZADYNE® patent that Janssen licenses from Synaptech, Inc. (Synaptech), a four-day non-jury trial was held in the Federal District Court in Delaware in May 2007. On August 27, 2008, the court held that the patent was invalid because it was not enabled. Janssen and Synaptech have appealed the decision. Since the court's decision, three generic companies have received final approvals for their products and have launched "at risk" pending appeal. Additional generic approvals and launches could occur at any time.

In the action by McNEIL-PPC, Inc. against Andrx Corporation (Andrx) with respect to its ANDA challenge to the CONCERTA® patents, a five-day non-jury trial was held in the Federal District Court in Delaware in December 2007. The Court has yet to issue its ruling in that action.

In the RAZADYNE® ER cases, a lawsuit was filed against Barr on the RAZADYNE® use patent that Janssen licenses from Synaptech in June 2006 and on the RAZADYNE® ER formulation patent in March 2007. Lawsuits (each for different dosages) were filed against KV Pharmaceutical Company (KV) on the RAZADYNE® ER formulation patent in December 2007 and June 2008. Suit was filed against Sandoz on the RAZADYNE® use patent that Janssen licenses from Synaptech in May 2007 and on the RAZADYNE® ER formulation patent in June 2008. In September 2008, the above-discussed Delaware decision invalidating the RAZADYNE® use patent resulted in entry of judgment for Barr on that patent, and the case against Sandoz on that patent has been stayed pending appeal of the Delaware decision. Litigation against Barr, KV and Sandoz as to the RAZADYNE® ER formulation patent is proceeding. Barr has received FDA approval of its product and has launched "at risk."

In the action against Lupin Pharmaceuticals, Inc. (Lupin) regarding its ANDA concerning LEVAQUIN®, Lupin contends that the United States Patent and Trademark Office improperly granted a patent term extension to the patent that Ortho-McNeil (now Ortho-McNeil-Janssen Pharmaceuticals, Inc.) (OMJPI) licenses from Daiichi Pharmaceuticals, Inc. (Daiichi). Lupin alleges that the active ingredient in LEVAQUIN® was the subject of prior marketing, and therefore was not eligible for the patent term extension. Lupin concedes validity and that its product would violate the patent if marketed prior to the expiration of the original patent term.

In the ULTRAM® ER actions, Ortho-McNeil (now OMJPI), filed lawsuits (each for different dosages) against Par Pharmaceuticals, Inc. and Par Pharmaceuticals Companies, Inc. (Par) in May, June and October 2007 on two Tramadol ER formulation patents owned by Purdue Pharma Products L.P. (Purdue) and Napp Pharmaceutical Group Ltd. (Napp). OMJPI also filed lawsuits (each for different dosages) against Impax Laboratories, Inc. (Impax) on a Tramadol ER formulation patent owned by Purdue and Napp in August and November 2008. Purdue, Napp and Biovail Laboratories International SRL (Biovail)(the NDA holder) joined as co-plaintiffs in the lawsuits against Par and Impax.

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. Many 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.

The MDL Court identified classes of Massachusetts-only private insurers providing "Medi-gap" insurance coverage and private payers for physician-administered drugs where payments were based on AWP ("Class 2" and "Class 3"), and a national class of individuals who made co-payments for physician-administered drugs covered by Medicare ("Class 1"). A trial of the two Massachusetts-only class actions concluded before the MDL Court in December 2006. In June 2007, the MDL Court issued post-trial rulings, dismissing the Johnson & Johnson defendants from the case regarding all claims of Classes 2 and 3, and subsequently of Class 1 as well. The ruling is the subject of a pending appeal. AWP cases brought by various Attorneys General have proceeded to trial against other manufacturers. Cases including Johnson & Johnson subsidiaries are expected to be set for trial in 2009 and thereafter.

OTHER

In July 2003, Centocor (now COBI), a Johnson & Johnson subsidiary, 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 have responded to these requests for documents and information.

In December 2003, Ortho-McNeil (now OMJPI) 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). Additional subpoenas for documents have been received, and current and former employees have testified before a grand jury. Discussions are underway in an effort to resolve this matter, but whether agreement can be reached and on what terms is uncertain.

In January 2004, Janssen (now OMJPI) 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. Subpoenas seeking testimony from various witnesses before a grand jury have also been received. Janssen is cooperating in responding to these subpoenas.

In September 2004, Ortho Biotech Inc. (now COBI), received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to the 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 (now COBI) has responded to the subpoena.

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 and their motion for reconsideration in April 2007. Plaintiffs sought to appeal these decisions and, in April 2008, the Court of Appeals ruled that plaintiffs' appeal of the denial of class certification was untimely. Plaintiffs are now engaged in further discovery of individual plaintiffs' claims.

In March 2005, DePuy Orthopaedics, Inc. (DePuy), a Johnson & Johnson subsidiary, received a subpoena from the U.S. Attorney's Office, District of New Jersey, seeking records concerning contractual relationships between DePuy and surgeons or surgeons-in-training involved in hip and knee replacement and reconstructive surgery. This investigation was resolved by DePuy and the four other leading suppliers of hip and knee implants in late September 2007 by agreements with the U.S. Attorney's Office for the District of New Jersey. The settlements include an 18-month Deferred Prosecution Agreement (DPA), acceptance by each company of a monitor to assure compliance with the DPA and, with respect to four of the five companies, payment of settlement monies and entry into five year Corporate Integrity Agreements. DePuy paid $85 million as its settlement. In November 2007, the Attorney General of the Commonwealth of Massachusetts issued a civil investigative demand to DePuy seeking information regarding financial relationships between a number of Massachusetts-based orthopedic surgeons and providers and DePuy, which relationships had been publicly disclosed by DePuy pursuant to the DPA. In February 2008, DePuy received a written request for information from the U.S. Senate Special Committee on Aging, as a follow-up to earlier inquiries, concerning a number of aspects of the DPA.

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. Additional requests for documents have been received and responded to and former and current Scios employees have testified before a grand jury 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 responded 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 November 2005, Amgen filed suit against Hoffmann-LaRoche, Inc. (Roche) in the U.S. District Court for the District of Massachusetts seeking a declaration that the Roche product CERA, which Roche has indicated it would seek to introduce into the United States, infringes a number of Amgen patents concerning EPO. Amgen licenses EPO for sale in the United States to Ortho Biotech (now COBI) for non-dialysis indications. Trial in this action concluded in October 2007 with a verdict in Amgen's favor, finding the patents valid and infringed. The judge issued a preliminary injunction blocking the CERA launch, but said he was considering modifying that injunction to grant Roche a compulsory license that would allow it to launch in the U.S. if it paid a 22.5 percent royalty. In a subsequent decision, the district judge indicated he would not grant Roche a compulsory license.

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 and U.S. Department of Justice (DOJ) in producing responsive documents.

In September 2006, Janssen (now OMJPI) 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 (now OMJPI) has responded to the subpoena.

In February 2007, Johnson & Johnson voluntarily disclosed to the DOJ and the 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 (FCPA). In the course of continuing dialogues with the agencies, other issues potentially rising to the level of FCPA violations in additional markets have been brought to the attention of the agencies by the Company. The Company has provided and will continue to provide additional information to DOJ and SEC, and will cooperate with the agencies' reviews of these matters. Law enforcement agencies of a number of other countries are also pursuing investigations of matters voluntarily disclosed by the Company to DOJ and SEC. Discussions are underway in an effort to resolve these matters, and the Iraq Oil for Food matter referenced above, but whether agreement can be reached and on what terms is uncertain.

In March 2007, the Company received separate subpoenas from the U.S. Attorney's Office in Philadelphia, the U.S. Attorney's Office in Boston and the U.S. Attorney's Office in San Francisco. The subpoenas relate to investigations by these three offices referenced above concerning, respectively, sales and marketing of RISPERDAL® by Janssen (now OMJPI), TOPAMAX® by Ortho-McNeil (now OMJPI) and NATRECOR® by Scios. The subpoenas request information regarding the Company's corporate supervision and oversight of these three subsidiaries, including their sales and marketing of these drugs. The Company responded to these requests. In addition, the U.S. Attorney's office in Boston has issued subpoenas for grand jury testimony to several employees of Johnson & Johnson.

In May 2007, the New York State Attorney General issued a subpoena seeking information relating to the marketing and safety of PROCRIT®. The Company is responding to these requests.

In April 2007, the Company received two subpoenas from the Office of the Attorney General of the State of Delaware. The subpoenas seek documents and information relating to nominal pricing agreements. For purposes of the subpoenas, nominal pricing agreements are defined as agreements under which the Company agreed to provide a pharmaceutical product for less than ten percent of the Average Manufacturer Price for the product. The Company responded to these requests.

In January 2008, the European Commission ("EC") began an industry-wide antitrust inquiry concerning competitive conditions within the pharmaceutical sector. Because this is a sector inquiry, it is not based on any specific allegation that the Company has violated EC competition law. The inquiry began with unannounced raids of a substantial number of pharmaceutical companies throughout Europe, including Johnson & Johnson affiliates. In March 2008, the EC issued detailed questionnaires to approximately 100 companies, including Johnson & Johnson affiliates. In November 2008, the EC issued a preliminary report summarizing its findings. The final report is expected in June or July of 2009.

In March 2008, the Company received a letter request from the Attorney General of the State of Michigan. The request seeks documents and information relating to nominal price transactions. The Company is responding to the request and will cooperate with the inquiry.

In June 2008, Johnson & Johnson received a subpoena from the United States Attorneys Office for the District of Massachusetts relating to the marketing of biliary stents by the Company's Cordis subsidiary. Cordis is cooperating in responding to the subpoena.

In September 2008, Multilan AG, an indirect subsidiary of Schering-Plough Corporation, commenced arbitration against Janssen Pharmaceutica NV for an alleged wrongful termination of an agreement relating to payments in connection with termination of certain marketing rights. Multilan seeks declaratory relief, specific performance and damages. Multilan alleges that damages exceed €700 million. The parties are in the process of selecting an arbitral tribunal.

In recent years the Company has received numerous requests from a variety of United States Congressional Committees to produce information relevant to ongoing congressional inquiries. It is the Company's policy to cooperate with these inquiries by producing the requested information.

With respect to all the above matters, the Company and its subsidiaries are vigorously contesting the allegations asserted against them and otherwise pursuing defenses to maximize the prospect of success. The Company and its subsidiaries involved in these matters continually evaluate their strategies in managing these matters and, where appropriate, pursue settlements and other resolutions where those are in the best interest of the Company.

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 condition, 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 fiscal years ended December 28, 2008, December 30, 2007 and December 31, 2006:

(Shares in Millions Except Per Share Data)	2008	2007	2006
Basic net earnings per share	$ 4.62	3.67	3.76
Average shares outstanding — basic	2,802.5	2,882.9	2,936.4
Potential shares exercisable under stock option plans	179.0	178.6	207.0
Less: shares repurchased under treasury stock method	(149.6)	(154.5)	(186.3)
Convertible debt shares	3.7	3.7	3.9
Adjusted average shares outstanding — diluted	2,835.6	2,910.7	2,961.0
Diluted net earnings per share	$ 4.57	3.63	3.73

The diluted net earnings per share calculation includes the dilutive effect of convertible debt that is offset by the related reduction in interest expense of $4 million after tax for years 2008, 2007 and 2006.

Diluted net earnings per share excludes 59 million, 64 million and 43 million shares underlying stock options for 2008, 2007 and 2006, 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 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
Employee compensation and stock option plans	(33,296)	(2,180)
Conversion of subordinated debentures	(194)	(13)
Repurchase of common stock	86,498	5,607
Balance at December 30, 2007	279,620	14,388
Employee compensation and stock option plans	(29,906)	(2,005)
Conversion of subordinated debentures	(19)	(1)
Repurchase of common stock	100,970	6,651
Balance at December 28, 2008	350,665	$19,033

Aggregate shares of Common Stock issued were approximately 3,120 million shares at the end of 2008, 2007 and 2006.

Cash dividends paid were $1.795 per share in 2008, compared with dividends of $1.620 per share in 2007 and $1.455 per share in 2006.

21. Selected Quarterly Financial Data (unaudited)

Selected unaudited quarterly financial data for the years 2008 and 2007 are summarized below:

	2008				2007			
(Dollars in Millions Except Per Share Data)	First Quarter	Second Quarter[1]	Third Quarter	Fourth Quarter[2]	First Quarter[3]	Second Quarter	Third Quarter[4]	Fourth Quarter[5]
Segment sales to customers								
Consumer	$ 4,064	4,036	4,099	3,855	3,496	3,564	3,623	3,810
Pharmaceutical	6,429	6,340	6,113	5,685	6,221	6,149	6,099	6,397
Med Devices & Diagnostics	5,701	6,074	5,709	5,642	5,320	5,418	5,248	5,750
Total sales	$16,194	16,450	15,921	15,182	15,037	15,131	14,970	15,957
Gross profit	11,580	11,699	11,147	10,810	10,652	10,773	10,696	11,223
Earnings before provision for taxes on income	4,747	4,375	4,290	3,517	3,652	4,031	3,268	2,332
Net earnings	3,598	3,327	3,310	2,714	2,573	3,081	2,548	2,374
Basic net earnings per share	$ 1.27	1.18	1.19	0.98	0.89	1.06	0.88	0.83
Diluted net earnings per share	$ 1.26	1.17	1.17	0.97	0.88	1.05	0.88	0.82

[1] The second quarter of 2008 includes an after-tax charge of $40 million for IPR&D.

[2] The fourth quarter of 2008 includes an after-tax charge of $141 million for IPR&D, $229 million after-tax of income from net litigation and $331 million after-tax gain on the divestiture of the Professional Wound Care business of Ethicon, Inc. The gain from the divestiture of the Professional Wound Care business of Ethicon, Inc. was reinvested in the business.

[3] The first quarter of 2007 includes an after-tax charge of $807 million for IPR&D.

[4] The third quarter of 2007 includes an after-tax charge of $528 million for restructuring.

[5] The fourth quarter of 2007 includes an after-tax charge of $441 million for the NATRECOR® intangible asset write-down and a one-time tax gain of $267 million for restructuring. The lower tax rate is due to increases in taxable income in lower tax jurisdictions relative to taxable income in higher tax jurisdictions.

22. Restructuring

In the third quarter of 2007, the Company announced restructuring initiatives in an effort to improve its overall cost structure. This action was taken to offset the anticipated negative impacts associated with generic competition in the Pharmaceutical segment and challenges in the drug-eluting stent market. The Company's Pharmaceuticals segment has reduced its cost base by consolidating certain operations, while continuing to invest in recently launched products and its late-stage pipeline of new products. The Cordis franchise has moved to a more integrated business model to address the market changes underway with drug-eluting stents and to better serve the broad spectrum of its patients' cardiovascular needs, while reducing its cost base. This program allowed the Company to accelerate steps to standardize and streamline certain aspects of its enterprise-wide functions such as human resources, finance and information technology to support growth across the business, while also leveraging its scale more effectively in areas such as procurement to benefit its operating companies. Additionally, as part of this program the Company plans to eliminate approximately 4,400 positions of which approximately 3,500 have been eliminated since the restructuring initiative was announced in 2007.

During the fiscal third quarter of 2007, the Company recorded $745 million in related pre-tax charges, of which, approximately $500 million of the pre-tax restructuring charges are expected to require cash payments. The $745 million of restructuring charges consists of severance costs of $450 million, asset write-offs of $272 million and $23 million related to leasehold obligations. The $272 million of asset write-offs relate to property, plant and equipment of $166 million, intangible assets of $48 million and other assets of $58 million.

The following table summarizes the severance charges and the associated spending:

(Dollars in Millions)	Severance
2007 severance charge	$450
Cash outlays	(46)
Reserve balance, December 30, 2007	404
Cash outlays	(226)
Reserve balance, December 28, 2008*	$178

** Remaining reserve balance for severance is expected to be paid in accordance with the Company's plans and local laws.*

For additional information on the restructuring as it relates to the segments, see Note 11.

23. Fair Value Measurements

During the fiscal first quarter of 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* except for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis, for which the effective date is fiscal years beginning after November 15, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

During the fiscal first quarter of 2008, the Company adopted SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits the Company to measure certain financial assets and financial liabilities at fair value. The Company assessed the fair value option made available upon adopting SFAS No. 159, and has elected not to apply the fair value option to any financial instruments that were not already recognized at fair value.

SFAS No. 157 defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. The statement establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described in the table below with level 1 having the highest priority and level 3 having the lowest.

The following table provides a summary of the significant assets and liabilities that are measured at fair value as of December 28, 2008.

(Dollars in Millions)	December 28, 2008	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Derivative instruments	$1,432	—	$1,432	—
Liabilities:				
Derivative instruments	$2,378	—	$2,378	—

The Company uses forward exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes on future intercompany 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. The fair value of derivative instruments is the aggregation, by currency, of all future cash flows discounted to present value at prevailing market interest rates, and subsequently converted to the United States dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position. The Company did not have any other significant financial assets or liabilities, which would require revised valuations under SFAS No. 157 that are recognized at fair value.

24. Subsequent Events

On January 23, 2009, the Company completed the acquisition of Mentor Corporation for a net purchase price of $1.1 billion. Mentor Corporation is a leading supplier of medical products for the global aesthetic market.

Report of Independent Registered Public Accounting Firm

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

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 28, 2008 and December 30, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying, "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

PricewaterhouseCoopers LLP

New York, New York
February 17, 2009

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 external 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 28, 2008. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting.

Based on the Company's processes and assessment, as described above, management has concluded that, as of December 28, 2008, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 28, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

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

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

Summary of Operations and Statistical Data 1998-2008

(Dollars in Millions Except Per Share Figures)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Sales to customer — U.S.	$32,309	32,444	29,775	28,377	27,770	25,274	22,455	19,825	17,316	15,532	12,901
Sales to customer — International	31,438	28,651	23,549	22,137	19,578	16,588	13,843	12,492	11,856	11,825	10,910
Total sales	63,747	61,095	53,324	50,514	47,348	41,862	36,298	32,317	29,172	27,357	23,811
Cost of products sold	18,511	17,751	15,057	14,010	13,474	12,231	10,498	9,622	8,987	8,559	7,711
Selling, marketing and administrative expenses	21,490	20,451	17,433	17,211	16,174	14,463	12,520	11,510	10,675	10,182	8,595
Research expense	7,577	7,680	7,125	6,462	5,344	4,834	4,094	3,704	3,186	2,821	2,538
Purchased in-process research and development	181	807	559	362	18	918	189	105	66	—	298
Interest income	(361)	(452)	(829)	(487)	(195)	(177)	(256)	(456)	(429)	(266)	(302)
Interest expense, net of portion capitalized	435	296	63	54	187	207	160	153	204	255	186
Other (income) expense, net[4]	(1,015)	534	(671)	(214)	15	(385)	294	185	(94)	119	12
Restructuring	—	745	—	—	—	—	—	—	—	—	553
	46,818	47,812	38,737	37,398	35,017	32,091	27,499	24,823	22,595	21,670	19,591
Earnings before provision for taxes on income	16,929	13,283	14,587	13,116	12,331	9,771	8,799	7,494	6,577	5,687	4,220
Provision for taxes on income	3,980	2,707	3,534	3,056	4,151	2,923	2,522	2,089	1,813	1,554	1,196
Net earnings	12,949	10,576	11,053	10,060	8,180	6,848	6,277	5,405	4,764	4,133	3,024
Percent of sales to customers	20.3	17.3	20.7	19.9	17.3	16.4	17.3	16.7	16.3	15.1	12.7
Diluted net earnings per share of common stock	$ 4.57	3.63	3.73	3.35	2.74	2.29	2.06	1.75	1.55	1.34	1.00
Percent return on average shareholders' equity	30.2	25.6	28.3	28.2	27.3	27.1	26.4	24.0	25.3	26.0	21.6
Percent increase (decrease) over previous year:											
Sales to customers	4.3	14.6	5.6	6.7	13.1	15.3	12.3	10.8	6.6	14.9	5.7
Diluted net earnings per share	25.9	(2.7)	11.3	22.3	19.7	11.2	17.7	12.9	15.7	34.0	(1.0)
Supplementary expense data:											
Cost of materials and services[1]	$29,346	27,967	22,912	22,328	21,053	18,568	16,540	15,333	14,113	13,922	11,779
Total employment costs	14,523	14,571	13,444	12,364	11,581	10,542	8,942	8,153	7,376	6,727	6,021
Depreciation and amortization	2,832	2,777	2,177	2,093	2,124	1,869	1,662	1,605	1,592	1,510	1,335
Maintenance and repairs[2]	583	483	506	510	462	395	360	372	327	322	286
Total tax expense[3]	5,558	4,177	4,857	4,285	5,215	3,890	3,325	2,854	2,517	2,221	1,845
Supplementary balance sheet data:											
Property, plant and equipment, net	14,365	14,185	13,044	10,830	10,436	9,846	8,710	7,719	7,409	7,155	6,767
Additions to property, plant and equipment	3,066	2,942	2,666	2,632	2,175	2,262	2,099	1,731	1,689	1,822	1,610
Total assets	84,912	80,954	70,556	58,864	54,039	48,858	40,984	38,771	34,435	31,163	29,019
Long-term debt	8,120	7,074	2,014	2,017	2,565	2,955	2,022	2,217	3,163	3,429	2,652
Operating cash flow	14,972	15,022	14,248	11,799	11,089	10,571	8,135	8,781	6,889	5,913	5,104
Common stock information											
Dividends paid per share	$ 1.795	1.620	1.455	1.275	1.095	0.925	0.795	0.700	0.620	0.550	0.490
Shareholders' equity per share	$ 15.35	15.25	13.59	13.01	10.95	9.25	7.79	8.05	6.82	5.73	4.95
Market price per share (year-end close)	$ 58.56	67.38	66.02	60.10	63.42	50.62	53.11	59.86	52.53	46.63	41.94
Average shares outstanding (millions) — basic	2,802.5	2,882.9	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
— diluted	2,835.6	2,910.7	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
Employees (thousands)	118.7	119.2	122.2	115.6	109.9	110.6	108.3	101.8	100.9	99.8	96.1

(1) Net of interest and other income.

(2) Also included in cost of materials and services category.

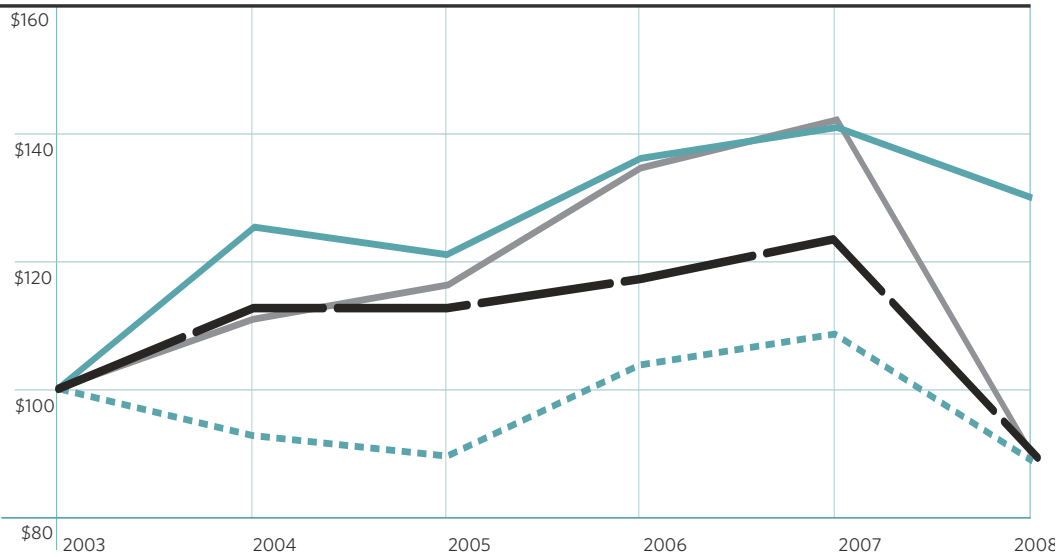
(3) Includes taxes on income, payroll, property and other business taxes.

(4) 2008 includes a $536 million before tax gain from the divestiture of the Professional Wound Care business of Ethicon, Inc. and a $379 million before tax net fourth quarter litigation gain. 2007 includes a $678 million before tax write-down related to the NATRECOR® intangible asset.

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, 2008, 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, 2003 and December 31, 1998 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.

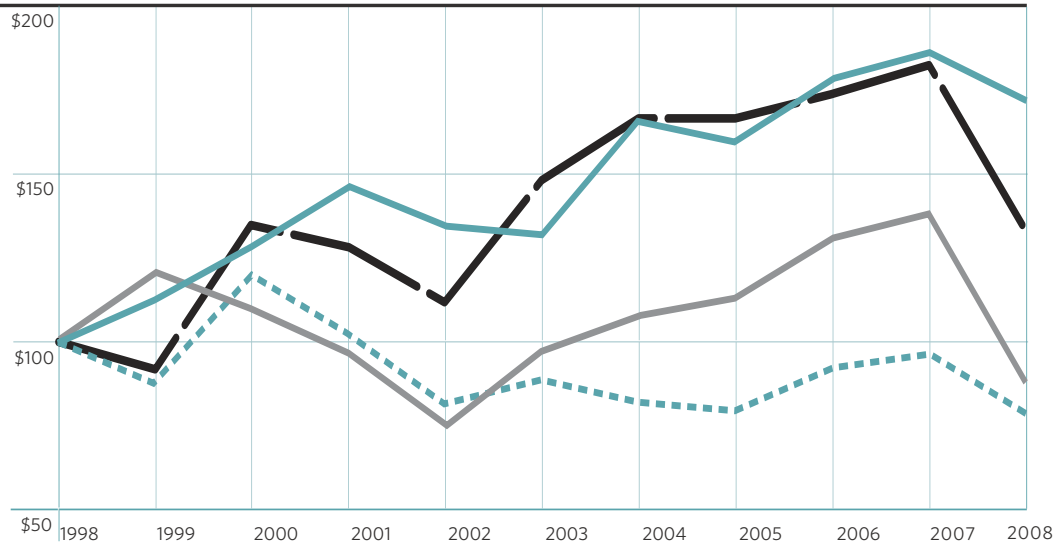
5-Year Cumulative Total Shareholder Return (2003–2008)



5-Year C.A.G.R.	
J&J	5.4%
S&P 500	(2.2%)
S&P Pharm	(2.4%)
S&P H/C Equip	(2.2%)

	2003	2004	2005	2006	2007	2008
Johnson & Johnson	$100.00	125.17	120.96	136.02	140.93	129.98
S&P 500 Index	$100.00	110.88	116.32	134.69	142.09	89.52
S&P Pharmaceutical Index	$100.00	92.57	89.46	103.64	108.46	88.73
S&P Health Care Equipment Index	$100.00	112.62	112.68	117.33	123.35	89.25

10-Year Cumulative Total Shareholder Return (1998–2008)



10-Year C.A.G.R.	
J&J	5.6%
S&P 500	(1.4%)
S&P Pharm	(2.3%)
S&P H/C Equip	2.8%

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Johnson & Johnson	$100.00	112.47	128.44	146.43	134.90	132.04	165.27	159.73	179.60	186.09	171.63
S&P 500 Index	$100.00	121.04	110.05	96.97	75.54	97.21	107.78	113.07	130.93	138.13	87.02
S&P Pharmaceutical Index	$100.00	88.02	119.87	102.44	81.91	89.10	82.48	79.71	92.35	96.64	79.06
S&P Health Care Equipment Index	$100.00	92.18	135.17	128.32	112.10	148.01	166.69	166.78	173.66	182.57	132.10

Reconciliation of Non-GAAP Financial Measures

The tables below are provided to reconcile certain financial disclosures in the Letter to Shareholders, page 1.

(Dollars in Millions Except Per Share Data)	2008	2007	2006	'08 vs. '07 % Change	'07 vs. '06 % Change
Earnings before provision for taxes on income — as reported	$16,929	13,283	14,587	27.4%	(8.9)
Purchased in-process research & development (IPR&D)	181	807	559		
Net gain on fourth quarter litigation	(379)	—	—		
Restructuring charges	—	745	—		
NATRECOR® intangible asset write-down	—	678	—		
Guidant acquisition agreement termination fee	—	—	(622)		
Earnings before provision for taxes on income — as adjusted	$16,731	15,513	14,524	7.9%	6.8
Net Earnings — as reported	$12,949	10,576	11,053	22.4%	(4.3)
Purchased in-process research & development (IPR&D)	181	807	448		
Net gain on fourth quarter litigation	(229)	—	—		
Restructuring charges	—	528	—		
NATRECOR® intangible asset write-down	—	441	—		
International tax gain on restructuring	—	(267)	—		
Guidant acquisition agreement termination fee	—	—	(368)		
Net Earnings — as adjusted	$12,901	12,085	11,133	6.8%	8.6
Diluted net earnings per share — as reported	$ 4.57	3.63	3.73	25.9%	(2.7)
Purchased in-process research & development (IPR&D)	0.06	0.28	0.15		
Net gain on fourth quarter litigation	(0.08)	—	—		
Restructuring charges	—	0.18	—		
NATRECOR® intangible asset write-down	—	0.15	—		
International tax gain on restructuring	—	(0.09)	—		
Guidant acquisition agreement termination fee	—	—	(0.12)		
Diluted net earnings per share — as adjusted	$ 4.55	4.15	3.76	9.6%	10.4

(Dollars in Millions)	2008	2007	2006
Net cash flows from operating activities	$14,972	15,022	14,248
Additions to property, plant and equipment	(3,066)	(2,942)	(2,666)
Free Cash Flow	**$11,906**	**12,080**	**11,582**

The Company believes investors gain additional perspective of underlying business trends and results by providing free cash flow, a measure of earnings before tax, net earnings and diluted net earnings per share that excludes IPR&D charges and other special items 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 23, 2009, 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 2008 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) 950-5089.

In addition, on the Company's Corporate Governance web site at www.investor.jnj.com/governance.cfm, 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 Street
Canton, MA 02021
(800) 328-9033 or
(781) 575-2718 (outside the U.S.)
www.computershare.com

The paper used in this publication is made from 30% post-consumer recycled fiber, is Forest Stewardship Council certified for chain of custody and was manufactured with green energy credits for purchase of electricity generated from renewable-energy sources such as wind and low-impact hydro resources.

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.computershare.com/us/ecomms, or www.computershare.com/econsent for employees holding shares in one of the Johnson & Johnson savings plans.

JOHNSON & JOHNSON ON THE WEB:

Company site: www.jnj.com

Johnson & Johnson history: www.kilmerhouse.com

Blog: www.jnjbtw.com

YouTube: www.youtube.com/JNJhealth

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
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New Brunswick, New Jersey 08933