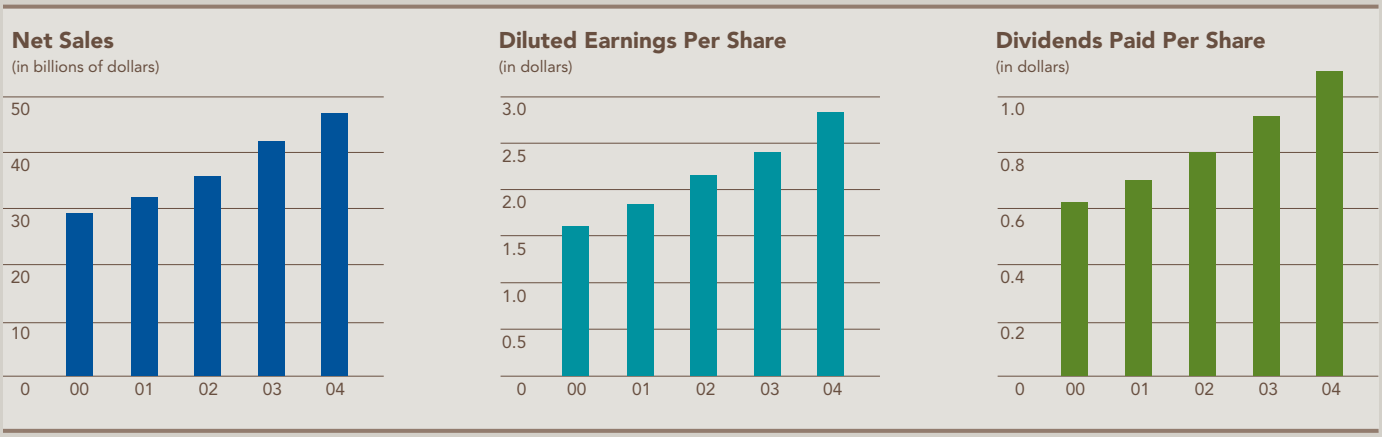
Johnson & Johnson 2004 ANNUAL REPORT

"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..."

Financial Highlights

(Dollars in Millions Except Per Share Figures)	2004	2003	2002	% Change 2004	% Change 2003
Sales to customers	$ 47,348	41,862	36,298	13.1%	15.3
Net earnings	8,509	7,197	6,597	18.2	9.1
Percent return on average shareholders' equity	29.0	29.0	28.1	–	–
Diluted net earnings per share	$ 2.84	2.40	2.16	18.3%	11.1
Cash dividends paid per share	1.095	0.925	0.795	18.4	16.4
Market price (year-end close)	63.42	50.62	53.11	25.3	(4.7)



About the Company

Johnson & Johnson achieved $47.3 billion in sales and, through its operating companies, is the world's most comprehensive and broadly based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical, and medical devices and diagnostics markets. The more than 200 Johnson & Johnson operating companies employ approximately 109,900 men and women in 57 countries and sell products throughout the world.

On the Cover

The first tenet of Our Credo reminds us of the deep sense of responsibility employees of the Johnson & Johnson Family of Companies feel to the people who use our products all over the world. Among them are Yasmin Hunt and her daughters, newborn Ahmari and Nyah, who live on a military base in the United States and were beneficiaries of a partnership between JOHNSON'S® Baby brand and the United Service Organizations (USO) to bring families together around the important event of the birth of a new baby.

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To Our Shareholders

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

Johnson & Johnson achieved strong, balanced performance in 2004, posting record results in sales, earnings and cash flows. It has been an outstanding year in which each of our business segments made important contributions.

Worldwide sales reached $47.3 billion, an increase of 13.1 percent over 2003, reflecting operational growth of 9.7 percent and a positive currency impact of 3.4 percent. This represented the 72nd year of consecutive sales growth.

Net earnings and diluted earnings per share for the year, as reported, were $8.5 billion and $2.84, increases of 18.2 percent and 18.3 percent, respectively, as compared with 2003. Adjusted net earnings for the year were $9.3 billion and earnings per share were $3.10[(1)].

Thus, Johnson & Johnson in 2004 completed two full decades of consecutive double-digit earnings increases, excluding special charges, a record of consistent long-term performance matched by few, if any, companies.

Our cash flow from operations continued to be very strong, at $11.1 billion, and facilitated our ability to enter into the largest planned acquisition in our history – a definitive agreement to acquire Guidant Corporation for $25.4 billion. We hope to conclude this transaction in the third quarter of 2005, creating an unparalleled cardiovascular device business that addresses a broad range of conditions from blocked coronary arteries to arrhythmias to congestive heart failure.

Strong cash flow also enabled many smaller but important business building investments throughout the year, even as we increased our quarterly dividend for the 42nd year in a row, up 18.8 percent from $.24 to $.285. We accomplished all of this while maintaining a "triple-A" credit rating, a designation earned by very few companies.

Financial strength is a great asset for Johnson & Johnson. It gives us exceptional flexibility in managing our operations and aggressively pursuing strategies for growth. It brings us added confidence and gives us extraordinary staying power as we pursue innovation and build our businesses for the decades to come.

We're pleased to see that the returns enjoyed by our shareholders once again reflect the strong underlying performance of our Company. We believe this reflects at least in part a growing recognition of the value of our broadly based business – a business with a record for both superior growth and consistency.

In fact, we are the world's most comprehensive and broadly based company in human health care.

Being broadly based gives us enormous advantages as an organization. It helps drive consistent performance. When one area of the business is challenged, another area is likely to be growing robustly. When one area of the business requires investment for future growth, another is likely to be generating particularly strong cash flows.

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

No single franchise or brand accounts for even 10 percent of our sales. And while our portfolio is well balanced across a breadth of areas, most of our brands, in their own right, are leaders in their particular fields.

As important as consistent performance is, breadth brings us much more. It actually elevates our performance by promoting synergy and collaboration between Johnson & Johnson units in different areas of health care.

In categories ranging from wound care adhesives to drug-coated devices, experts in pharmaceuticals, devices, diagnostics and consumer products are finding that collaboration can lead to breakthroughs. Internal collaborations are occurring with increasing frequency throughout Johnson & Johnson.

Our breadth gives us a unique line-of-sight and close proximity to many advancing areas in the science and technology of human health. This makes us aware of opportunities that may be missed by others with a narrower focus in their business. In effect, our broad base lets us pursue medical advances no matter what course they take.

For Johnson & Johnson, breadth becomes strength, because we continually build leadership positions in the fastest growing segments of health care. The fastest growing areas are usually those with the highest levels of unmet medical need. They also tend to be areas where innovative technology plays the largest role in improving patients' lives.

Whether these growth opportunities are in medicines, devices, diagnostics, consumer products or nutritionals, the extraordinary balance of our portfolio typically puts us in a good position to pursue them. Upon the anticipated closing of the Guidant Corporation transaction, we will have a projected portfolio of products comprising roughly 42 percent pharmaceuticals, 41 percent medical devices and diagnostics, and 17 percent consumer products. So we are well balanced. And, through our decentralized structure that puts management at the levels closest to the customer, each of our diverse businesses is growing at an impressive rate.

In the stories that follow in this report, you will see example after example of leadership positions that contribute to strong performance today and growth potential for the future. Let me mention just a few highlights of the past year.

In recent years, our Consumer segment has consistently achieved high levels of growth relative to the industry.

This growth has been achieved in part by an aggressive schedule of innovative product launches in major markets. These numbered over 200 last year. We continue to emphasize technology-driven, clinically-proven products to meet growing consumer health needs.

We've seen unprecedented growth in skin care. And, driven by SPLENDA® No Calorie Sweetener, our nutritionals business is also gaining great momentum.

Besides providing attractive levels of growth, the brands that make up our Consumer segment are remarkably enduring. Generations of consumers recognize these names: JOHNSON'S® Baby products, BAND-AID® Brand, NEUTROGENA®, TYLENOL®.

Consider that BAND-AID® Brand is an 85-year-old product line that still shows strong growth. Endurance plus growth is a unique proposition offered by our consumer products.

Our Medical Devices and Diagnostics segment is characterized by strong leadership positions in high-growth medical specialties like cardiology, orthopaedics, minimally invasive surgery, diabetes testing, and cancer detection. The primary focus of the group is on serious life-threatening and debilitating diseases. In these categories patient demand for high-technology solutions is strong.

Many programs and projects in Medical Devices and Diagnostics helped drive the excellent results. For Cordis, 2004 was a successful – though challenging – year. Although the CYPHER® Sirolimus-eluting Stent faced competition in the United States and Europe, it continued to build a body of strong clinical evidence supporting its efficacy in the treatment of coronary artery disease. A major factor contributing to the franchise's success was CYPHER® Stent marketing and reimbursement approval in Japan. This made CYPHER® Stent the first drug-eluting stent available in the world's second largest interventional cardiology market.

DePuy delivered the first artificial lumbar disc available in the United States when the U.S. Food and Drug Administration approved the CHARITÉ™ Artificial Disc in October. In diagnostics, Veridex announced a breakthrough diagnostic system based on detection of circulating tumor cells. Called CELLSEARCH™, the system helps physicians manage treatment for patients with metastatic breast cancer.

In Pharmaceuticals, we are unique among our competitors because of our unparalleled balance in both small molecules and biologics. In small molecules, we are a therapeutic leader in central nervous system, pain and reproductive health with products such as RISPERDAL®, DURAGESIC® and hormonal contraceptives. In biotechnology, we are the second largest global biotech company with therapeutic leadership in anemia management and immune-mediated inflammatory disease, as well as promising new growth engines in cardiology, oncology and virology.

Our leadership in Pharmaceuticals is based on superior innovation. Although we aggressively invest in research and development, we realize that the best ideas are not all homegrown. Because other companies increasingly consider us the partner of choice, we have extensive and growing access to alliances and collaborations, which numbered nearly 100 last year alone.

Indicative of our breadth is that we now have eight product categories with sales greater than $1 billion. We don't rely on a handful of blockbuster products to support our growth. With 18 products having sales over $200 million, our balance allows us to weather the ups and downs of individual products and deliver more consistent growth.

Beyond financial success, 2004 has been a very successful year in building for the future in Pharmaceuticals. In addition to 14 regulatory filings around the world, we received 21 regulatory approvals. These new formulations and line extensions will be key to continued growth in our Pharmaceutical segment.

I've described a number of factors that reflect our enthusiasm for the future. But, of course, we're not unaware of challenges ahead. DURAGESIC®, for example, already faces generic competition, and similar competitors are likely for products like CONCERTA®. Viewed in the context of our long-term growth, challenges such as these can be characterized as bumps in the road. We have faced challenges such as these successfully in the past and we will do so in the future.

Christine A. Poon
Vice Chairman

But there is a broader challenge whose resolution is less predictable. That is the business environment for pursuing health care as a private enterprise. Clearly the global regulatory environment is growing tougher; pressure is being put on companies over the cost of health care, and private enterprise is under close public scrutiny.

As we work in partnership with others to ensure a sound future for health care, we keep the tenets of Our Credo foremost in mind. We are convinced that an honest focus on the long-term interests of patients, their families, and the doctors and nurses that serve them will yield good public health policy and a business environment in which we can play a productive role.

Our Credo reminds us that, if we serve patients and customers, our employees and our communities well, our

shareholders will prosper. And, in fact, our shareholders have been receiving excellent returns for an exceptionally long time. Our Credo has stood the test of time and continues to deliver its promise just as we expect to continue delivering excellent business results.

We recognize that we have a responsibility to help society meet the challenges of making medical advancements accessible and affordable. Two U.S.-based programs in particular demonstrate our willingness to live up to that responsibility – the Together Rx Access™ Card Program and the Partnership for Prescription Assistance. Johnson & Johnson, along with nine pharmaceutical companies, launched the Together Rx Access™ Card to provide savings of 25 to 40 percent and more on prescription drugs and other prescription products to many of the more than 45 million Americans who don't have prescription drug coverage. The Partnership for Prescription Assistance, a voluntary collaboration among doctors, nurses, patient organizations and companies like ours, helps low-income, uninsured patients secure access to free or nearly free prescription medicines in an efficient way.

We are also mindful of our commitment to the communities where we do business and where our employees live and work. Our world witnessed the most devastating natural disaster of our generation in the earthquake and resultant tsunami in Asia late last year. Johnson & Johnson, as a company and as a collection of concerned private citizens, responded to the need by providing in excess of $81 million in product donations and committing more than $3 million in financial aid. We are committed to continuing our support for the redevelopment of infrastructure that supports the people of the region over the intermediate and long term, as well.

I want to close now by encouraging your optimism for the future of Johnson & Johnson.

We expect to continue delivering excellent results. Our focus on enduring brands, on serving areas of significant medical need, and on building a platform of science into all our businesses, will ensure our continued leadership in health care. Internal product development and collaboration, external partnerships and alliances, and strategic acquisitions will enable us to bring forward innovation to address emerging health care needs. Most importantly, our results will be built on the strength, quality, and character of our people.

It is our diverse and committed staff from all around the world that will continue to build this remarkable business. They deserve our thanks for their hard work and dedication.

We achieve leadership through strategic growth, and our growth is fueled by visionary leadership. We are mindful of our need to develop leaders within our Company and to identify strong advisors for our Board of Directors whose guidance will help chart our course. In the past year, there were a number of important developments in this area.

Christine Poon, Worldwide Chairman, Medicines and Nutritionals, joined the Office of the Chairman as Vice Chairman in January 2005 and will stand for election to the Board of Directors next month. Nicholas J. Valeriani assumed responsibility as Worldwide Chairman, Cardiovascular Devices, upon the announcement of the planned acquisition of Guidant Corporation. He will retain his responsibility as Worldwide Chairman, Diagnostics. Kaye Foster-Cheek succeeds Nick as Vice President, Human Resources, and member of the Executive Committee.

We also recognize three Directors who will retire from our Board of Directors in April. Dr. Gerard Burrow, who joined our Board in 1993, and Dr. Judah Folkman, who joined in 1998, will both be missed for their guidance on health care trends and research and development as members of our Science & Technology Advisory Committee. Henry Schacht, who joined the Board in 1997, has capably chaired our Nominating & Corporate Governance Committee, an area of shareholder focus in the past few years, and his leadership will be missed.

Thanks to all our associates for your dedication, and thank you to our customers and shareholders for your continued confidence. It's been a great year, and we are looking ahead with enthusiasm.

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

March 16, 2005

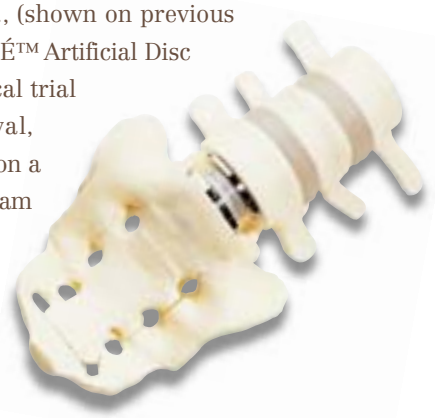
(1) Excludes the tax cost on the intended repatriation of undistributed international earnings. *See Reconciliation of Non-GAAP Measures, page 66.*

Johnson & Johnson has achieved sustainable growth by managing its decentralized, broadly based health care business for the long-term and staying grounded in the values embodied in Our Credo. We seek meaningful growth and market leadership through both internal development and strategic alliances. Following are some of the important achievements of 2004 in our medical devices and diagnostics, pharmaceuticals, and consumer businesses that support our growth objectives.

"Circulating tumor cells have long been theorized to exist in peripheral blood, but the technology has never before been available to consistently detect and reliably enumerate these cells. Now we have the automation and standardization to make circulating tumor cell testing a routine laboratory procedure, using CELLTRACKS® diagnostic instrumentation and CELLSEARCH™ assays from Veridex. Oncologists can use this information to make decisions about patient therapy."

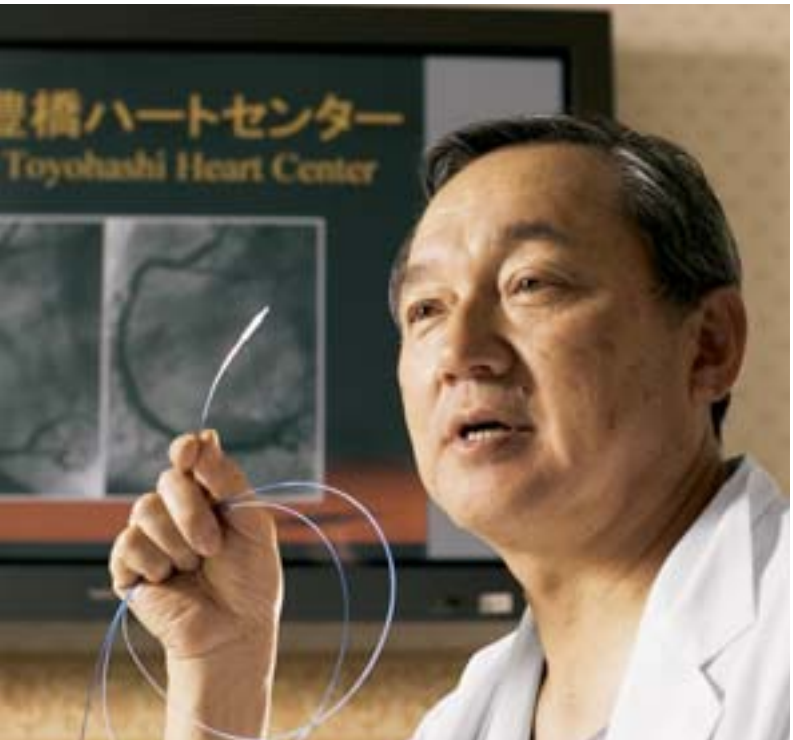
— Donna Gaeta, Veridex, L.L.C., a Johnson & Johnson Company, New Jersey, U.S.

The CHARITÉ™ Artificial Disc for degenerative disc disease from DePuy Spine Inc. was approved by the U.S. Food and Drug Administration (FDA) in October. Previously available in Europe, it's now the first artificial disc approved for use in the United States. It's intended to provide an alternative to lumbar spinal fusion surgery, which is performed on more than 200,000 people each year in the United States alone. In clinical trials, the CHARITÉ™ Artificial Disc patients maintained or improved their range of motion, experienced pain relief sooner and had a higher degree of satisfaction with the procedure than those who underwent lumbar spinal fusion surgery. That was the case with schoolteacher Kim Elpers of Indiana, U.S., (shown on previous page) who had the CHARITÉ™ Artificial Disc implanted during the clinical trial period. Upon FDA approval, DePuy Spine Inc. embarked on a training and education program for clinicians on artificial disc technology and techniques to foster optimal and appropriate use of the CHARITÉ™ Artificial Disc.



The CELLSEARCH™ System, a new cancer diagnostic technology that identifies and counts circulating tumor cells in a blood sample to predict progression-free survival and overall survival in patients with metastatic breast cancer, was launched in the fall. It's the first system of its kind to automate the detection and enumeration of circulating tumor cells in peripheral blood and will serve as the standard in a new class of diagnostic tools. It's a product of Veridex, L.L.C.

The CYPHER® Sirolimus-eluting Coronary Stent from Cordis Corporation received Japan's first approval from the country's Ministry of Health, Labor and Welfare as a drug-device combination to significantly reduce the incidence of restenosis (reblockage) of a treated coronary artery. Japan is the world's second largest interventional cardiology market with approximately 160,000 angioplasties performed annually. Seventy percent of them involve stent placement. The CYPHER® Stent is used extensively by leading interventional cardiologists including Takahiko Suzuki, M.D. (right), director of the Toyohashi Heart Center. Clinical evidence and worldwide experience with more than

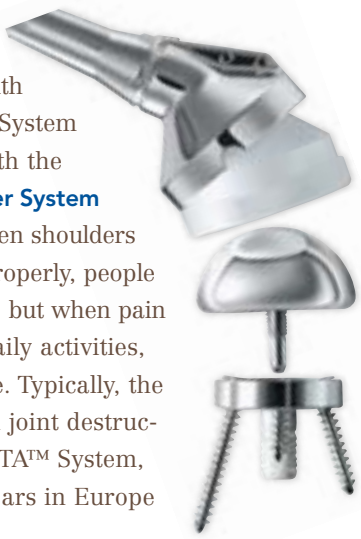


ABOVE: Ernie "Mr. Cub" Banks, retired baseball player and a member of the Baseball Hall of Fame, is one of many who have had the "joy of motion" restored through the DePuy Orthopaedics Rotating Platform Knees, the only knee replacements that bend and rotate to offer more natural movement. He's shown here with surgeon Wayne Goldstein, M.D., at his annual check-up. Today, improved technologies have revolutionized joint replacements, allowing more patients to seek treatment sooner. DePuy Orthopaedics, Inc. has launched patient education efforts using stories like Ernie's to encourage patients to talk to their doctors about new options in joint replacement.

900,000 patients demonstrate the safety and effectiveness of the CYPHER® Stent and its ability to dramatically improve the lives of patients.

Johnson & Johnson Wound Management, a division of Ethicon, Inc., obtained exclusive marketing rights for CROSSEAL™ Fibrin Sealant in North America in October. CROSSEAL™ Fibrin Sealant is derived from human blood plasma and contains the coagulation factors necessary to stop bleeding in surgical settings. It is indicated as an adjunct to hemostasis in patients undergoing liver surgery. In Europe, the product is marketed by Johnson & Johnson Wound Management as QUIXIL® Human Surgical Sealant.

The **EMBRACE™ Heart Stabilizer** from CardioVations, a division of Ethicon, Inc., stabilizes areas of the heart to create a relatively stationary coronary artery during beating heart or "off-pump" coronary bypass surgery. It's estimated that the "off-pump" method of coronary bypass is used in 25 percent of all coronary bypass procedures. Allowing the patient's own lungs and heart to maintain circulation rather than artificial systems has been shown to be beneficial.



Each year, more than 30,000 people have shoulder replacement surgery, many with the GLOBAL™ ADVANTAGE® System and, after previous repair, with the **DELTA CTA™ Reverse Shoulder System** from DePuy Orthopaedics. When shoulders are healthy and functioning properly, people don't give them much thought, but when pain and stiffness interfere with daily activities, the shoulder is hard to ignore. Typically, the cause of debilitating pain and joint destruction is arthritis. The DELTA CTA™ System, available for more than 15 years in Europe

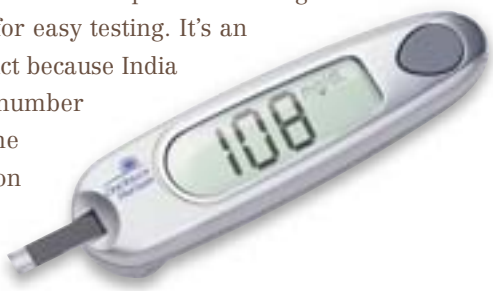
LEFT: **John Semertzides, M.D., of Cincinnati, Ohio, applies CROSSEAL™ Fibrin Sealant to stop bleeding during a liver procedure. The components are mixed during delivery with an applicator device that can be used for two different application methods.**

"When patients with massive rotator cuff tear and arthritis have endured pain and loss of motion, the GLOBAL™ ADVANTAGE® is the best solution for helping them get back to doing the things they love again. For more severe loss of function, typically as a result of previous injury or surgery, the DELTA CTA™ System is the ideal solution. We now have a prosthesis that allows us to return function in these patients for whom there previously had been no hope."

— Carl Basamania, M.D., Duke University Medical Center, North Carolina, U.S.

and now launched in the United States, is typically used for people of an advanced age who have little or no movement in their shoulder. It was designed for people with cuff tear arthropathy, or a tear in the rotator cuff muscles, in conjunction with arthritis. It can restore motion, and provide pain relief and stability when implanted by trained surgeons in the appropriate patients.

ONETOUCH HORIZON™ Blood Glucose Monitoring System from LifeScan, Inc. is a unique system for diabetes developed in collaboration with health care professionals globally and recently launched in India, Hong Kong, Singapore, Malaysia and the Philippines. It will be launched soon in China. It was designed to make accurate blood glucose testing simple and accessible for people with diabetes in developing markets throughout Asia, the Middle East, Africa and Latin America. It's been especially well-received in India (at right, a local pharmacist shows the ONETOUCH HORIZON™ to a customer) because it is suitable for market conditions there, offering an affordable price and a single-button function for easy testing. It's an important product because India has the highest number of diabetics in the world – 32 million today, with an expected 80 million by 2030. Two-thirds of the patients there are not diagnosed, and of those who are, fewer than five percent test their blood glucose. The primary reason, research told LifeScan, was cost of the meter and a lack of awareness of the need for regular testing. Patient education and an accurate, affordable product have led to significant increases in sales and market share for LifeScan in India.



The PILLCAM ESO™, a miniature color video camera in a pill that helps doctors diagnose and evaluate diseases of the esophagus such as gastro-esophageal reflux disease (GERD), erosive esophagitis and Barrett's esophagus, a pre-cancerous condition, was cleared by the U.S. FDA in November. It's marketed in the U.S. by the InScope Division of Ethicon Endo-Surgery, Inc. under an agreement with its manufacturer, Given Imaging, Ltd.

The first non-invasive diagnostic alternative to traditional endoscopy, the PILLCAM ESO™ has been shown in clinical trials to have accuracy comparable to traditional endoscopy.

The PILLCAM ESO™ is a smooth plastic capsule about the size of a large vitamin pill that has tiny video cameras at each end. It takes about 2,600 color pictures, or 14 frames per second, while gliding down the esophageal tract. The images are transmitted to a recording device worn by the patient, and viewed by the doctor in as little as 20 minutes. The disposable capsule is passed naturally, usually within 24 hours.

PROCEED™ Surgical Mesh from Ethicon, Inc. is a multi-layer, tissue-separating mesh designed for open and laparoscopic incisional hernia repair. PROCEED™ Surgical Mesh offers

ABOVE: **The Vision Care Institute™ of Johnson & Johnson Vision Care, Inc., opened in February, is an enhanced training facility designed to provide students, residents and practitioners comprehensive technical and communication skills training and to serve as a resource for the most current information in the field of vision care. The Vision Care Institute™ staff members, including director Howard Purcell, O.D., (center) work with schools and colleges to give fourth-year students hands-on, patient-focused experiences using the latest professional products, with a focus on ACUVUE® Brand Contact Lenses.**

"PILLCAM ESO™ could revolutionize patient screening for gastroesophageal reflux disease, or GERD. Reflux disease is on the rise. Consequently, the number of patients who will eventually require investigation of the esophagus will increase, as well. PILLCAM ESO™ is a novel option that allows us to respond to the growing needs of patients with esophageal symptoms who might avoid invasive upper endoscopies."

— Felice Schnoll-Sussman, M.D., the Jay Monahan Center for Gastrointestinal Health, New York, U.S.

RIGHT: **Dr. Chen Xie teaches new techniques using Ethicon Endo-Surgery instruments for minimally invasive surgery at the Shanghai Endo-Surgery Institute. When less invasive surgical procedures are used, patients typically experience less pain and discomfort and recover more quickly. The creation of the Endo-Surgery Institutes around the world has led to more rapid adoption of minimally invasive techniques and instrumentation.**

a lightweight construction, provides optimal handling for the surgeon and does not harbor bacteria that can lead to infection. Allowing for strong tissue incorporation, the mesh develops flexible scar tissue and reduced permanent foreign mass. This new mesh features a thin, bioresorbable fabric layer that effectively separates its strong, supportive mesh from underlying viscera and organs. PROCEED™ continues the commitment of Ethicon to meet the needs of surgeons for a broad range of products to repair damaged tissue.

The Ethicon Endo-Surgery Institute is dedicated to learning, interaction, and the advancement of patient care. At seven facilities worldwide, clinicians are trained in the techniques of minimally invasive surgery. The institutes advance the adoption of new technologies and procedures for surgeons and hospitals around the world. The facilities typically feature multiple surgery environments where clinicians can work with instrumentation, and classrooms and auditoriums equipped with telesurgery monitors that enable participants to view live surgical procedures taking place in leading hospitals. The facilities feature faculty and staff committed to providing the best possible network for learning, interaction, and the advancement of patient care.

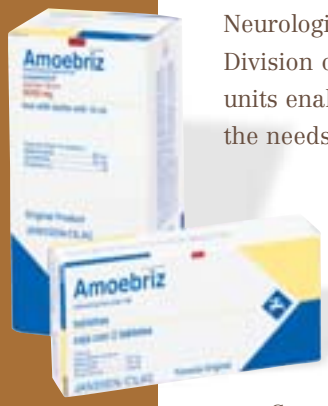
The Shanghai Endo-Surgery Institute was the fifth such facility established, following the success of the original Institute in Cincinnati, another in Norderstedt, Germany, and others. More than 11,700 surgeons and health care professionals have trained at the Shanghai Institute since it opened in 2001.

Among the pharmaceutical product approvals obtained in 2004 were TOPAMAX® (topiramate) Tablets and TOPAMAX® (topiramate capsules) Sprinkle Capsules for the prevention of migraine headaches in adults; LEVAQUIN® (levofloxacin) Tablets/Injection to treat multi-drug resistant strains of *streptococcus pneumoniae* in community acquired pneumonia, and PROCRIT® (Epoetin alfa) once-weekly dosing for anemia associated with cancer chemotherapy, all in the U.S. DUROGESIC® D-TRANS® Fentanyl Matrix Delivery System is now approved and launched in 16 European countries. It combines the benefits and efficacy of the DUROGESIC® patch with the latest transdermal patch technology to offer three-day control over cancer pain and chronic pain. AMOEBRIZ® Suspension (mebendazol, quinfamida) from Janssen-Cilag, S.A. de C.V. was approved in Mexico as a convenient one-day dose treatment for intestinal parasitism.

Through the acquisition of **Egea Biosciences, Inc.,** a pioneer in protein engineering, Centocor, Inc. has increased its capability to create product candidates and strengthened its position as a leader in biomedicines and protein therapeutics technology. Egea's platform technology enables, for the first time, the optimization of biologics and antibodies for

"AMOEBRIZ® is a new product and a very good alternative for treating amoebas and helminthes in only one day of treatment. AMOEBRIZ® acts at the intestinal lumen, with a minimum absorption rate, thereby providing good clinical tolerability and safety. The single dose is an effective and safe alternative in treating and eradicating intestinal amoebiasis and helminthiasis among Mexican children and in adults."

— Luis Hidalgo-Muñoz, M.D., Hospital DIF Ixtapaluca, Mexico City, Mexico



therapeutic use through proprietary large-scale gene synthesis. This technology is as revolutionary an approach to protein drug development and optimization as combinatorial chemistry was to small molecule drug development.

Four U.S. operating units, each focusing on core therapeutic areas, were formed from a restructuring of the Ortho-McNeil Pharmaceutical and Janssen Pharmaceutica businesses. The units are Janssen Ortho-McNeil Primary Care, Inc.; Janssen Pharmaceutica Products, L.P.; Ortho-McNeil Neurologics, Inc., and Ortho Women's Health & Urology Division of Ortho-McNeil Pharmaceutical, Inc. These units enable the Company to focus more intensively on the needs of patients and health care professionals.

Centocor, Inc. received approval from the Irish Development Authority to build a **new biologics manufacturing facility** in County Cork, Ireland. The facility will produce clinical supply material for products currently in Centocor's pipeline and enable Centocor to develop commercialized products that address significant unmet medical needs in the future. The addition of this fifth facility reflects Centocor's continued growth and further demonstrates the commitment to bio-manufacturing excellence, breakthrough technology, and providing patients and health care professionals with reliable access to biomedicines.

ORTHOVISC® High Molecular Weight Hyaluronan, a therapy for the treatment of pain associated with osteoarthritis of the knee, was approved by the U.S. FDA. ORTHOVISC® is indicated for patients who fail to respond adequately to exercise or physical therapy and to simple analgesics. Osteoarthritis is one of the most frequent causes of physical disability among adults, and the knee is one of the most commonly affected joints. In severe cases, osteoarthritis of the knee may require surgery to replace the knee joint. The hyaluronan used in ORTHOVISC® is similar to healthy human synovial fluid, a substance that lubricates the knee joint. ORTHOVISC® is an injectable form of hyaluronic acid that has been marketed outside of the United States since 1996. Ortho Biotech Products, L.P. licensed the U.S. rights to ORTHOVISC® from Anika Therapeutics, Inc.

ALZA Corporation received an approvable letter from the U.S. FDA for **IONSYS™ (Patient Controlled Transdermal System),** the first system that uses the company's proprietary E-TRANS® technology. This innovative, needle-free system will change the way hospitals and surgical centers address acute postoperative pain. IONSYS™, a lightweight, compact

"Like millions of others, I experienced pain and stiffness from osteoarthritis of the knee that made walking, climbing stairs and other daily activities difficult. ORTHOVISC® gave me an effective, non-surgical option when over-the-counter pain relievers no longer worked. Now I can get back to doing the things I enjoy."

— Phil Vogt, Kentucky, U.S.

system the size of a credit card, is designed to adhere to the upper arm or chest and contains the active drug fentanyl HCl. The patient activates IONSYS™ as needed, by pushing a recessed button on the system, activating a low-intensity electrical current not felt by the patient. This delivers a pre-programmed dose of fentanyl through the skin, which is absorbed into the bloodstream.

Researchers across Johnson & Johnson companies strive to uncover new opportunities that advance science and address health care needs around the globe. Scientists at Johnson & Johnson Pharmaceutical Research & Development, division of Janssen Pharmaceutica, N.V., in Beerse, Belgium, have identified a **novel anti-tuberculosis (TB) compound** that, in in vivo preclinical models, works better and faster than the current standard of care. The compound, called R207910, belongs to a new family of anti-TB agents known as diarylquinolines. The drug is active against all multi-drug resistant strains of TB tested so far. TB is currently treated with a cocktail of antibiotics, which must be taken for six to nine months. No new anti-TB drugs have been brought into the clinic in the past 40 years. R207910 has been transferred to Tibotec Pharmaceuticals Limited, whose lead compounds are for the treatment of HIV/AIDS. The pandemics of TB and HIV/AIDS are closely intertwined; the World Health Organization has declared TB a global health crisis, and TB now infects one-third of the world's population.

Tibotec Pharmaceuticals Limited has provided International Partnership for Microbicides (IPM), a public-private partnership, with a royalty-free license to develop, manufacture and distribute TMC120 as a vaginal microbicide to help protect women from infection with HIV in resource-poor countries. Public-private partnerships such as IPM are not-for-profit organizations that work with the public and private sectors to accelerate the development of international public goods (IPGs). IPGs, such as eliminating the spread of disease across borders, provide benefits that extend to other countries. The agreement marks the first collaboration in the microbicide field between a major health care company and a public-private partnership.

The number of indications for **REMICADE® (infliximab)** expanded in markets around the world for the treatment of immune-mediated inflammatory disorders that range from rheumatoid arthritis and Crohn's disease to ankylosing spondylitis and psoriatic arthritis. REMICADE® was approved in the U.S. for the treatment of active ankylosing spondylitis, a painful, progressive inflammatory condition of the spine that can result in fusion of the spinal vertebrae and structural damage to hips and other joints. Additionally, REMICADE®

"Not unlike many of my Crohn's patients, I hoped for a treatment that would alleviate the chronic, debilitating symptoms of this disease. An accurate diagnosis and effective treatment with REMICADE® has afforded me – and many of my patients living with Crohn's – the opportunity to once again fully participate in life."

— Kimberly Morgan-Waugh, R.N. and Crohn's patient, Pennsylvania, U.S.

was approved in the European Union (E.U.), in combination with methotrexate, for the treatment of active and progressive psoriatic arthritis in patients who have responded inadequately to disease-modifying, anti-rheumatic drugs. Psoriatic arthritis is a chronic, autoimmune inflammatory condition involving the joints and the skin.

REMICADE®, in combination with methotrexate, was also approved in the U.S. and Europe for use as first-line therapy for patients with moderately- to severely-active rheumatoid arthritis. A "Fast Track" Designation was received from the U.S. FDA for REMICADE® for the treatment of active ulcerative colitis, a chronic and debilitating disease of the colon, or large intestine. REMICADE®, discovered by Centocor, Inc., is the only agent approved for the treatment of both rheumatoid arthritis and Crohn's disease in North America, the E.U. and Japan. Across its multiple indications, REMICADE® is approved for use in 82 countries.

ZARNESTRA® (tipifarnib), an innovative anti-cancer drug discovered and developed at Johnson & Johnson Pharmaceutical Research & Development, L.L.C., has the potential to address a significant unmet medical need. ZARNESTRA®, administered orally, is being investigated in patients 65 years of age and older with newly diagnosed acute myeloid leukemia (AML). AML is a cancer of the bone marrow characterized by the uncontrolled growth of immature white blood cells, which never develop into functioning cells. Left untreated, the disease progresses quickly, with a median survival of two to six months.

If approved, ZARNESTRA® would represent the only new, first-line therapy for AML in more than a dozen years. The compound would be the first of a new class of cancer agents that have shown inhibition of an enzyme known as farnesyl transferase. Many current cancer treatments are not very selective in their effects, and they can often cause substantial damage to normal cells as well as to cancer cells. It is hoped that newer treatments, more precisely targeted to specific enzymes or metabolic processes that are especially important for cancer cell growth, may act more selectively against cancer.

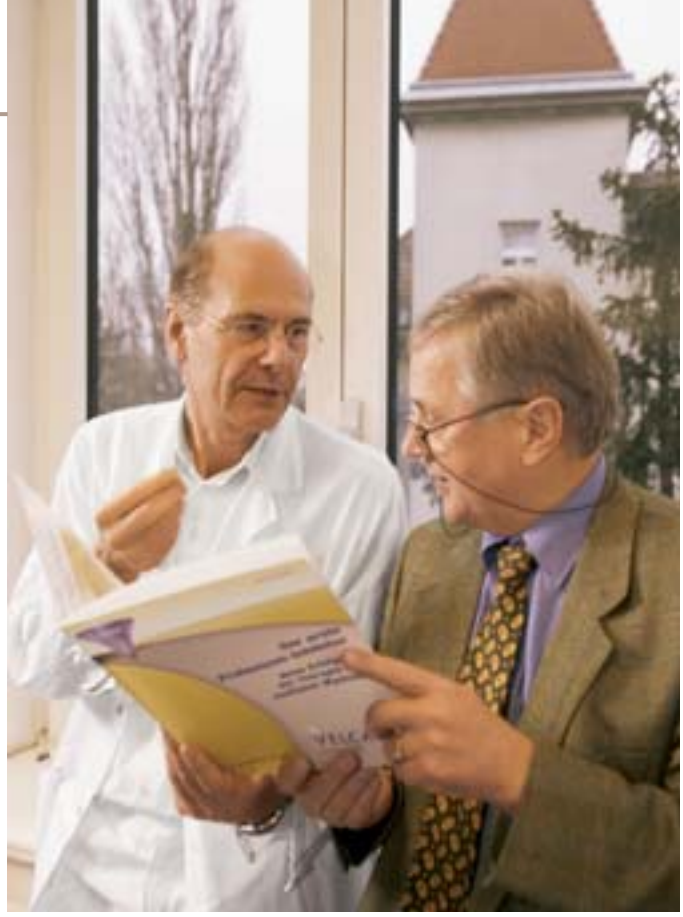
Since it addresses a life-threatening disease where there is an unmet medical need, ZARNESTRA® was granted "Fast Track" status by the U.S. FDA in June. In December, Johnson & Johnson Pharmaceutical Research & Development, L.L.C. completed the New Drug Application submission for ZARNESTRA® under the FDA's Continuous Marketing Application Pilot-1 program. The company submitted reviewable units to the FDA as they were completed and received ongoing feedback. Johnson & Johnson Pharmaceutical Research & Development, L.L.C. has initiated a Phase III study to fully demonstrate the clinical benefit of tipifarnib in AML. The company continues to investigate the use of ZARNESTRA® in other types of cancer, including myelodysplastic syndromes.

BELOW: Jacky Van Dun (below, left) and Peter De Porre of Johnson & Johnson Pharmaceutical Research & Development, division of Janssen Pharmaceutica, N.V., in Beerse, Belgium, discuss the investigational anti-cancer drug ZARNESTRA® (tipifarnib), aided by a three-dimensional molecular design and imaging tool, which is able to depict the virtual interaction between a drug and a protein.

RIGHT: The new state-of-the-art Dr. Paul Janssen Research Center constructed by Johnson & Johnson Pharmaceutical Research & Development in Beerse, Belgium, was designed to bring the biological discovery and medicinal chemistry groups together in a single, multifunctional research complex to facilitate new ideas and rapid solutions.

VELCADE® (bortezomib) for Injection was approved by the U.S. FDA in 2003 and the European Commission in 2004 for the treatment of patients with multiple myeloma who have received at least two prior therapies and have demonstrated disease progression on the last therapy. Multiple myeloma is the second most common blood cancer, representing approximately one percent of all cancers and two percent of all cancer deaths. VELCADE® works by blocking the proteasome, an enzyme complex found in cells, and interfering with the chemical messengers that control cell growth and regulate cell survival. Inhibition of the proteasome represents a completely new approach to the treatment of multiple myeloma.

Clinical results from the Phase III APEX study presented at the American Society of Hematology annual meeting in December have shown that, compared to patients receiving standard chemotherapy, patients treated with VELCADE® experience a significant survival benefit, underscoring that VELCADE® may help slow progression of disease. VELCADE® has been approved in more than 35 countries around the world, including the U.S. A single license was granted to market VELCADE® in the 15 member states of the E.U., plus Norway and Iceland, and it is available in the 10 accession countries. VELCADE® has also received approval in countries in Latin America and Asia Pacific.



ABOVE: **Heinz Ludwig, M.D., Ph.D., of Austria, discusses VELCADE® (bortezomib) for Injection with Ing Drewniak, a multiple myeloma patient in complete remission. "We are seeing progress in understanding the disease and the development of new treatments," emphasizes Dr. Ludwig. "We share an optimism we did not have a few years ago."**

RIGHT: **Children from City Harvest, a community group in New York City, pitched in to help construct the "world's biggest reduced-sugar gingerbread house" in Herald Square using "bricks" baked with SPLENDA® Sugar Blend for Baking. SPLENDA® Sugar Blend for Baking combines pure sugar with SPLENDA® Brand Sweetener to yield baked goods that brown, rise and have great texture, with less sugar and half the calories. A two-pound resealable plastic bag of SPLENDA® Sugar Blend for Baking contains the sweetness of four pounds of pure sugar.**

VELCADE® is being co-developed with Millennium Pharmaceuticals, Inc., which markets the product in the U.S., and Johnson & Johnson Pharmaceutical Research & Development, L.L.C. VELCADE® is commercialized outside the U.S. by Janssen-Cilag and Ortho Biotech-affiliated companies and in Japan by Janssen Pharmaceutical K.K. In addition to multiple myeloma, the potential of VELCADE® is being explored in other types of cancer, with ongoing Phase II trials in blood cancers such as non-Hodgkin's lymphoma and solid tumors such as non-small cell lung cancer.

New **VIACTIV® Multi-Vitamin Chew** makes the large pills often associated with multi-vitamins a thing of the past. Announced late in the year, the chews became available at retailers in the U.S. early in 2005. They join a patented line of great-tasting chews including VIACTIV® Soft Calcium Chew, whose 2004 annual sales grew 20 percent over the previous year. It's the fastest growing calcium supplement in the market.

VIACTIV® has used innovative marketing programs to educate women – from expectant mothers to athletes to moms and daughters working together to prevent osteoporosis – about the need for calcium. A recent national survey indicates that only 23 percent of women are aware of the daily requirement for calcium – 1000 to 1200 mg per day. The brand has also worked with retailers and health care professionals to increase awareness of the recent U.S. Surgeon General report on Bone Health and Osteoporosis.

SPLENDA® No Calorie Sweetener is celebrating five years of sweet success in the United States. Millions of consumers have incorporated the sweet taste of SPLENDA® No Calorie Sweetener into their lives and have adopted it as a healthy addition to their diets. The brand has steadily found its way into more and more households as consumers search for options that allow them to reduce added sugar in their diets without sacrificing great taste. In fact, consumers in the U.S. use 5 billion SPLENDA® packets a year – 9,000 a minute!

Independent research reports that SPLENDA® No Calorie Sweetener can be found in nearly 20 percent of U.S. consumers' homes. It's now the number one branded sweetener in U.S. homes based on dollar sales – leading even the top two brands of sugar. SPLENDA® No Calorie Sweetener's dollar share of the low calorie sweetener

LEFT: For Johnson & Johnson, Ltd., India, consumer insight has proven indispensable in addressing unique needs and creating new markets for products that respect regional cultural traditions. A door-to-door team visits households to introduce STAYFREE® SECURE™ and educates consumers on sanitary protection. Similar programs reach young women through school-based education programs.

BELOW: CLEAN & CLEAR® is now a leading branded cleanser in the China skin care market and it's growing at double digit rates around the world. It's a favorite of young women like those shown here shopping in Shanghai, and it's representative of the efforts being made to seize market advantage in the growing skin care category.

category is greater than those of both its nearest low calorie sweeteners combined.

SPLENDA® Brand Sweetener is now permitted for use in 79 countries, an addition of nearly 20 since 2003, and is available at retail stores in packets and granular form. It's marketed by McNeil Nutritionals, LLC.

Beyond CLEAN & CLEAR®, skin care brands including **NEUTROGENA®, RoC® and AVEENO®** contributed to strong growth for the consumer business segment. The NEUTROGENA® brand was launched in China, and continues to add to its extensive line worldwide with ADVANCED SOLUTIONS™ acne-fighting and age-reversing products. The AVEENO® brand, recommended by physicians for nearly 60 years to help treat a variety of skin conditions, is the only brand that uses ACTIVE NATURALS™ technology to deliver superior, consumer preferred products.

Biapharm SAS, a producer and marketer of skin care products best known for leading brand BIAFINE®, was acquired in October by Johnson & Johnson Consumer France S.A.S. Other products include skin care brands ALOPLASTINE®, well known to French pediatricians and parents, and EFFIDIA®, a highly promising scab-healing product.

JOHNSON'S® Baby brand joined with the United Service Organizations (USO) to help families of servicemen and women come together around the important event of the birth of a new baby. JOHNSON'S® Baby contributed to a USO effort to provide funds for travel and family communication to expectant military moms and dads. (See cover photo description inside front cover.) One of the brands most closely associated by consumers with Johnson & Johnson, JOHNSON'S® Baby brand continues to expand its global reach and add innovative product features that soothe, calm and pamper babies.

BabyCenter®, L.L.C., the most visited online resource for new and expectant parents, continues to reach "veteran" parents in relevant ways, too. This spring, it offered the "Ready or Not Guide to Safe Development," an innovative online tool to help parents safely introduce new activities as they guide their child's development. This tool generates a personalized report indicating a child's readiness for safely attempting over 100 developmental activities and provides answers to hundreds of safety and developmental questions.

"Through the acquisition of the COMPEED® Brand in 2002, we are delivering superior wound and foot care products to consumers in Europe. We also market these products under the iconic BAND-AID® Brand name in the U.S., Canada, Japan and Asia/Pacific. The BAND-AID® Brand Advanced Healing Blister bandage seen here is already one of the most popular new wound care products."

— Sheri McCoy, Global President, Baby and Wound Care, Johnson & Johnson Consumer Products Company, division of Johnson & Johnson Consumer Companies, Inc., New Jersey, U.S.

LEFT: **In a major London retailer, customers consult with beauty professionals to understand how RoC® RETIN-Ox CORREXION™ (as the product is known in the U.K.) works to reduce visible signs of wrinkles.**

BELOW: **The AMBI® Brand, featuring a mild facial bar soap, offers a line of trusted skin care products that address the needs of women of color. The AMBI® Brand will strengthen the positioning of the skin care business portfolio.**

RoC® RETINOL CORREXION™, the number one anti-wrinkle cream in France, was launched in markets throughout Europe and in the U.S. Emphasizing science and clinical testing to support product benefits, RoC products have gained important recognition well beyond the markets of Europe where the products were sold when the brand was acquired in 1993. With a mineral complex of magnesium, zinc and copper, RETINOL CORREXION™, through regular use, leads to a visible reduction in wrinkles.

Johnson & Johnson Consumer Products Company, division of Johnson & Johnson Consumer Companies, Inc., acquired the **AMBI®** Brand line of high-quality skin care products that address the unique needs of women of color. The line complements the company's existing strong portfolio of skin care products. The AMBI® Brand markets facial and body care products like fade creams, specialty bars and body lotions.

"One session of Project HOPE's '5 Steps to Self Care' course demonstrates how to effectively exercise, monitor heart rate and look for signs of complications from diabetes. A local community group now shares this information with neighbors, hosting a free daily exercise class in the park. They have become peer educators, epitomizing HOPE's mission to 'Help People to Help Themselves.'"

— Courtney Guthreau, Program Director,
Project HOPE, Mexico City, Mexico

Health care education and access to health care for the medically underserved are two of the major areas of focus for the Johnson & Johnson companies' philanthropy programs. Typifying that focus are partnerships with organizations like **Project HOPE,** an international non-profit organization dedicated to health education.

In Mexico, lack of patient education and care have made diabetes the leading cause of blindness, kidney failure and amputations, and now, the leading cause of death across the country. In response to a 2001 assessment which indicated a lack of effective effort to diagnose, educate and comprehensively treat people with diabetes, Johnson & Johnson paired with Project HOPE to launch a community outreach program. *5 Steps to Self-Care* is a course intended to educate people with diabetes on how to actively manage their disease and how to reach out to other community members in a peer education effort. A successful pilot program in the Mexico City metropolitan area has led to its adoption by local government health authorities. Multidisciplinary health workers are now replicating the *5 Steps* program in order to ensure continued and widespread access to quality diabetes education throughout the region.

Johnson & Johnson, as a multinational health care organization, believes in the vision of *"Healthy People, Healthy Planet, Healthy Futures,"* and works around the globe to protect natural ecological systems — the underpinnings of human health. By using resources efficiently and reducing

ABOVE & BELOW: A diabetic for over 20 years, Consuelo Rodriguez is a peer educator and an important role model in Mexico. High rates of complications and premature deaths from diabetes there have caused many to think of the disease as fatal, thus undermining the motivation to adopt healthy habits and engage in self-care. Roughly 10 percent of Mexico's people live with diabetes, and half are undiagnosed and unaware of their condition. The country ranks seventh in the global diabetes case burden.

"The health of our employees and their families is inseparable from the health of the corporation, and two critical ingredients that contribute to achieving positive health outcomes are prevention and early intervention. The Employee Assistance Program provides professional mental health consultations to employees facing personal issues that create obstacles to well-being."

— Alex Chang, Managing Director, Janssen-Cilag, Taiwan

waste, Johnson & Johnson companies consistently work to develop innovative health care solutions and improve performance as a sustainable business entity.

The earth's population is continually increasing in number, yet only one percent of the freshwater on the planet is available for people's needs. These needs can range from drinking and bathing to irrigating and manufacturing,

and make the development and implementation of sustainable practices for water reuse critical. More than 25 years ago, a **wastewater treatment plant** (below, left) was constructed at the Janssen Pharmaceutica, N.V. facility in Beerse, Belgium, to transform industrial and sanitary water from the site into purified water capable of supporting the growth and reproduction of endogenous fish species in a nearby creek. In 2003, the plant was extended to include a wastewater and rainwater recycling component. The water purified there is used as a transport and cooling medium for on-site applications, conserving valuable high-quality water for human consumption. In one year, the plant was able to save 38,696,979 gallons of drinking water, equivalent to the annual water use of 3,344 people.

In the daily life of any employee, personal issues may arise which can result in stress, anxiety, depression or inhibited job performance. To meet the needs of employees who may be in need of counseling interventions, Johnson & Johnson established the **Employee Assistance Program** (EAP) in 1978. EAP offices are staffed by professionally licensed mental health counselors who, in addition to conducting mental health consultations, run training workshops, on-going support groups, and screenings to identify problems such as eating disorders, depression or substance abuse. About half an EAP professional's time is spent intervening and consulting with management during employee relations situations. The program was established in Taiwan in October.

Resources

You can find more information about products and procedures referenced in this report at the following Web sites. Offers and information may be specific to the Web site country of origin.

Find out more about CHARITÉ™ Artificial Disc repair for degenerative disc disease at **www.charitedisc.com**

For more information about cancer detection technologies using the CELLSEARCH™ Epithelial Cell Kit and the CELLTRACKS® AutoPrep System visit **www.veridex.com**

Learn more about how the CYPHER® Sirolimus-eluting Stent is reducing the likelihood of reblockage in arteries after angioplasty. Visit **www.cypherusa.com**

Learn about minimally invasive orthopaedic options for the knee, hip and shoulder as well as treatment alternatives for those suffering from joint pain and arthritis at **www.depuyorthopaedics.com**

Read up on innovative health care solutions relating to wound care, minimally invasive cardiovascular procedures and some common women's health problems at **www.ethicon.com**

Are you or someone you love preparing for a cardiac procedure? Understand treatment options by visiting **www.allaboutmyheart.com**

For more information on ONETOUCH® Brand glucose monitoring products and managing diabetes, please visit **www.lifescan.com**

Change the way you think about surgery. With Minimally Invasive Procedures, patients have less recovery time, less time in the hospital, less pain, and less scarring compared to conventional surgery. Learn more at **www.mipinfo.com**

Receive a certificate for a free trial pair of ACUVUE® Brand Contact Lenses and find out which ACUVUE® lens is best for you at **www.acuvue.com**

Receive $5.00 off your next prescription of TOPAMAX® for migraine prevention when you visit **www.topamax.com**

Find out how scientists are researching more ways to use LEVAQUIN® in the treatment of bacterial infections at **www.levaquin.com**

If you or a loved one is undergoing treatment for cancer, HIV or kidney disease, you should read about regaining strength for living at **www.procrit.com**

Living with osteoarthritis? Looking for advice on how to better manage your condition? Sign up for a free newsletter at **www.orthovisc.com**

Visit **www.TogetherRxAccess.com** for free enrollment details on an effort to bring prescription savings to eligible uninsured Americans.

For a free e-newsletter providing the latest updates and ongoing support for Crohn's Disease or rheumatoid arthritis patients, go to **www.remicade.com**

Find out about the development of drugs to treat tuberculosis and acute myelogenous leukemia, as well as other conditions at **www.jnjpharmarnd.com**

Outside of the U.S., patients can learn more about using VELCADE® to treat multiple myeloma by visiting **www.velcade.info**

Bake great reduced calorie cakes, cookies and more with SPLENDA® Brand Sweetener from recipes available at **www.splenda.com**

Take advantage of special offers and join V Spirit, the VIACTIV® community of smart, vibrant women who want to stay informed and current. Visit **www.viactiv.com**

Whether a teenager or an adult woman, your body is constantly undergoing changes. Find out how to meet your body's changing needs at **www.itsmybody.com**

Learn about special promotions and receive personalized recommendations on caring for your skin from **www.cleanandclear.com**

Get great make-up tips and take a dermatologist-developed personal e-valuation to learn which skin care products are right for you, all at **www.neutrogena.com**

Browse through an extensive line of RoC® anti-aging products to find the skin care solutions that meet your needs when you visit **www.rocskincare.com**

Discover the secret to healthy, beautiful skin for your face, your body and your baby at **www.aveeno.com**

Whether it's a scrape, a scar, or a blister, BAND-AID® Brand has a solution. Visit online to learn more and to find home improvement safety tips for you and your family. Go to **www.band-aid.com**

Get expert advice, take part in special offers and track your baby's development week by week with a free newsletter from **www.babycenter.com**

Board of Directors

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

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

Mary Sue Coleman, Ph.D.
President, University of Michigan

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

M. Judah Folkman, M.D.
Director, Vascular Biology Program, Children's Hospital and Professor of Cell Biology, Harvard Medical School

David Satcher, M.D., Ph.D.
Interim President, Morehouse School of Medicine

Committees of the Board

Audit

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

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

Compensation & Benefits

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

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

Finance

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

William C. Weldon, Chairman
Robert J. Darretta

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

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

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

Gerard N. Burrow, M.D.
President and Chief Executive Officer, Sea Research Foundation

Henry B. Schacht
Director and Senior Advisor, Lucent Technologies Inc.

Steven S Reinemund
Chairman and Chief Executive Officer, PepsiCo.

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

Nominating & Corporate Governance

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

Henry B. Schacht, Chairman
Gerard N. Burrow, M.D.
James G. Cullen
Arnold G. Langbo
Leo F. Mullin
Steven S Reinemund

Public Policy

The Public Policy Advisory Committee is composed of Board members and the Company's Vice President, Technical Resources. It reviews the Company's policies, programs and practices on public health issues regarding the environment and the health and safety of employees, and advises and makes recommendations to the Board on such issues.

Ann D. Jordan, Chairman
Brenda S. Davis, Ph.D.
M. Judah Folkman, M.D.
Susan L. Lindquist, Ph.D.
David Satcher, M.D., Ph.D.

Science & Technology

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

Gerard N. Burrow, M.D., Chairman
Mary Sue Coleman, Ph.D.
M. Judah. Folkman, M.D.
Susan L. Lindquist, Ph.D.
David Satcher, M.D., Ph.D.
Theodore J. Torphy, Ph.D.

Corporate Officers & Company Group Chairmen

Corporate Officers

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

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

Christine A. Poon
Vice Chairman and
Worldwide Chairman,
Medicines & Nutritionals
Executive Committee

J. Andrea Alstrup
Vice President, Advertising

Stephen J. Cosgrove
Corporate Controller

Brenda S. Davis, Ph.D.
Vice President, Technical Resources,
and Corporate Compliance Officer

Russell C. Deyo
Vice President, General Counsel
and Chief Compliance Officer
Executive Committee

Michael J. Dormer
Worldwide Chairman,
Medical Devices
Executive Committee

Kaye I. Foster-Cheek
Vice President, Human Resources
Executive Committee

Colleen A. Goggins
Worldwide Chairman,
Consumer & Personal Care Group
Executive Committee

Thomas M. Gorrie, Ph.D.
Vice President, Government Affairs
and Policy

JoAnn Heffernan Heisen
Vice President,
Chief Information Officer
Executive Committee

David P. Holveck
Vice President, Corporate
Development

Raymond C. Jordan
Vice President, Public Affairs &
Corporate Communications

John A. Papa
Treasurer

Brian D. Perkins
Vice President,
Corporate Affairs

Per A. Peterson, M.D., Ph.D.
Chairman, Research & Development
Pharmaceuticals Group
Executive Committee

Theodore J. Torphy, Ph.D.
Vice President, Science and Technology

Michael H. Ullmann
Secretary,
Associate General Counsel

Nicholas J. Valeriani
Worldwide Chairman,
Cardiovascular Devices
and Diagnostics
Executive Committee

Donnie Young
Vice President
Worldwide Operations

Company Group Chairmen

Supratim Bose
Donald N. Casey
Rosemary Crane
Roy N. Davis
Seth H. Z. Fischer
Carlos A. Gottschalk
Walter Hak
Guy Lebeau, M.D.
Karen A. Licitra
Dennis N. Longstreet
Eric P. Milledge
Patrick D. Mutchler
David Y. Norton
Gerald M. Ostrov
Jose V. Sartarelli, Ph.D.
Joseph C. Scodari
Curt M. Selquist
Michael E. Sneed
Pericles P. Stamatiades
W. Anthony Vernon
Harlan F. Weisman, M.D.

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

Corporate Governance and Management's Responsibility

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

The Credo values extend to our accounting and financial reporting responsibilities that we have to our shareholders and investors. We, the management of Johnson & Johnson, are responsible for the integrity and objectivity of the accompanying financial statements and related information. We are also responsible for ensuring that financial data 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 2004 the Company invested significant time and resources assessing our internal control system, 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 January 2, 2005. We refer you to Management's Report on Internal Control over Financial Reporting on page 62.

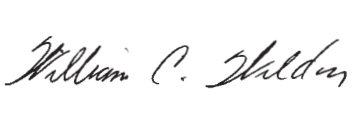
We also require the management teams of our operating companies to certify their compliance with our Policy on Business Conduct and we have a systematic program to ensure compliance with these policies at all employee levels.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, is engaged to perform an integrated audit of our consolidated financial statements and internal control over financial reporting. Their Report of Independent Registered Public Accounting Firm is on page 63.

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

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

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



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

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

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Organization and Business Segments

Description of the Company and Business Segments

The Company and its subsidiaries have approximately 109,900 employees worldwide engaged in the manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world and its primary focus has been in products related to human health and well-being.

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

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

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

Management's Objectives

The Company's objective is to achieve superior levels of capital efficient profitable growth. To accomplish this, the Company's management operates the business consistent with certain strategic principles that have proven successful over time. To this end, the Company participates in growth areas in human health care and is committed to attaining leadership positions in these growth segments through the development of innovative products and services. New products introduced within the past five years accounted for over 35% of 2004 sales. In 2004, $5.2 billion or 11.0% of sales were invested in research and development, recognizing the importance of on-going development of new and differentiated products and services, and to sustain long term growth.

With more than 200 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 our growth objectives. Businesses are managed for the long term in order to sustain leadership positions and achieve growth that provides an enduring source of value to our shareholders.

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

Results of Operations

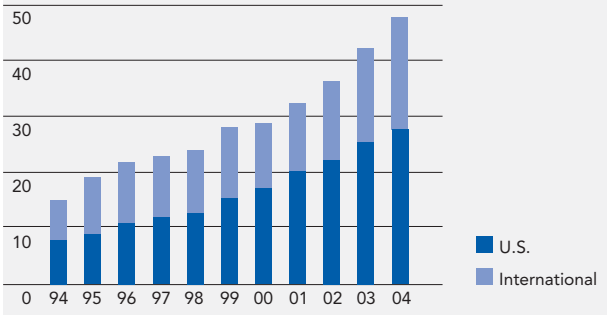
Analysis of Consolidated Sales

In 2004, worldwide sales increased 13.1% to $47.3 billion, compared to increases of 15.3% in 2003 and 12.3% in 2002. These sales increases consist of the following:

Sales increase due to:	2004	2003	2002
Volume	8.7%	9.4	10.4
Price	1.0	1.3	1.7
Currency	3.4	4.6	0.2
Total	13.1%	15.3	12.3

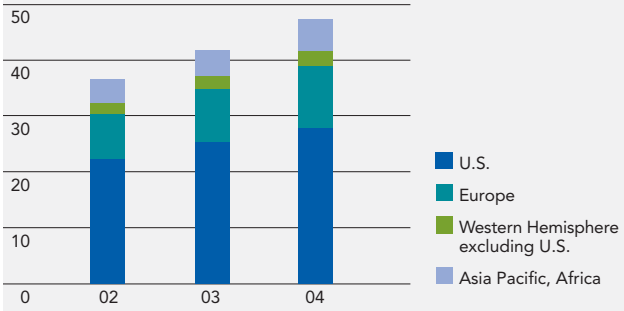
Sales by U.S. companies were $27.7 billion in 2004, $25.3 billion in 2003 and $22.5 billion in 2002. This represents an increase of 9.9% in 2004, 12.6% in 2003 and 13.3% in 2002. Sales by international companies were $19.6 billion in 2004, $16.6 billion in 2003 and $13.8 billion in 2002. This represents an increase of 18.0% in 2004, 19.8% in 2003 and 10.8% in 2002.

U.S. and International Sales for 10 Years
(in billions of dollars)



For the last five years, the annual compound growth rates for worldwide, U.S. and international sales were 11.6%, 12.3% and 10.6%, respectively. The ten-year annual compound growth rates for worldwide, U.S. and international sales were 11.8%, 13.6% and 9.7%, respectively.

Sales by Geographic Region
(in billions of dollars)

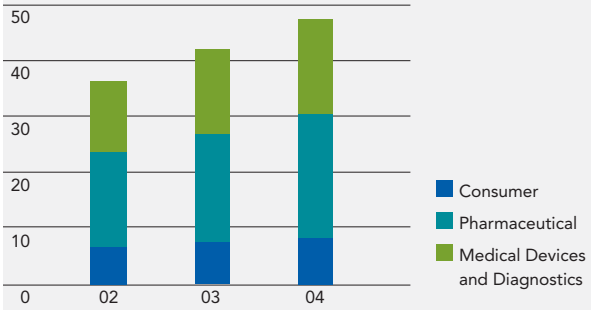


All international geographic areas experienced double-digit sales growth during 2004, consisting of 17.6% in Europe, 15.8% in the Western Hemisphere (excluding the U.S.) and 19.9% in the Asia-Pacific, Africa regions. These sales gains include a positive impact of currency fluctuations between the U.S. dollar and foreign currencies in Europe of 10.5%, in the Western Hemisphere (excluding the U.S.) of 4.2% and in the Asia-Pacific, Africa region of 6.6%.

In 2004, sales to our three largest distributors, Cardinal Distribution, McKesson HBOC and AmerisourceBergen Corp. accounted for 10.2%, 10.0% and 7.5%, respectively, of total revenues. In 2003 and 2002, sales to those distributors accounted for 9.1%, 10.5% and 9.0% and 9.2%, 9.8% and 10.3%, respectively, of total revenues.

2004 results benefited from the inclusion of a 53rd week. (See Note 1 for Annual Closing Date details.) The Company estimated that the fourth quarter growth rate was enhanced by approximately 2% and the year by approximately 0.5%. While the additional week added to sales, it also brought a full week's worth of operating costs; therefore the net earnings impact was negligible.

Sales by Segment
(in billions of dollars)



Analysis of Sales by Business Segments

Consumer Segment

Consumer segment sales in 2004 were $8.3 billion, an increase of 12.1% over 2003, with operational growth accounting for 8.8% of the total growth and 3.3% due to positive currency fluctuations. U.S. Consumer segment sales were $4.2 billion, an increase of 6.5%. International sales were $4.1 billion, an increase of 18.7%, with 11.5% as a result of operations and 7.2% due to currency fluctuations over 2003.

Consumer segment sales growth in 2004 was attributable to strong sales performance in the major franchises including over-the-counter (OTC) pharmaceutical and nutritional products, Skin Care and Baby & Kids Care. Over-the-counter pharmaceutical and nutritional products sales were $2.4 billion, an increase of 17.2% over 2003. Overall growth in this franchise primarily resulted from the rapid increase of SPLENDA® No Calorie Sweetener in the tabletop category. The acquisition of Merck's equity stake in the European nonprescription pharmaceutical business was also a contributing factor to this increase, as it added 7.7% growth to the over-the-counter pharmaceuticals and nutritionals franchise.

Major Consumer Franchise Sales:

(Millions of Dollars)	2004	2003	2002	% Change '04 vs.'03	% Change '03 vs.'02
OTC Pharmaceuticals & Nutritionals	$2,395	2,044	1,800	17.2%	13.6
Skin Care	2,140	1,797	1,571	19.1	14.4
Women's Health	1,470	1,369	1,249	7.4	9.6
Baby & Kids Care	1,447	1,309	1,161	10.5	12.7
Other	881	912	783	(3.4)	16.5
Total	$8,333	7,431	6,564	12.1%	13.2

In February 2004, the Company announced an agreement with Tate & Lyle related to the production of sucralose and the SPLENDA® brand. This transaction was completed on April 2, 2004 and resulted in the Company being responsible for the worldwide sales and marketing of the tabletop category of SPLENDA® Brand Sweetener and Tate & Lyle being responsible for the manufacturing of sucralose and the marketing of ingredient sales. This transaction reduced sales growth by 3.1% for the franchise.

The Skin Care franchise sales in 2004 were $2.1 billion, representing a 19.1% increase over 2003. This was attributable to double-digit sales growth in RoC®, AVEENO®, CLEAN & CLEAR® and NEUTROGENA® brand products. The ADVANCED SOLUTIONS™ product line launched in 2004 was a key contributor in the growth of NEUTROGENA®. The Baby & Kids Care franchise grew by 10.5% to $1.4 billion in 2004. Growth in this franchise was led by the success of the JOHNSON'S® SOFTWASH® and SOFTLOTION™ product lines and the BALMEX® brand products acquired in 2003.

Consumer segment sales in 2003 were $7.4 billion, an increase of 13.2% over 2002, with operational growth accounting for 9.4% of the total growth, and 3.8% due to a positive currency impact. U.S. sales increased by 10.1% while international sales increased by 17.0%, with 8.6% due to operational gains and a positive currency impact of 8.4% over 2002. Consumer segment sales in 2002 were $6.6 billion, an increase of 3.9% over 2001, with 4.6% of the increase due to operational growth offset by 0.7% of a negative currency impact. U.S. sales increased by 4.5% while international sales gains were 3.1%, with 4.6% operational gains offset by a negative currency impact of 1.5%.

Pharmaceutical Segment

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

Pharmaceutical segment sales in 2004 include the benefit from adjustments related to previously estimated performance-based rebate allowances in managed care contracts. These adjustments were made based on a review of actual performance levels as achieved by customers, compared to expected performance levels. These favorable adjustments amounted to less than 1.0% of the Pharmaceutical segment's operational growth in 2004. The vast majority of the impact of this adjustment was in the hormonal contraceptive franchise.

Pharmaceutical segment sales growth reflects the strong performance in many of the key pharmaceutical products, partially offset by the sales decline of PROCRIT® (Epoetin alfa) and EPREX® (Epoetin alfa), which were adversely affected by competition. Combined, PROCRIT® and EPREX® sales declined 9.9% in 2004 as compared to 2003. PROCRIT® sales declined by 12.2% over 2003. The PROCRIT® sales decrease was due to lower pricing and market share, partially offset by market growth. The Company continues in its efforts to stabilize market share and expand the market.

A strong growth driver in the Pharmaceutical segment was RISPERDAL® (risperidone), a medication that treats the symptoms of schizophrenia. RISPERDAL® accounted for $3.1 billion in sales in 2004, with continued success of RISPERDAL® CONSTA™ (risperidone) long-acting injection. REMICADE® (infliximab), a novel monoclonal antibody therapy indicated to treat the symptoms of Crohn's disease and rheumatoid arthritis, also had strong growth. REMICADE® sales were $2.1 billion in 2004, an increase of 24.1% over 2003.

DURAGESIC® (fentanyl transdermal system), with its novel delivery system for the treatment of chronic pain, continued to achieve outstanding results, growing 27.7% over 2003. The pediatric exclusivity for the DURAGESIC® patent expired in the U.S. in January 2005. The first generic version of DURAGESIC® has been launched. Additionally, an authorized generic version of DURAGESIC® is currently being marketed for the Company. The Company expects that DURAGESIC® sales will decline in 2005. See Note 18 for further discussion regarding this matter.

TOPAMAX® (topiramate), an antiepileptic that was recently approved for use in the prevention of migraines, had strong growth of 35.2% over 2003. LEVAQUIN® (levofloxacin) and FLOXIN® (ofloxacin) grew by 12.8% over 2003. During the fiscal fourth quarter, LEVAQUIN® oral solution was approved as a new once a day formulation for the treatment of adults for currently approved indications and for anthrax prophylaxis.

The hormonal contraceptive franchise accounted for $1.3

Major Pharmaceutical Product Revenues:

(Millions of Dollars)	2004	2003	2002	% Change '04 vs. '03	% Change '03 vs. '02
PROCRIT®/EPREX® (Epoetin alfa)	$ 3,589	3,984	4,269	(9.9)%	(6.7)
RISPERDAL® (risperidone)	3,050	2,512	2,146	21.4	17.1
REMICADE® (infliximab)	2,145	1,729	1,297	24.1	33.4
DURAGESIC® (fentanyl transdermal system)	2,083	1,631	1,203	27.7	35.6
TOPAMAX® (topiramate)	1,410	1,043	687	35.2	51.7
LEVAQUIN®/FLOXIN® (levofloxacin/ofloxacin)	1,296	1,149	1,032	12.8	11.3
Hormonal Contraceptives	1,278	1,175	1,003	8.8	17.1
ACIPHEX®/PARIET® (rabeprazole sodium)	1,116	966	697	15.5	38.6
Other	6,161	5,328	4,817	15.6	10.6
Total	$22,128	19,517	17,151	13.4%	13.8

billion in sales, with strong growth by ORTHO EVRA® (norelgestromin/ethinyl estradiol), the first contraceptive patch approved by the FDA, and ORTHO TRI-CYCLEN® LO, (norgestimate/ethinyl estradiol) a low dose oral contraceptive. These sales increases were partially offset by reduced sales of ORTHO TRI-CYCLEN® (norgestimate/ethinyl estradiol), as a result of generic competition in 2004.

There was also strong growth in various other products, including VELCADE® (bortezomib), an oncology treatment; DITROPAN XL® (oxybutynin), for the treatment of overactive bladder; REMINYL® (galantamine HBr), a treatment for patients with mild to moderate Alzheimer's disease; and NATRECOR® (nesiritide), a novel agent approved for congestive heart failure.

CONCERTA® (methylphenidate HCl), a product for the treatment of attention deficit hyperactivity disorder, sales continued to grow despite the lack of patent exclusivity in the U.S. At present, the FDA has not approved any generic version that is substitutable for CONCERTA®. Abbreviated New Drug Applications, (ANDAs), for generic versions of CONCERTA® are pending and may be approved at any time.

Pharmaceutical segment sales in 2003 were $19.5 billion, an increase of 13.8% over 2002, with 9.7% of this change due to operational growth and the remaining 4.1% increase related to the positive impact of currency. U.S. Pharmaceutical segment sales increased 11.3% while international Pharmaceutical segment sales increased 19.4%, which included 6.0% growth operationally and 13.4% related to the positive impact of currency. Pharmaceutical segment sales in 2002 were $17.2 billion, an increase of 15.5% over 2001, with 14.8% due to operational growth and 0.7% due to currency fluctuations. U.S. sales increased by 16.4% while international sales grew 13.5% over 2001. This included a 2.4% positive impact of currency and operational growth of 11.1%.

Medical Devices and Diagnostics Segment

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

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

The DePuy franchise reported $3.4 billion in sales, which represents 13.7% growth over the prior year. Double-digit growth in DePuy's orthopaedic joint reconstruction unit led the increase for this franchise. Strong performance was also reported in DePuy's spine unit and Mitek sports medicine products.

The Cordis franchise was a key contributor to the segment results with reported sales of $3.2 billion, an increase of 18.7% over the prior year. The primary driver of the sales growth for 2004 was the CYPHER® Sirolimus-eluting Stent in international markets including its launch in Japan. U.S. CYPHER® Sirolimus-eluting Stent sales remained relatively flat as compared to 2003, due to the entry of a competing product. Biosense Webster and the Endovascular business unit also contributed to the success of the Cordis franchise, with continued solid double-digit growth.

In April and July of 2004, the Cordis Cardiology Division of Cordis Corporation received warning letters from the FDA regarding Good Manufacturing Practice regulations and Good Clinical Practice regulations. These observations followed post-approval site inspections completed in 2003 and early 2004, including sites involved in the production of the CYPHER® Sirolimus-eluting Stent. In response to the warning letters, Cordis has met periodically with the FDA representatives at the Center and the Districts advising them of the progress being made in addressing observations raised in the warning letters.

The Ethicon Endo-Surgery franchise reported $2.8 billion of sales in 2004, representing 10.1% growth over prior year. This growth was mainly driven by endocutter sales that include products used in performing bariatric procedures for the treatment of obesity, an important focus area for the franchise. In 2004, Ethicon Endo-Surgery introduced the new ENDOPATH® XCEL™ trocar platform and the CONTOUR™ Curved Cutter Stapler, the only curvilinear cutter stapler for colorectal surgery that conforms to a patient's natural anatomy. Strong double-digit sales in the Advanced Sterilization Products line was also a key contributor to the overall sales growth of the Ethicon Endo-Surgery franchise.

The Ethicon worldwide franchise achieved $2.8 billion of sales in 2004, representing 7.5% growth over prior year. The Ethicon franchise continues to grow by introducing new products into the marketplace, such as coated VICRYL® (polyglactin 910) Plus, the first product in a new anti-bacterial suture platform, and MULTIPASS™ needles, introduced in the second fiscal quarter of 2004.

Major Medical Devices and Diagnostics Franchise Sales:

(Millions of Dollars)	2004	2003	2002	% Change '04 vs.'03	% Change '03 vs.'02
DEPUY®	$ 3,420	3,008	2,536	13.7%	18.6
CORDIS®	3,213	2,707	1,641	18.7	65.0
ETHICON ENDO-SURGERY®	2,849	2,587	2,291	10.1	12.9
ETHICON®	2,838	2,639	2,386	7.5	10.6
LIFESCAN®	1,701	1,426	1,342	19.3	6.3
Vision Care	1,530	1,297	1,170	18.0	10.9
ORTHO-CLINICAL DIAGNOSTICS®	1,273	1,176	1,094	8.2	7.5
Other	63	74	123	(14.9)	(39.8)
Total	$16,887	14,914	12,583	13.2%	18.5

The LifeScan franchise reported $1.7 billion of sales in 2004, a growth rate of 19.3% over the prior year. The ONETOUCH® ULTRA® test strip provided strong growth to the franchise for 2004.

The Vision Care franchise achieved $1.5 billion of sales in 2004, which was a growth rate of 18.0% over the prior year, led by the continued success of ACUVUE® ADVANCE™ Brand Contact Lenses with HYDRACLEAR™ and 1-DAY ACUVUE®.

The Ortho-Clinical Diagnostics franchise reported $1.3 billion of sales in 2004, representing 8.2% growth over the prior year. This growth was mainly driven by its market penetration of the automated blood typing products, coupled with continued growth of the ECI product line.

On December 15, 2004, Johnson & Johnson announced the signing of a definitive agreement to acquire Guidant Corporation (Guidant), a world leader in the treatment of cardiac and vascular disease, for $25.4 billion in fully diluted equity value.

The Medical Devices and Diagnostics segment achieved sales of $14.9 billion in 2003, representing an increase over the prior year of 18.5% with operational growth of 12.8% and a positive impact from currency of 5.7%. U.S. sales increased 15.9% while international sales increased 21.7%, with 9.0% from operations and 12.7% from currency. In 2002, the Medical Devices and Diagnostics segment sales were $12.6 billion, representing a total increase of 12.9% over 2001. The 12.9% total increase also represents the operational sales increase over the prior year, as there was no currency impact. U.S. sales were up 13.0% and international sales increased 12.8% over the prior year.

Analysis of Consolidated Earnings Before Provision for Taxes on Income

Consolidated earnings before provision for taxes on income increased to $12.8 billion, or 24.5%, over the $10.3 billion in 2003. The increase in 2003 was 10.9% over the $9.3 billion in 2002. As a percent to sales, consolidated earnings before provision for taxes on income in 2004 was 27.1%, representing an increase of 2.5% over the 24.6% in 2003. For 2003, the decline was 1.0% over the 25.6% in 2002, and the improvement in 2002 was 1.2% over 2001. The sections that follow highlight the significant components of the changes in consolidated earnings before provision for taxes on income.

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

	% of Sales		
	2004	2003	2002
Cost of products sold	28.4%	29.1	28.8
Percent increase/(decrease) over prior year	(0.7)	0.3	(0.8)
Selling, marketing and administrative expenses	33.5%	33.7	33.7
Percent increase/(decrease) over prior year	(0.2)	—	(1.1)

In 2004, there was a decrease in the percent to sales of cost of products sold. This was due to favorable mix, as well as cost improvement initiatives. There was also a decrease in the percent to sales of selling, marketing and administrative expenses. This was due to the Company's focus on managing expenses, partially offset by an increase in investment spending across a number of businesses focused on driving future growth. In 2003, there was no improvement in the percent to sales of selling, marketing and administrative expenses and an increase in the percent to sales of cost of products sold. This was due to the changes in the mix of products with varying cost structures, as well as the cost of the retirement enhancement program of $95 million expensed in the fourth quarter of 2003. In 2002, the decreases were attributable to expense leveraging on sales increases and productivity improvements.

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

(Millions of Dollars)	2004	2003	2002
Research expense	$5,203	4,684	3,957
Percent increase over prior year	11.1%	18.4	10.2
Percent of sales	11.0%	11.2	10.9

Research and development expense as a percent of sales for the Pharmaceutical segment was 16.4% for 2004, 16.4% for 2003 and 15.7% for 2002. Combined, the Consumer and Medical Devices and Diagnostics segments averaged 6.2%, 6.7% and 6.6% in 2004, 2003 and 2002, respectively.

Significant research activities continued in the Pharmaceutical segment, increasing to $3.6 billion, or 13.6%, over 2003. The compound annual growth rate was approximately 15.5% for the five-year period since 1999. Johnson & Johnson Pharmaceutical Research & Development, L.L.C., Centocor, Inc., ALZA Corporation, Tibotec-Virco N.V. and Scios Inc. are primary research centers for the Company.

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

In 2003, the Company recorded IPR&D charges of $918 million before tax related to the acquisitions of Scios Inc., Link Spine Group, Inc., certain assets of Orquest, Inc. and 3-Dimensional Pharmaceuticals, Inc. Scios Inc. is a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on autoimmune diseases. The acquisition of Scios Inc. accounted for $730 million before tax of the IPR&D charges and was included in the operating profit of the Pharmaceutical segment. Link Spine Group, Inc. was acquired

to provide the Company with exclusive worldwide rights to the CHARITÉ™ Artificial Disc for the treatment of spine disorders. The acquisition of Link Spine Group, Inc. accounted for $170 million before tax of the IPR&D charges and was included in the operating profit of the Medical Devices and Diagnostics segment. Orquest, Inc. is a biotechnology company focused on developing biologically-based implants for orthopaedic spine surgery. The acquisition of certain assets of Orquest, Inc. accounted for $11 million before tax of the IPR&D charges and was included in the operating profit of the Medical Devices and Diagnostics segment. 3-Dimensional Pharmaceuticals, Inc. is a company with a technology platform focused on the discovery and development of potential new drugs in early stage development for inflammation. The acquisition of 3-Dimensional Pharmaceuticals, Inc. accounted for $7 million before tax of the IPR&D charges and was included in the operating profit of the Pharmaceutical segment.

In 2002, the Company recorded IPR&D charges of $189 million before tax related to the acquisitions of Tibotec-Virco N.V., a privately-held biopharmaceutical company focused on developing anti-viral treatments, and Obtech Medical AG, a privately held company that markets an adjustable gastric band for the treatment of morbid obesity. IPR&D of $150 million and $39 million was included in the Pharmaceutical and Medical Devices and Diagnostics segments, respectively.

Other (Income) Expense, Net: Other (income) expense includes gains and losses related to the sale and write-down of certain investments in equity securities held by Johnson & Johnson Development Corporation, gains and losses on the disposal of fixed assets, currency gains and losses, minority interests, litigation settlement (income) expense and royalty income. The change in net other (income) expense from 2003 to 2004 was an increase in expense of $400 million.

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

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

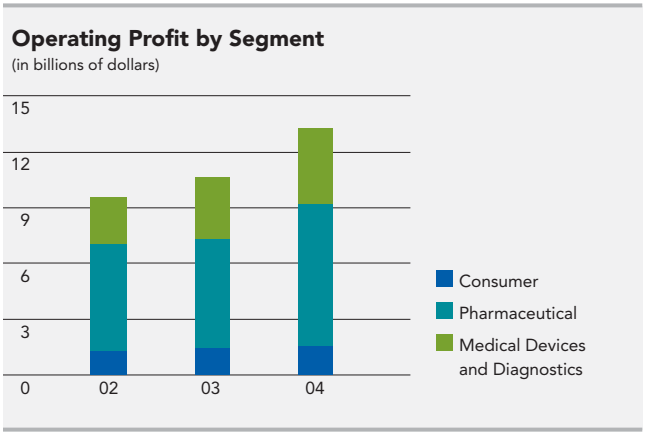
In 2002, other expense of $294 million included the impact of the Amgen arbitration settlement expense and the gain on the sale of the ORTHO PREFEST® product line. On October 18, 2002, an arbitrator in Chicago denied an effort by Amgen, Inc. to terminate the 1985 license agreement under which Ortho Biotech Inc. obtained exclusive U.S. rights to Amgen-developed erythropoetin (EPO) for all indications outside of kidney dialysis. In his decision, the arbitrator found that sales had been made into markets where Amgen had retained exclusive rights, but that they did not warrant the extraordinary remedy of terminating the contract. Instead, he found that Amgen could be adequately compensated with monetary damages. The arbitrator awarded $150 million in damages. On January 24, 2003, the arbitrator ruled that Amgen was the "prevailing party" in this arbitration, entitling it to an award of reasonable attorney's fees and costs. The Company expensed $85 million in the fourth quarter of 2002 in connection with this claim. These charges were included in the Pharmaceutical segment operating profit.

Operating Profit by Segment

Operating profits by segment of business were as follows:

			Percent of Segment Sales	
(Millions of Dollars)	2004	2003	2004	2003
Consumer	$ 1,514	1,393	18.2%	18.7
Pharmaceutical	7,608	5,896	34.4	30.2
Med Devices and Diag	4,091	3,370	24.2	22.6
Segments total	13,213	10,659	27.9	25.5
Expenses not allocated to segments[1]	(375)	(351)		
Earnings before provision for taxes on income	$12,838	10,308	27.1%	24.6

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



Consumer Segment: Consumer segment operating profit in 2004 increased 8.7% over the previous year. As a percent to sales, 2004 experienced a decrease of 0.5% from 2003, primarily due to additional investment in consumer promotions and advertising in the over-the-counter pharmaceuticals and nutritionals franchises. Operating profit for the Consumer segment as a percent to sales in 2003 remained unchanged from 2002 at 18.7%. Expense leveraging due to increased sales volumes was offset by costs incurred for manufacturing programs to gain future efficiencies and advertising.

Pharmaceutical Segment: In 2004, Pharmaceutical segment operating profit increased 29.0% and reflects operating profit as a percent to sales improvement of 4.2% over 2003 to 34.4%. This change is primarily due to the impact of $737 million of IPR&D expenses in 2003. Additionally, Pharmaceutical segment

leveraging is the result of selling and marketing related cost improvements. In 2003, operating profit for the Pharmaceutical segment as a percent to sales was 30.2%, reflecting a decline of 3.5% from 2002 due to the IPR&D charges related to acquisitions as previously noted. Additionally, operating profit was impacted by the sales decline of PROCRIT® and EPREX®, and increased consumer promotional spending for new products and line extensions.

Medical Devices and Diagnostics Segment: In 2004, the Medical Devices and Diagnostics segment operating profit increased 21.4%. The increase over the prior year was achieved through improved gross margins, resulting from cost reduction programs and product mix, and the impact of $181 million of IPR&D expenses related to acquisitions in 2003. In 2003, operating profit for the Medical Devices and Diagnostics segment as a percent to sales was 22.6%, reflecting an improvement of 2.8% over 2002.

Interest (Income) Expense: Interest income in 2004 increased by $18 million due primarily to a higher cash balance. The cash and marketable securities combined balance at the end of 2004 was $12.9 billion and averaged $11.3 billion, which is significantly higher than the $8.6 billion average cash balance in 2003.

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

Provision For Taxes On Income: The worldwide effective income tax rate was 33.7% in 2004, 30.2% in 2003 and 29.0% in 2002. The increase in the effective tax rate in 2004 was primarily due to the $789 million tax cost on the intended repatriation of undistributed international earnings associated with the American Jobs Creation Act of 2004, which added 6.1% to the effective income tax rate. The increase in 2003 and 2002 was primarily due to the Company's non-deductible IPR&D charges and the increase in income subject to tax in the U.S. Refer to Note 8 for additional information.

Liquidity and Capital Resources

Cash Flows

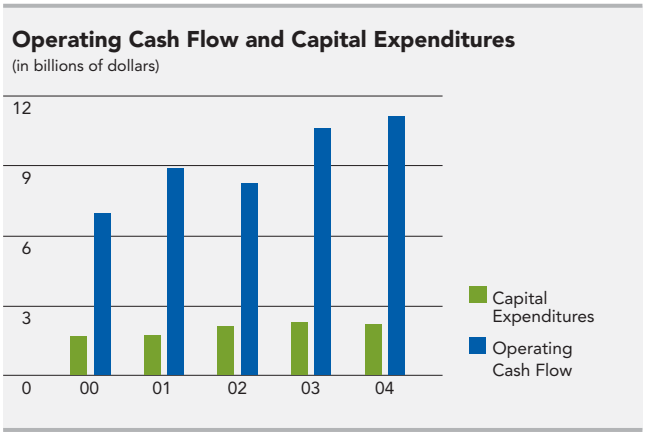
Cash generated from operations and selected borrowings provide the major sources of funds for the growth of the business, including working capital, capital expenditures and acquisitions. Other uses of cash include share repurchases, dividends and debt repayments.

In 2004, cash flow from operations was $11.1 billion, an increase of $0.5 billion over 2003. The increase in cash generated from operations was a result of a net income increase of $0.4 billion, net of the non-cash impact of IPR&D charges.

Net cash used by investing activities decreased by $2.2 billion in 2004 due to a decrease in acquisition activity. For a more detailed discussion on mergers and acquisitions, see Note 17.

Net cash used by financing activities increased by $1.3 billion in 2004 primarily due to an increase in the net repayment of debt and increased dividends.

Cash and current marketable securities were $12.9 billion at the end of 2004 as compared with $9.5 billion at the end of 2003.



Cash generated from operations amounted to $10.6 billion in 2003, which was $2.4 billion more than the cash generated from operations in 2002 of $8.2 billion. Major factors contributing to the increase were an increase in net income of $1.3 billion, net of the non-cash impact of IPR&D charges, an increase in the change in accounts payable and accrued liabilities of $0.8 billion, a decrease in the pension funding from 2002 of $0.5 billion and changes to deferred taxes of $0.6 billion.

Financing and Market Risk

The Company uses financial instruments to manage the impact of foreign exchange rate changes on cash flows. Accordingly, the Company enters into forward foreign exchange contracts to protect the value of existing foreign currency assets and liabilities and to hedge future foreign currency product costs. Gains or losses on these contracts are offset by the gains or losses on the underlying transactions. A 10% appreciation of the U.S. dollar from January 2, 2005 market rates would increase the unrealized value of the Company's forward contracts by $258 million. Conversely, a 10% depreciation of the U.S. dollar from the January 2, 2005 market rates would decrease the unrealized value of the Company's forward contracts by $315 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 $64 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 assets and liabilities 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 the Company does not have significant exposure to any one counterparty. Management believes the risk of loss related to non-performance by a counterparty is remote.

Total unused credit available to the Company approximates $3.9 billion, including $1.5 billion of credit commitments, of which $0.75 billion expire September 29, 2005 and $0.75 billion that expire September 30, 2009. Also, included are $0.9 billion of uncommitted lines with various banks worldwide that expire during 2005.

Total borrowings at the end of 2004 and 2003 were $2.8 billion and $4.1 billion, respectively. Total debt represented 8.2% of total capital (shareholders' equity and total debt) in 2004 and 13.2% of total capital in 2003. Shareholders' equity per share at the end of 2004 was $10.71 compared with $9.05 at year-end 2003, an increase of 18.3%. On November 1, 2004 the Company exercised its right to redeem all of its $300 million aggregate principal amount of 8.72% Debentures due in 2024. The redemption price was 104.360% of the principal amount or $1,043.36 per $1,000 principal amount of Debentures, with accrued interest to the date of redemption. At January 2, 2005, there were no material cash commitments. Johnson & Johnson continues to be one of a few industrial companies with a Triple A credit rating. A summary of borrowings can be found in Note 6.

Contractual Obligations and Commitments

The Company has long-term contractual obligations, primarily lease, debt obligations and unfunded retirement plans, with no other significant obligations. To satisfy these obligations, the Company will use cash from operations. The following table summarizes the Company's contractual obligations and their aggregate maturities as of January 2, 2005 (see Notes 4, 6 and 13 for further details):

(Millions of Dollars)	Operating Leases	Debt[1] Obligations	Unfunded Retirement Plans
2005	$144	18	35
2006	132	23	37
2007	110	11	39
2008	90	8	42
2009	76	384	45
After 2009	$173	2,139	272

[1] Amounts do not include interest expense.

Share Repurchase and Dividends

On February 13, 2002, the Company announced a stock repurchase program of up to $5.0 billion with no time limit on this program. This program was completed on August 1, 2002, with 83.6 million shares repurchased. In addition, the Company has an annual program to repurchase shares for use in employee stock and incentive plans.

The Company increased its dividend in 2004 for the 42nd consecutive year. Cash dividends paid were $1.095 per share in 2004, compared with dividends of $0.925 per share in 2003 and $0.795 per share in 2002. The dividends were distributed as follows:

	2004	2003	2002
First quarter	$ 0.24	0.205	0.18
Second quarter	0.285	0.24	0.205
Third quarter	0.285	0.24	0.205
Fourth quarter	0.285	0.24	0.205
Total	$1.095	0.925	0.795

On January 4, 2005, the Board of Directors declared a regular cash dividend of $0.285 per share, paid on March 8, 2005, to shareholders of record as of February 15, 2005. The Company expects to continue the practice of paying regular cash dividends.

Other Information

Critical Accounting Policies and Estimates

Management's discussion and analysis on 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 is essential in achieving more insight into the Company's operating results and financial condition. These key accounting policies include revenue recognition, income taxes, legal and self insurance contingencies, valuation of long-lived assets and assumptions used to determine the amounts recorded for pensions and other employee benefit plans and accounting for stock options.

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

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

Sales returns are generally estimated and recorded based on historical sales and returns information, analysis of recent wholesale purchase information, consideration of stocking levels at wholesalers and forecasted demand amounts. 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 accruals.

The Company also recognizes service revenue that is received 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 in the current year and include the results of any difference between U.S. GAAP accounting and U.S. tax reporting that are recorded as deferred tax assets or liabilities. The Company estimates deferred tax assets and liabilities based on current tax regulations and rates. Changes in tax laws and

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

The Company has determined that it will repatriate $10.8 billion of undistributed international earnings in 2005 in accordance with the American Jobs Creation Act of 2004, and has recorded a tax charge of $789 million during the fourth quarter of 2004. (This tax charge may be reduced by approximately $225 million, due to technical corrections legislation, expected to be considered by Congress in 2005.) The legislation was passed during the fourth quarter of 2004 and permits U.S. corporations to repatriate earnings of foreign subsidiaries at a special one-time favorable effective tax rate. At January 2, 2005 and December 28, 2003, the cumulative amount of undistributed international earnings were approximately $18.6 billion and $14.8 billion, respectively. The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded to cover the undistributed portion not intended for repatriation.

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

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

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

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

New Accounting Standards

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* which is effective for exit or disposal activities that are initiated after December 31, 2002. The Company's adoption of SFAS No. 146 did not have a material effect on the Company's results of operations, cash flows or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34.* FIN 45 clarifies the requirements of FASB Statement No. 5, *Accounting for Contingencies,* relating to the guarantor's accounting for and disclosure of the issuance of certain types of guarantees. The disclosure requirements of FIN 45 were effective for financial statements of interim or annual periods that end after December 15, 2002. The provisions for initial recognition and measurement were effective on a prospective basis for guarantees that were issued or modified after December 31, 2002, irrespective of the guarantor's year-end. FIN 45 requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that guarantee. The Company's adoption of FIN 45 did not have a material effect on the Company's results of operations, cash flows or financial position.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51,* and in December 2003, issued a revised FIN 46(R), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51,* both of which address consolidation of variable interest entities. In addition, the FASB issued various FASB Staff Positions (FSP) on this topic in December 2003. FIN 46 expands the criteria for consideration in determining whether a variable interest entity should be consolidated by a business entity, and requires existing unconsolidated variable interest entities (which include, but are not limited to, Special Purpose Entities, or SPEs) to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation was immediately applicable to variable interest entities created after January 31, 2003. The adoption of this portion of FIN 46 has not had a material effect on the Company's results of operations, cash flows or financial position. FIN 46 was applicable in 2004 to variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003. The adoption of this portion of FIN 46 did not have a material effect on the results of operations, cash flows or financial position of the Company.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* which is effective for contracts entered into or modified after June 30, 2003. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts

and for hedging activities. The Company's adoption of SFAS No. 149 did not have a material effect on the Company's results of operations, cash flows or financial position.

In December 2003, the FASB issued FSP FAS No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which is effective for interim or annual financial statements of fiscal years ending after December 7, 2003. The Company elected to defer adoption of FSP FAS No. 106-1 until authoritative guidance was issued, as allowed by the Standard. This guidance was issued in by the FASB in May 2004 via FSP FAS No. 106-2. The Company adopted FSP FAS No. 106-1 and 106-2 in the fiscal third quarter of 2004. This adoption did not have a material effect on the Company's results of operations, cash flows or financial position.

In July 2004, the FASB ratified the EITF consensus on Issue 02-14, *Whether an Investor should apply the Equity Method of Accounting to Investments other than Common Stock,* which is effective for the fourth quarter of 2004. This consensus clarifies that when an investor has the ability to exercise significant influence over the operating and financial policies of an investee, the equity method of accounting should be applied only when the investor has an investment in common stock and/or an investment that is in-substance common stock. The adoption of this consensus did not have a material effect on the Company's results of operations, cash flows or financial position.

In October 2004, the FASB ratified the EITF consensus on Issue 04-1, *Accounting for Preexisting Relationships between the Parties to a Business Combination.* This consensus describes the accounting for the settlement of preexisting relationships and the re-acquisition of certain rights in a business combination. This consensus was effective for the fourth quarter of 2004 and was adopted by the Company in that quarter. This adoption did not have a material effect on the Company's results of operations, cash flows or financial position, but may impact future transactions.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43.* This statement clarifies the accounting for idle capacity expense, freight, handling costs, and wasted material and is effective for the third quarter of 2005. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment.* This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (employee stock options). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options) at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The effective date of this statement is the fiscal third quarter of 2005. The Company is still considering transition methods under this standard. The Company currently estimates the annualized cost associated with expensing stock options to be approximately $0.12 per share in 2005. Refer to Note 1 for more details. The Company is proposing a new long-term incentive plan including various forms of stock compensation, such as stock options and restricted stock.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets, an amendment of APB 29.* This statement clarifies that all non-monetary transactions that have commercial substance should be recorded at fair value and is effective for the first quarter of 2005. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

In December 2004, the FASB issued FSP FAS No. 109-1 and FAS 109-2, which address accounting and disclosure requirements related to certain provisions of the *American Jobs Creation Act of 2004.* These requirements were effective immediately. The Company has adopted these provisions, the impact of which is more fully described in Note 1 and 8.

Economic and Market Factors

Johnson & Johnson is aware that its products are used in an environment where, for more than a decade, policymakers, consumers and businesses have expressed concerns about the rising cost of health care. In response to these concerns, Johnson & Johnson has a long standing policy of pricing products responsibly. For the period 1994–2004, in the United States, the weighted average compound annual growth rate of Johnson & Johnson net price increases for health care products (prescription and over-the-counter drugs, hospital and professional products) was below the U.S. Consumer Price Index (CPI).

Inflation rates, even though moderate in many parts of the world during 2004, continue to have an effect on worldwide economies and, consequently, on the way companies operate. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases. The Company faces various worldwide health care changes that may result in pricing pressures that include health care cost containment and government legislation relating to sales, promotions and reimbursement.

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

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 2004 and 2003 were:

	2004		2003	
	High	Low	High	Low
First quarter	$54.90	49.25	58.68	49.10
Second quarter	57.28	49.90	59.08	50.75
Third quarter	58.80	54.37	54.24	49.00
Fourth quarter	64.25	54.81	52.89	48.05
Year-end close	$63.42		50.62	

Legal Proceedings

The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use which accompany such products, it is not feasible to predict the ultimate outcome of litigation. However, the Company believes that if any liability results from such cases, it will be substantially covered by existing amounts accrued in the Company's balance sheet under its self-insurance program and by third party product liability insurance. See Note 18 for further information regarding legal proceedings.

Cautionary Factors That May Affect Future Results

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

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

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

The Company's report on Form 10-K for the year ended January 2, 2005 contains, as an Exhibit, 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

At January 2, 2005 and December 28, 2003 (Dollars in Millions Except Share and Per Share Data) (Note 1)	2004	2003
Assets		
Current assets		
Cash and cash equivalents (Notes 1, 14 and 15)	$ 9,203	5,377
Marketable securities (Notes 1, 14 and 15)	3,681	4,146
Accounts receivable trade, less allowances for doubtful accounts $206 (2003, $192)	6,831	6,574
Inventories (Notes 1 and 2)	3,744	3,588
Deferred taxes on income (Note 8)	1,737	1,526
Prepaid expenses and other receivables	2,124	1,784
Total current assets	27,320	22,995
Marketable securities, non-current (Notes 1, 14 and 15)	46	84
Property, plant and equipment, net (Notes 1 and 3)	10,436	9,846
Intangible assets, net (Notes 1 and 7)	11,842	11,539
Deferred taxes on income (Note 8)	551	692
Other assets (Note 5)	3,122	3,107
Total assets	$53,317	48,263
Liabilities and Shareholders' Equity		
Current liabilities		
Loans and notes payable (Note 6)	$ 280	1,139
Accounts payable	5,227	4,966
Accrued liabilities	3,523	2,639
Accrued rebates, returns and promotions	2,297	2,308
Accrued salaries, wages and commissions	1,094	1,452
Accrued taxes on income	1,506	944
Total current liabilities	13,927	13,448
Long-term debt (Note 6)	2,565	2,955
Deferred tax liability (Note 8)	403	780
Employee related obligations (Notes 5 and 13)	2,631	2,262
Other liabilities	1,978	1,949
Total liabilities	21,504	21,394
Shareholders' equity		
Preferred stock—without par value (authorized and unissued 2,000,000 shares)	—	—
Common stock—par value $1.00 per share (Note 20) (authorized 4,320,000,000 shares; issued 3,119,842,000 shares)	3,120	3,120
Note receivable from employee stock ownership plan (Note 16)	(11)	(18)
Accumulated other comprehensive income (Note 12)	(515)	(590)
Retained earnings	35,223	30,503
	37,817	33,015
Less: common stock held in treasury, at cost (Note 20) (148,819,000 and 151,869,000)	6,004	6,146
Total shareholders' equity	31,813	26,869
Total liabilities and shareholders' equity	$53,317	48,263

See Notes to Consolidated Financial Statements

Consolidated Statements of Earnings

(Dollars in Millions Except Per Share Figures) (Note 1)	2004	2003	2002
Sales to customers	$47,348	41,862	36,298
Cost of products sold	13,422	12,176	10,447
Gross profit	33,926	29,686	25,851
Selling, marketing and administrative expenses	15,860	14,131	12,216
Research expense	5,203	4,684	3,957
Purchased in-process research and development (Note 17)	18	918	189
Interest income	(195)	(177)	(256)
Interest expense, net of portion capitalized (Note 3)	187	207	160
Other (income) expense, net	15	(385)	294
	21,088	19,378	16,560
Earnings before provision for taxes on income	12,838	10,308	9,291
Provision for taxes on income (Note 8)	4,329	3,111	2,694
Net earnings	$ 8,509	7,197	6,597
Basic net earnings per share (Notes 1 and 19)	$ 2.87	2.42	2.20
Diluted net earnings per share (Notes 1 and 19)	$ 2.84	2.40	2.16

See Notes to Consolidated Financial Statements

Consolidated Statements of Equity

(Dollars in Millions) (Note 1)	Total	Comprehensive Income	Retained Earnings	Note Receivable From Employee Stock Ownership Plan (ESOP)	Accumulated Other Comprehensive Income	Common Stock Issued Amount	Treasury Stock Amount
Balance, December 30, 2001	$24,233		23,066	(30)	(530)	3,120	(1,393)
Net earnings	6,597	6,597	6,597				
Cash dividends paid	(2,381)		(2,381)				
Employee stock compensation and stock option plans	806		(489)				1,295
Conversion of subordinated debentures	131		(222)				353
Repurchase of common stock	(6,382)						(6,382)
Other comprehensive income, net of tax:							
Currency translation adjustment	(10)	(10)			(10)		
Unrealized losses on securities	(86)	(86)			(86)		
Pension liability adjustment	(18)	(18)			(18)		
Losses on derivatives & hedges	(198)	(198)			(198)		
Reclassification adjustment		(26)					
Total comprehensive income		6,259					
Note receivable from ESOP	5			5			
Balance, December 29, 2002	$22,697		26,571	(25)	(842)	3,120	(6,127)
Net earnings	7,197	7,197	7,197				
Cash dividends paid	(2,746)		(2,746)				
Employee stock compensation and stock option plans	534		(626)				1,160
Conversion of subordinated debentures	2		(2)				4
Repurchase of common stock	(1,183)						(1,183)
Business combinations	109		109				
Other comprehensive income, net of tax:							
Currency translation adjustment	334	334			334		
Unrealized gains on securities	29	29			29		
Pension liability adjustment	(31)	(31)			(31)		
Losses on derivatives & hedges	(80)	(80)			(80)		
Reclassification adjustment		(2)					
Total comprehensive income		7,447					
Note receivable from ESOP	7			7			
Balance, December 28, 2003	$26,869		30,503	(18)	(590)	3,120	(6,146)
Net earnings	8,509	8,509	8,509				
Cash dividends paid	(3,251)		(3,251)				
Employee stock compensation and stock option plans	883		(520)				1,403
Conversion of subordinated debentures	105		(18)				123
Repurchase of common stock	(1,384)						(1,384)
Other comprehensive income, net of tax:							
Currency translation adjustment	268	268			268		
Unrealized gains on securities	59	59			59		
Pension liability adjustment	(282)	(282)			(282)		
Gains on derivatives & hedges	30	30			30		
Reclassification adjustment		(10)					
Total comprehensive income		8,574					
Note receivable from ESOP	7			7			
Balance, January 2, 2005	$31,813		35,223	(11)	(515)	3,120	(6,004)

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(Dollars in Millions) (Note 1)	2004	2003	2002
Cash flows from operating activities			
Net earnings	$ 8,509	7,197	6,597
Adjustments to reconcile net earnings to cash flows:			
Depreciation and amortization of property and intangibles	2,124	1,869	1,662
Purchased in-process research and development	18	918	189
Deferred tax provision	(498)	(720)	(74)
Accounts receivable allowances	3	6	(6)
Changes in assets and liabilities, net of effects from acquisition of businesses:			
Increase in accounts receivable	(111)	(691)	(510)
Decrease/(increase) in inventories	11	39	(109)
Increase in accounts payable and accrued liabilities	607	2,192	1,420
Increase in other current and non-current assets	(395)	(746)	(1,429)
Increase in other current and non-current liabilities	863	531	436
Net cash flows from operating activities	11,131	10,595	8,176
Cash flows from investing activities			
Additions to property, plant and equipment	(2,175)	(2,262)	(2,099)
Proceeds from the disposal of assets	237	335	156
Acquisition of businesses, net of cash acquired (Note 17)	(580)	(2,812)	(478)
Purchases of investments	(11,617)	(7,590)	(6,923)
Sales of investments	12,061	8,062	7,353
Other	(273)	(259)	(206)
Net cash used by investing activities	(2,347)	(4,526)	(2,197)
Cash flows from financing activities			
Dividends to shareholders	(3,251)	(2,746)	(2,381)
Repurchase of common stock	(1,384)	(1,183)	(6,538)
Proceeds from short-term debt	514	3,062	2,359
Retirement of short-term debt	(1,291)	(4,134)	(560)
Proceeds from long-term debt	17	1,023	22
Retirement of long-term debt	(395)	(196)	(245)
Proceeds from the exercise of stock options	642	311	390
Net cash used by financing activities	(5,148)	(3,863)	(6,953)
Effect of exchange rate changes on cash and cash equivalents	190	277	110
Increase/(decrease) in cash and cash equivalents	3,826	2,483	(864)
Cash and cash equivalents, beginning of year (Note 1)	5,377	2,894	3,758
Cash and cash equivalents, end of year (Note 1)	$ 9,203	5,377	2,894
Supplemental cash flow data			
Cash paid during the year for:			
Interest	$ 222	206	141
Income taxes	3,880	3,146	2,006
Supplemental schedule of noncash investing and financing activities			
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	$ 802	905	946
Conversion of debt	105	2	131
Acquisition of businesses			
Fair value of assets acquired	$ 595	3,135	550
Fair value of liabilities assumed	(15)	(323)	(72)
Net cash paid for acquisitions	$ 580	2,812	478

See Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Principles

Principles of Consolidation

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

Description of the Company and Business Segments

The Company and its subsidiaries have approximately 109,900 employees worldwide engaged in the manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world and its primary focus has been in products related to human health and well-being.

New Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* which is effective for exit or disposal activities that are initiated after December 31, 2002. The Company's adoption of SFAS No. 146 did not have a material effect on the Company's results of operations, cash flows or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34.* FIN 45 clarifies the requirements of FASB Statement No. 5, *Accounting for Contingencies,* relating to the guarantor's accounting for and disclosure of the issuance of certain types of guarantees. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. The provisions for initial recognition and measurement were effective on a prospective basis for guarantees that were issued or modified after December 31, 2002, irrespective of the guarantor's year-end. FIN 45 requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that guarantee. The Company's adoption of FIN 45 did not have a material effect on the Company's results of operations, cash flows or financial position.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51,* and in December 2003, issued a revised FIN 46(R), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51,* both of which address consolidation of variable interest entities. In addition, the FASB issued various FASB Staff Positions (FSP) on this topic in December 2003. FIN 46 expands the criteria for consideration in determining whether a variable interest entity should be consolidated by a business entity, and requires existing unconsolidated variable interest entities (which include, but are not limited to, Special Purpose Entities, or SPEs) to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation was immediately applicable to variable interest entities created after January 31, 2003. The adoption of this portion of FIN 46 has not had a material effect on the Company's results of operations, cash flows or financial position. FIN 46 was applicable in 2004 to variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003. The adoption of this portion of FIN 46 did not have a material effect on the results of operations, cash flows or financial position of the Company.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* which is effective for contracts entered into or modified after June 30, 2003. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company's adoption of SFAS No. 149 did not have a material effect on the Company's results of operations, cash flows or financial position.

In December 2003, the FASB issued FSP FAS No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* which is effective for interim or annual financial statements of fiscal years ending after December 7, 2003. The Company elected to defer adoption of FSP FAS No. 106-1 until authoritative guidance was issued, as allowed by the Standard. This guidance was issued in by the FASB in May 2004 via FSP FAS No. 106-2. The Company adopted FSP FAS No. 106-1 and 106-2 in the fiscal third quarter of 2004. This adoption did not have a material effect on the Company's results of operations, cash flows or financial position.

In July 2004, the FASB ratified the EITF consensus on Issue 02-14, *Whether an Investor should apply the Equity Method of Accounting to Investments other than Common Stock,* which is effective for the fourth quarter of 2004. This consensus clarifies that when an investor has the ability to exercise significant influence over the operating and financial policies of an investee, the equity method of accounting should be applied only when the investor has an investment in common stock and/or an investment that is in-substance common stock. The adoption of this consensus did not have a material effect on the Company's results of operations, cash flows or financial position.

In October 2004, the FASB ratified the EITF consensus on Issue 04-1, *Accounting for Preexisting Relationships between the Parties to a Business Combination.* This consensus describes the accounting for the settlement of preexisting relationships and the re-acquisition of certain rights in a business combination. This consensus was effective for the fourth quarter of 2004 and was adopted by the Company in that quarter. This adoption did not have a material effect on the Company's results of operations, cash flows or financial position, but may impact future transactions.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43.* This statement clarifies the accounting for idle capacity expense, freight, handling costs, and wasted material and is effective for the third quarter of 2005. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment.* This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions (employee stock options). The statement requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options)

at fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The effective date of this statement is the fiscal third quarter of 2005. The Company is still considering transition methods under this standard. The Company currently estimates the annualized cost associated with expensing stock options to be approximately $0.12 per share in 2005. The Company is proposing a new long-term incentive plan including various forms of stock compensation, such as stock options and restricted stock.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets, an amendment of APB 29.* This statement clarifies that all non-monetary transactions that have commercial substance should be recorded at fair value and is effective for the first quarter of 2005. The Company believes the adoption of this statement will not have a material effect on its results of operations, cash flows or financial position.

In December 2004, the FASB issued FSP FAS No. 109-1 and FAS 109-2, which address accounting and disclosure requirements related to certain provisions of the *American Jobs Creation Act of 2004.* These requirements were effective immediately. The Company has adopted these provisions, the impact of which is described in Note 1 and Note 8.

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. 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. 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. 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 non-marketable equity securities for impairment and adjusts these investments to their fair value when a decline in market value is deemed to be other than temporary.

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

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

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

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

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

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

Sales returns are generally estimated and recorded based on historical sales and returns information, analysis of recent wholesale purchase information, consideration of stocking levels at wholesalers and forecasted demand amounts. 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 accruals. The Company also recognizes service revenue that is received for co-promotion of certain products in sales to customers.

Shipping and Handling
Shipping and handling costs incurred were $679 million, $604 million and $518 million in 2004, 2003 and 2002, respectively, and are included in selling, marketing and administrative expense. The amount of revenue received for shipping and handling is less than 0.5% of sales to customers for all periods presented.

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

Goodwill and Intangible Assets
Effective at the beginning of fiscal year 2002 in accordance with SFAS No. 142, the Company discontinued the amortization relating to all existing goodwill and indefinite lived intangible assets, which are non-amortizable. SFAS No. 142 requires that goodwill and non-amortizable intangible assets be assessed annually for impairment. The Company completed the annual impairment test for 2004 in the fiscal fourth quarter and no impairment was determined. Future impairment tests will be performed in the fiscal fourth quarter, annually.

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

Financial Instruments

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

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

The designation as a cash flow hedge is made at the entrance date into the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Fair value of a forward exchange contract represents the present value of the change in forward exchange rates times the notional amount of the derivative. The fair value of a currency swap contract is determined by discounting to the present all future cash flows of the currencies to be exchanged at interest rates prevailing in the market for the periods the currency exchanges are due and expressing the result in U.S. dollars at the current spot foreign currency 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 2004.

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

Product Liability

Accruals for product liability claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. Receivables for insurance recoveries related to product liability claims are recorded on an undiscounted basis, when it is probable that a recovery will be realized.

Research and Development

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

Advertising

Costs associated with advertising are expensed in the year incurred and are included in the selling, marketing and administrative expenses. Advertising expenses worldwide, which are comprised of television, radio, print media and Internet advertising, were $1.9 billion in 2004, $1.7 billion in 2003 and $1.5 billion in 2002.

Income Taxes

The Company has determined that it will repatriate $10.8 billion of undistributed international earnings in 2005 in accordance with the American Jobs Creation Act of 2004, and has recorded a tax charge of $789 million during the fourth quarter of 2004. (This tax charge may be reduced by approximately $225 million, due to technical corrections legislation, expected to be considered by Congress in 2005.) The legislation was passed during the fourth quarter of 2004 and permits U.S. corporations to repatriate earnings of foreign subsidiaries at a special one-time favorable effective tax rate. At January 2, 2005 and December 28, 2003, the cumulative amount of undistributed international earnings were approximately $18.6 billion and $14.8 billion, respectively. The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore, no U.S. tax expense has been recorded to cover the undistributed portion not intended for repatriation.

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 income 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.

Stock Options

At January 2, 2005, the Company had 20 stock-based employee compensation plans that are described in Note 10. The Company accounts for those plans under the recognition and measurement principles of Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and its related Interpretations. Compensation costs are not recorded in net income for stock options as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

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

(Dollars in Millions Except Per Share Data)	2004	2003	2002
Net income, as reported	$8,509	7,197	6,597
Less:			
Compensation expense[1]	329	349	320
Pro forma	8,180	6,848	6,277
Earnings per share:			
Basic—as reported	$ 2.87	2.42	2.20
—pro forma	2.76	2.31	2.09
Diluted—as reported	2.84	2.40	2.16
—pro forma	2.74	2.29	2.06

[1] Determined under fair value based method for all awards, net of tax.

Use of Estimates

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

Annual Closing Date

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

Reclassification

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

2 Inventories

At the end of 2004 and 2003, inventories were comprised of:

(Dollars in Millions)	2004	2003
Raw materials and supplies	$ 964	966
Goods in process	1,113	981
Finished goods	1,667	1,641
	$3,744	3,588

3 Property, Plant and Equipment

At the end of 2004 and 2003, property, plant and equipment at cost and accumulated depreciation were:

(Dollars in Millions)	2004	2003
Land and land improvements	$ 515	491
Buildings and building equipment	5,907	5,242
Machinery and equipment	10,455	9,638
Construction in progress	1,787	1,681
	18,664	17,052
Less accumulated depreciation	8,228	7,206
	$10,436	9,846

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2004, 2003 and 2002 was $136 million, $108 million and $98 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2004, 2003 and 2002 was $1.5 billion, $1.4 billion and $1.3 billion, respectively.

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

4 Rental Expense and Lease Commitments

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately $254 million in 2004, $279 million in 2003 and $298 million in 2002.

The approximate minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at January 2, 2005 are:

(Dollars in Millions)	2005	2006	2007	2008	2009	After 2009	Total
	$144	132	110	90	76	173	725

Commitments under capital leases are not significant.

5 Employee Related Obligations

At the end of 2004 and 2003, employee related obligations were:

(Dollars in Millions)	2004	2003
Pension benefits	$1,109	862
Postretirement benefits	1,071	966
Postemployment benefits	244	213
Deferred compensation	397	362
	2,821	2,403
Less current benefits payable	190	141
Employee related obligations	$2,631	2,262

Prepaid employee related obligations of $1,001 million and $1,021 million for 2004 and 2003, 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)	2004	Effective Rate%	2003	Effective Rate%
3% Zero Coupon Convertible Subordinated Debentures due 2020	$ 560	3.00	639	3.00
4.95% Debentures due 2033	500	4.95	500	4.95
3.80% Debentures due 2013	500	3.82	500	3.82
8.72% Debentures due 2024[2]	—	—	300	8.72
6.95% Notes due 2029	293	7.14	293	7.14
6.73% Debentures due 2023	250	6.73	250	6.73
8.25% Eurodollar Notes due 2004	—	—	200	8.37
6.625% Notes due 2009	198	6.80	198	6.80
5.50% Convertible Subordinated Notes due 2009	177	2.00	182	2.00
Industrial Revenue Bonds	34	2.76	36	3.54
Other	71	—	81	—
	2,583	4.63[1]	3,179	5.23[1]
Less current portion	18		224	
	$2,565		2,955	

[1] *Weighted average effective rate.*

[2] *8.72% Debentures redeemed in November 2004.*

The Company has access to substantial sources of funds at numerous banks worldwide. Total unused credit available to the Company approximates $3.9 billion, including $1.5 billion of credit commitments, of which $0.75 billion expire September 29, 2005 and $0.75 billion expire September 30, 2009. Also included, are $0.9 billion of uncommitted lines with various banks worldwide that expire during 2005. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreement are not material.

The Company filed a shelf registration with the Securities and Exchange Commission that became effective January 21, 2004, which enables the Company to issue up to $1.985 billion in debt securities and warrants for the purchase of debt securities. No debt was issued off the shelf during 2004 and the full amount remained available as of January 2, 2005.

In August 2002, Scios Inc. issued in a private offering $150 million of 5.5% Convertible Subordinated Notes due 2009; interest payable semi-annually, on February 15 and August 15. The Notes were convertible at the option of the holder at any time prior to redemption, repurchase or maturity at a conversion price of $39.30. Following the acquisition by Johnson & Johnson in April 2003, each $1,000 in principal amount of the notes became convertible into the right to receive $1,145.04 in cash without interest. Semi-annual interest remains payable until conversion, repurchase or maturity. At January 2, 2005 the book value of these Notes approximates fair value.

On July 28, 2000, ALZA Corporation completed a private offering of 3% Zero Coupon Convertible Subordinated Debentures, which were issued at a price of $551.26 per $1,000 principal amount at maturity. At January 2, 2005 the outstanding 3% Debentures had a total principal amount at maturity of $890.8 million with a yield to maturity of 3% per annum, computed on a semiannual bond equivalent basis. There are no periodic interest payments. Under the terms of the 3% Debentures, holders are entitled to convert their Debentures into approximately 15.0 million shares of Johnson & Johnson stock at a price of $40.102 per share. Approximately 2.7 million shares have been issued as of January 2, 2005, due to voluntary conversions by note holders. At the option of the holder, the 3% Debentures may be repurchased by the Company on July 28, 2008 or 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may elect to deliver either Johnson & Johnson common stock or cash, or a combination of stock and cash, in the event of repurchase of the 3% Debentures. The Company, at its option, may also redeem any or all of the 3% Debentures after July 28, 2003 at the issue price plus accreted original issue discount. At January 2, 2005, and December 28, 2003, the fair value based on quoted market value of the 3% Debentures was $780.5 million and $712.3 million, respectively.

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

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

Aggregate maturities of long-term obligations commencing in 2005 are:

(Dollars in Millions)	2005	2006	2007	2008	2009	After 2009
	$18	23	11	8	384	2,139

7 Intangible Assets

At the end of 2004 and 2003, the gross and net amounts of intangible assets were:

(Dollars in Millions)	2004	2003
Goodwill—gross	$ 6,597	6,085
Less accumulated amortization	734	695
Goodwill—net	$ 5,863	5,390
Trademarks (non-amortizable)—gross	$ 1,232	1,098
Less accumulated amortization	142	136
Trademarks (non-amortizable)—net	$ 1,090	962
Patents and trademarks—gross	$ 3,974	3,798
Less accumulated amortization	1,125	818
Patents and trademarks—net	$ 2,849	2,980
Other intangibles—gross	$ 3,302	3,187
Less accumulated amortization	1,262	980
Other intangibles—net	$ 2,040	2,207
Total intangible assets—gross	$15,105	14,168
Less accumulated amortization	3,263	2,629
Total intangible assets—net	$11,842	11,539

Goodwill as of January 2, 2005, as allocated by segments of business is as follows:

(Dollars in Millions)	Consumer	Pharm	Med Dev and Diag	Total
Goodwill, net of accumulated amortization at December 28, 2003	$ 882	781	3,727	5,390
Acquisitions	232	32	138	402
Translation & other	46	19	6	71
Goodwill at January 2, 2005	$1,160	832	3,871	5,863

The weighted average amortization periods for patents and trademarks and other intangible assets are 15 years and 17 years, respectively. The amortization expense of amortizable intangible assets for the fiscal year ended January 2, 2005, was $603 million before tax. Certain patents and intangibles were written down to fair value during 2004 with the resulting charge included in amortization expense. The estimated amortization expense for the five succeeding years approximates $550 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)	2004	2003	2002
Currently payable:			
U.S. taxes	$3,654	2,934	2,042
International taxes	1,173	897	726
	4,827	3,831	2,768
Deferred:			
U.S. taxes	(70)	(409)	20
International taxes	(428)	(311)	(94)
	(498)	(720)	(74)
	$4,329	3,111	2,694

A comparison of income tax expense at the federal statutory rate of 35% in 2004, 2003 and 2002, to the Company's effective tax rate is as follows:

(Dollars in Millions)	2004	2003	2002
U.S.	$ 7,895	6,333	6,189
International	4,943	3,975	3,102
Earnings before taxes on income:	$12,838	10,308	9,291
Tax rates:			
Statutory	35.0%	35.0%	35.0%
Puerto Rico and Ireland operations	(5.6)	(6.1)	(4.5)
Research tax credits	(0.8)	(1.0)	(0.7)
U.S. state and local	1.6	2.0	1.2
International subsidiaries excluding Ireland	(1.7)	(2.0)	(2.2)
Repatriation of International earnings	6.1	—	—
IPR&D	—	3.1	0.7
All other	(0.9)	(0.8)	(0.5)
Effective tax rate	33.7%	30.2%	29.0%

During 2004, 2003 and 2002, the Company had subsidiaries operating in Puerto Rico under various tax incentive grants. In addition, the Company had subsidiaries manufacturing in Ireland under an incentive tax rate. The American Jobs Creation Act of 2004 tax legislation, permits U.S. corporations to repatriate earnings of foreign subsidiaries at a special one-time favorable effective federal tax rate versus 35%, before consideration of foreign taxes paid. The Company has determined that it will repatriate approximately $10.8 billion. The Company accrued $789 million for federal and state taxes attributable to the repatriation of earnings. (This tax charge may be reduced by approximately $225 million, due to technical corrections legislation, expected to be considered by Congress in 2005.) The increase in the 2004 worldwide effective tax rate was primarily due to the repatriation of foreign earnings under this legislation, which added 6.1% to the 2004 effective tax rate.

Temporary differences and carry forwards for 2004 and 2003 are as follows:

(Dollars in Millions)	2004 Deferred Tax Asset	2004 Deferred Tax Liability	2003 Deferred Tax Asset	2003 Deferred Tax Liability
Employee related obligations	$ 483		356	
Depreciation		(378)		(248)
Non-deductible intangibles		(1,366)		(1,455)
International R&D capitalized for tax	905		574	
Reserves & liabilities	720		592	
Income reported for tax purposes	463		416	
Miscellaneous international	535	(236)	502	(258)
Capitalized intangibles	147		131	
Miscellaneous U.S.	515		724	
Total deferred income taxes	$3,768	(1,980)	3,295	(1,961)

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

9 International Currency Translation

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

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

An analysis of the changes during 2004 and 2003 for foreign currency translation adjustments is included in Note 12.

Net currency transaction and translation gains and losses included in other expense were losses of $38 million, $22 million and $29 million in 2004, 2003 and 2002, respectively.

10 Common Stock, Stock Option Plans and Stock Compensation Agreements

At January 2, 2005, the Company had 20 stock-based compensation plans. Under the 2000 Stock Option Plan, the Company may grant options to its employees for up to 1.6% of the issued shares of the Company's Common Stock plus the number of shares available from the previous year that were not issued, as well as shares issued under the Plan that expired or terminated without being exercised. The shares outstanding are for contracts under the Company's 1991, 1995 and 2000 Stock Option Plans, the 1997 Non-Employee Director's Plan and the Cordis, Biosense, Gynecare, Centocor, Innovasive Devices, ALZA, Inverness and Scios Stock Option Plans. During 2004, no options were granted under any of these plans except the 2000 Stock Option Plan.

Stock options expire 10 years from the date they are granted and vest over service periods that range from one to five years. All options are granted at current market price on the date of grant. Shares available under the 2000 Stock Option Plan for future grants are based on 1.6% of the issued shares each year, and 49.9 million shares could be granted each year during the years 2000 through 2005 in addition to any other available shares as described above. Shares available for future grants under the 2000 plan were 83.3 million at the end of 2004.

A summary of the status of the Company's stock option plans as of January 2, 2005, December 28, 2003 and December 29, 2002, and changes during the years ending on those dates are presented below:

(Shares in Thousands)	Options Outstanding	Weighted Average Exercise Price
Balance at December 30, 2001	167,224	$34.37
Options granted	48,072	57.30
Options exercised	(21,012)	19.64
Options canceled/forfeited	(4,543)	50.86
Balance at December 29, 2002	189,741	41.42
Options granted	50,880[1]	49.15
Options exercised	(21,242)	17.22
Options canceled/forfeited	(5,430)	52.68
Balance at December 28, 2003	213,949	45.37
Options granted	47,815	53.94
Options exercised	(24,066)	28.50
Options canceled/forfeited	(8,694)	53.77
Balance at January 2, 2005	229,004	$48.62

[1] Includes 7,002 options issued to replace Scios options outstanding at or granted prior to the acquisition.

The average fair value of options granted was $13.11 in 2004, $13.58 in 2003, and $15.49 in 2002. The fair value was estimated using the Black-Scholes option pricing model based on the weighted average assumptions of:

	2004	2003	2002
Risk-free rate	3.15%	3.09%	4.39%
Volatility	27.0%	28.0%	26.0%
Expected life	5.0 yrs	5.0 yrs	5.0 yrs
Dividend yield	1.76%	1.35%	1.33%

The following table summarizes stock options outstanding and exercisable at January 2, 2005:

(Shares in Thousands)	Outstanding			Exercisable	
Exercise Price Range	Options	Average Life[1]	Average Exercise Price	Options	Average Exercise Price
$3.85-$22.95	11,336	1.4	$20.18	11,329	$20.18
$23.11-$39.86	22,703	3.1	30.46	22,048	30.45
$40.08-$50.08	34,952	4.7	46.00	34,615	45.98
$50.11-$52.11	31,953	5.8	50.70	31,371	50.69
$52.20-$53.89	39,403	8.1	52.22	173	52.48
$53.93-$54.89	46,012	9.1	53.95	399	54.69
$55.01-$65.10	42,645	7.1	57.34	553	59.20
	229,004	6.4	$48.62	100,488	$41.26

[1] Average contractual life remaining in years.

Stock options exercisable at December 28, 2003 and December 29, 2002 were 119,663 options at an average price of $38.51 and 100,702 options at an average price of $30.47, respectively.

11 Segments of Business and Geographic Areas

See page 64 for information on segments of business and geographic areas.

12 Accumulated Other Comprehensive Income

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

(Dollars in Millions)	Foreign Currency Translation	Unrealized Gains/ (Losses) on Securities	Pension Liability Adjustments	Gains/ (Losses) on Derivatives & Hedges	Total Accumulated Other Comprehensive Income/(Loss)
Dec. 30, 2001	$(697)	84	(15)	98	(530)
2002 changes					
Net change due to hedging transactions	—	—	—	(394)	
Net amount reclassed to net earnings	—	—	—	196	
Net 2002 changes	(10)	(86)	(18)	(198)	(312)
Dec. 29, 2002	$(707)	(2)	(33)	(100)	(842)
2003 changes					
Net change due to hedging transactions	—	—	—	(567)	
Net amount reclassed to net earnings	—	—	—	487	
Net 2003 changes	334	29	(31)	(80)	252
Dec. 28, 2003	$(373)	27	(64)	(180)	(590)
2004 changes					
Net change due to hedging transactions	—	—	—	15	
Net amount reclassed to net earnings	—	—	—	15	
Net 2004 changes	268	59	(282)	30	75
Jan. 2, 2005	$(105)	86	(346)	(150)	(515)

Total other comprehensive income for 2004 includes reclassification adjustment gains of $16 million realized from the sale of equity securities and the associated tax expense of $6 million. Total other comprehensive income for 2003 includes reclassification adjustment gains of $3 million realized from the sale of equity securities and the associated tax expense of $1 million. Total other comprehensive income for 2002 includes reclassification adjustment gains of $45 million realized from the sale of equity securities and the associated tax expense of $19 million.

The tax effect on the unrealized gains/(losses) on equity securities is an expense of $47 million in 2004, an expense of $15 million in 2003 and a benefit of $1 million in 2002. The tax effect on the gains/(losses) on derivatives and hedges are benefits of $81 million, $99 million and $56 million in 2004, 2003 and 2002, respectively. See Note 15 for additional information relating to derivatives and hedging.

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

13 Pensions and Other Benefit Plans

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

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

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

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

The Company uses the date of its consolidated financial statements (January 2, 2005 and December 28, 2003, respectively) as the measurement date for all U.S. and international retirement and other benefit plans.

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for 2004, 2003 and 2002 include the following components:

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2004	2003	2002	2004	2003	2002
Service cost	$ 409	325	249	$ 56	28	23
Interest cost	444	391	354	91	70	59
Expected return on plan assets	(529)	(495)	(447)	(3)	(3)	(4)
Amortization of prior service cost	15	18	15	(4)	(3)	(3)
Amortization of net transition asset	(3)	(4)	(7)	—	—	—
Recognized actuarial losses/(gains)	173	109	(41)	27	3	—
Curtailments and settlements	3	1	(1)	—	—	—
Special termination benefits	—	95	—	—	—	—
Net periodic benefit cost	$ 512	440	122	$167	95	75

The net periodic benefit cost attributable to U.S. retirement plans was $329 million in 2004, $309 million in 2003 and $61 million in 2002.

During 2003, the Company offered a voluntary retirement program with enhanced benefits called the Retirement Enhancement Program (REP) to eligible U.S. regular, full-time employees who have attained age 55 with at least 10 years of pension credited service by June 30, 2004. The program enhancements included the elimination of the early retirement reduction for pension benefit purposes (normally 4% per year prior to age 62) and a special termination benefit (one week of pay per year of credited service). The program resulted in a one-time increase in U.S. pension expense of $95 million in 2003 to reflect the value of the retirement enhancement.

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

	Retirement Plans				Other Benefit Plans			
U.S. Benefit Plans	2004	2003	2002	2001	2004	2003	2002	2001
Discount rate	5.75%	6.00	6.75	7.50	5.75%	6.00	6.75	7.50
Expected long-term rate of return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Rate of increase in compensation levels	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
International Benefit Plans								
Discount rate	5.00%	5.25	5.75	5.75	5.50%	6.00	6.75	6.75
Expected long-term rate of return on plan assets	8.00	7.50	7.50	7.50	—	—	—	—
Rate of increase in compensation levels	3.75	3.50	3.50	3.50	4.25	4.25	4.25	4.25

The expected long-term rate of return on plan assets assumptions are 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 trend rates, for all individuals:

Health Care Plans	2004	2003
Health care trend rate assumed for next year	9.00%	10.00
Rate to which the cost trend rate is assumed to decline (ultimate trend)	4.50%	4.50
Year the rate reaches the ultimate trend rate	2010	2010

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

(Dollars in Millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Health Care Plans		
Total interest and service cost	$ 27	$ (22)
Postretirement benefit obligation	256	(206)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2004 and 2003 for the Company's defined benefit retirement plans and other postretirement plans:

(Dollars in Millions)	Retirement Plans		Other Benefit Plans	
Change in Benefit Obligation	2004	2003	2004	2003
Projected benefit obligation—beginning of year	$7,680	6,051	$1,329	1,015
Service cost	409	325	56	28
Interest cost	444	391	91	70
Plan participant contributions	21	20	—	—
Amendments	(65)	110	(46)	1
Actuarial losses	609	714	229	261
Divestitures & acquisitions	(1)	(3)	—	—
Curtailments & settlements	(7)	(1)	—	—
Benefits paid from plan	(401)	(268)	(73)	(55)
Effect of exchange rates	252	341	7	9
Projected benefit obligation—end of year	$8,941	7,680	$1,593	1,329
Change in Plan Assets				
Plan assets at fair value—beginning of year	$6,050	4,705	$ 39	34
Actual return on plan assets	713	963	4	9
Company contributions	531	393	65	49
Plan participant contributions	21	20	—	—
Divestitures	(2)	—	—	—
Benefits paid from plan assets	(359)	(258)	(71)	(53)
Effect of exchange rates	171	227	—	—
Plan assets at fair value—end of year	$7,125	6,050	$ 37	39

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)						
Projected future benefit payments	2005	2006	2007	2008	2009	2010-14
Retirement plans	$335	349	364	361	377	2,235
Other benefit plans—gross	$ 77	81	85	89	94	542
Medicare rebates	—	(5)	(5)	(6)	(7)	(41)
Other benefit plans—net	$ 77	76	80	83	87	501

The Company is not expected to have to fund its U.S. retirement plans in 2005 in order to meet minimum statutory funding requirements. International plans will be funded in accordance with local regulations. Additional discretionary contributions will be made when deemed appropriate to meet the long-term obligations of the plans. In certain countries other than the United States, the funding of pension plans is not a common practice as funding provides no economic benefit. Consequently, the Company has several pension plans which are not funded.

The following table displays the projected future contributions to the Company's U.S. and international unfunded retirement plans:

(Dollars in Millions)						
Projected future contributions	2005	2006	2007	2008	2009	2010-14
Unfunded U.S. retirement plans	$19	20	21	22	24	148
Unfunded International retirement plans	$16	17	18	20	21	124

The Company's retirement plan asset allocation at the end of 2004 and 2003 and target allocations for 2005 are as follows:

(Dollars in Millions)	Percent of Plan Assets		Target Allocation
U.S. Retirement Plans	2004	2003	2005
Equity securities	76%	78%	75%
Debt securities	24	22	25
Total plan assets	100%	100%	100%
International Retirement Plans			
Equity securities	69%	67%	75%
Debt securities	30	32	25
Real estate and other	1	1	—
Total plan assets	100%	100%	100%

The Company's other benefit plans are unfunded except for U.S. life insurance contract assets of $37 million and $39 million at January 2, 2005 and December 28, 2003, respectively.

The fair value of Johnson & Johnson common stock directly held in plan assets was $440 million (6.2% of total plan assets) at January 2, 2005, and $363 million (6.0% of total plan assets) at December 28, 2003.

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

	Retirement Plans		Other Benefit Plans	
(Dollars in Millions)	2004	2003	2004	2003
Plan assets at fair value	$ 7,125	6,050	$ 37	39
Projected benefit obligation	8,941	7,680	1,593	1,329
Funded status	(1,816)	(1,630)	(1,556)	(1,290)
Unrecognized actuarial losses	2,055	1,749	541	336
Unrecognized prior service cost	46	133	(56)	(12)
Unrecognized net transition asset	3	—	—	—
Total recognized in the consolidated balance sheet	$ 288	252	$(1,071)	(966)
Book accruals	$(1,109)	(862)	$(1,071)	(966)
Prepaid benefits	1,001	1,021	—	—
Intangible assets	50	29	—	—
Accumulated comprehensive income	346	64	—	—
Total recognized in the consolidated balance sheet	$ 288	252	$(1,071)	(966)

The accumulated benefit obligation for all U.S. and international defined benefit retirement plans was $7,488 million and $6,475 million at January 2, 2005 and December 28, 2003, respectively.

A minimum pension liability adjustment is required when the actuarial present value of the accumulated benefits obligation (ABO) exceeds the fair value of plan assets and accrued pension liabilities. The minimum pension liabilities (intangible assets and accumulated comprehensive income) in 2004 and 2003 of $396 million and $93 million, respectively, relate primarily to plans outside of the U.S. The increase in the minimum liability included in comprehensive income was $282 million and $31 million in 2004 and 2003, respectively.

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

	Retirement Plans	
(Dollars in Millions)	2004	2003
Accumulated benefit obligation	$(2,703)	(1,328)
Projected benefit obligation	(3,327)	(1,729)
Plan assets at fair value	1,727	591

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 was enacted that introduces a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree health care benefit plans. The Company's prescription plan is "actuarially equivalent" to the Medicare Part D Coverage due to the fact that at all levels of annual claim amounts, the Plan provides a greater reimbursement than the Medicare benefit. There is no change in estimated participation rates or per capita claims costs as a result of the Act. The Company has recognized the effect of the subsidy on a prospective basis from June 28, 2004. The recognition reduces before-tax and after-tax expense by $10 million and the APBO by $131 million.

14 Marketable Securities

	January 2, 2005			December 28, 2003		
(Dollars in Millions)	Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value	Amortized Cost	Unrealized Gains/(Losses)	Estimated Fair Value
Current Investments						
Government securities and obligations	$ 4,213	(1)	4,212	2,844	1	2,845
Corporate debt securities	2,798	(1)	2,797	2,565	—	2,565
Money market funds	2,153	—	2,153	1,559	—	1,559
Time deposits	1,325	—	1,325	663	—	663
Collateralized mortgage obligations and asset backed securities	397	—	397	—	—	—
Bank notes	20	—	20	22	—	22
Total current marketable securities	$10,906	(2)	10,904	7,653	1	7,654
Non-Current Investments						
Marketable securities	$ 46	—	46	84	—	84

Current marketable securities include $7.2 billion and $3.5 billion that are classified as cash equivalents on the balance sheet at January 2, 2005 and December 28, 2003, respectively.

15 Financial Instruments

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

As of January 2, 2005, the balance of deferred net losses on derivatives included in accumulated other comprehensive income was $150 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 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. Transactions with third parties will cause the amount in accumulated other comprehensive income to affect net earnings. The maximum length of time over which the Company is hedging is 18 months.

For the year ended January 2, 2005, the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. The Company has recorded a net loss of $2 million in other (income) expense, representing the impact of discontinuance of cash flow hedges because it is probable that the originally forecasted transactions will not occur by the end of the originally specified time period.

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

Concentration of Credit Risk

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

16 Savings Plan

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

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

Total Company contributions to the plans were $143 million in 2004, $128 million in 2003 and $111 million in 2002.

17 Mergers, Acquisitions and Divestitures

On December 15, 2004, Johnson & Johnson announced the signing of a definitive agreement to acquire Guidant Corporation (Guidant), a world leader in the treatment of cardiac and vascular disease, for $25.4 billion in fully diluted equity value.

The Board of Directors of Johnson & Johnson and Guidant have given their respective approvals to the transaction, which is subject to clearance under the Hart-Scott-Rodino Antitrust Improvements Act, the European Union merger control regulation, and other customary closing conditions. The acquisition could result in the divestiture of certain assets and operations, if required by regulatory agencies. The agreement requires the approval of Guidant's shareholders. Subject to the aforementioned approvals, the acquisition is expected to close in the third quarter of 2005.

Under the terms of the agreement, upon the close of the transaction each share of Guidant common stock would be exchanged for $30.40 in cash and $45.60 in Johnson & Johnson common stock, provided the average Johnson & Johnson common stock price is between $55.45 and $67.09 during the 15-day trading period ending three days prior to the transaction closing. Each Guidant common share exchanged would be converted into Johnson & Johnson common stock of not more than .8224 and not less than .6797 shares, plus $30.40 in cash. Based on Guidant's approximately 319 million common shares outstanding as of the close of business on December 15, 2004, this would result in the issuance of not more than approximately 262 million and not less than 217 million shares of Johnson & Johnson common stock. Guidant's approximately 35 million option shares outstanding as of the close of business on December 15, 2004 would be converted into options to acquire Johnson & Johnson common stock on the same terms and conditions as were applicable under Guidant's option plan. The option shares would convert to Johnson & Johnson common stock utilizing a floating exchange ratio, the Exchange Ratio and the Cash Portion Option Exchange Multiple as defined in the Agreement and Plan of Merger dated as of December 15, 2004.

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

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

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

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

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

The 2003 acquisitions included: Link Spine Group, Inc., a privately owned corporation with exclusive worldwide rights to the CHARITÉ™ Artificial Disc; Scios Inc. a biopharmaceutical company with a marketed product for cardiovascular disease and research projects focused on auto-immune diseases; 3-Dimensional Pharmaceuticals, Inc., a company with a technology platform focused on the discovery and development of therapeutic small molecules; OraPharma, Inc., a specialty pharmaceutical company focused on the development and commercialization of unique oral therapeutics; and certain assets of Orquest, Inc., a privately held biotechnology company focused on developing biologically-based implants for orthopaedics and spine surgery.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $1.8 billion and has been allocated to identifiable intangibles and goodwill. Approximately $918 million has been identified as the value of in-process research and development (IPR&D) primarily associated with the acquisition of Link Spine Group, Inc. and Scios Inc.

The IPR&D charge related to the Link Spine Group, Inc. acquisition was $170 million and is associated with the CHARITÉ™ Artificial Disc. The CHARITÉ™ Artificial Disc is marketed in more than 30 countries outside the U.S, and a Premarket Approval Application was filed with U.S. Food and Drug Administration on February 17, 2004. The value of the IPR&D was calculated with the assistance of a third party appraiser using cash flow projections discounted for the risk inherent in

such projects. A probability of success factor of 95% was used to reflect inherent clinical and regulatory risk. The discount rate was 19%. The purchase price for the Link Spine Group, Inc. acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of assets and liabilities acquired was approximately $84 million and was allocated to goodwill. Substantially all of the amount allocated to goodwill will not be deductible for tax purposes.

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

The remaining IPR&D was associated with Orquest, Inc., and 3-Dimensional Pharmaceuticals, Inc., with charges of $11 million and $7 million, respectively. In both cases the value of the IPR&D was calculated with the assistance of a third party appraiser.

Certain businesses were acquired for $478 million in cash and liabilities assumed of $72 million during 2002. 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 2002 acquisitions included Tibotec-Virco N.V., a privately-held biopharmaceutical company focused on developing anti-viral treatments; Micro Typing Systems, Inc., a manufacturer of reagents and supplier of distributed instruments known as the ID-Micro Typing System™ and Obtech Medical AG, a privately-held company that markets an adjustable gastric band for the treatment of morbid obesity.

The excess of purchase price over the estimated fair value of tangible assets of the acquired entities amounted to $325 million and has been allocated to identifiable intangibles and goodwill. Approximately $189 million has been identified as the value of IPR&D associated with the Tibotec-Virco N.V. and Obtech Medical AG acquisitions.

The IPR&D charge related to Tibotec-Virco N.V. was $150 million and is associated with two early stage HIV compounds. The value of the IPR&D was calculated with the assistance of a third party appraiser using cash flow projections discounted for the risk inherent in such projects using probability of success factors ranging from 30-33%. The discount rate was 9%.

The IPR&D charge related to Obtech Medical AG was $39 million and is associated with the development of the current Swedish Adjustable Gastric Band (SAGB) for use in the United States as well as development of a next generation technology platform. The value of the IPR&D was calculated with the assistance of a third party appraiser using cash flow projections discounted for the risk inherent in such projects using a 70% probability of success factor and a 20% discount rate.

Supplemental pro forma information for 2004, 2003 and 2002 per SFAS No. 141, *Business Combinations,* and SFAS No. 142, *Goodwill and Other Intangible Assets,* are not provided as the impact of the aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position.

Divestitures in 2004, 2003 and 2002 did not have a material effect on the Company's results of operations, cash flows or financial position.

18 Legal Proceedings

Product Liability

The Company is involved in numerous product liability cases in the United States, many of which concern adverse reactions to drugs and medical devices. The damages claimed are substantial, and while the Company is confident of the adequacy of the warnings and instructions for use 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.

One group of cases against the Company concerns the Janssen Pharmaceutica Inc. product PROPULSID® (cisapride), which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, numerous lawsuits have been filed against Janssen, which is a wholly owned subsidiary of the Company, and the Company regarding PROPULSID®, in state and federal courts across the country. There are approximately 423 such cases currently pending, including the claims of approximately 5,900 plaintiffs. In the active cases, 415 individuals are alleged to have died from the use of PROPULSID®. These actions seek substantial compensatory and punitive damages and accuse Janssen and the Company of inadequately testing for and warning about the drug's side effects, of promoting it for off-label use and of over promotion. In addition, Janssen and the Company have entered into agreements (tolling agreements) with various plaintiffs' counsel halting the running of the statutes of limitations with respect to the potential claims of a significant number of individuals while those attorneys evaluate whether or not to sue Janssen and the Company on their behalf.

In September 2001, the first ten plaintiffs in the Rankin case, which comprises the claims of 155 PROPULSID® plaintiffs, went to trial in state court in Claiborne County, Mississippi. The jury returned compensatory damage verdicts for each plaintiff in the amount of $10 million, for a total of $100 million. The trial judge thereafter dismissed the claims of punitive damages. On March 4, 2002, the trial judge reduced these verdicts to a total of $48 million, and denied the motions of Janssen and the Company for a new trial. On May 13, 2004, the Supreme Court of Mississippi reversed the verdicts against Janssen and the Company, and remanded the case to the trial court. The Supreme Court found the joint trial of multiple plaintiffs' cases against Janssen was prejudicial and directed the trial court to return the cases of the individual plaintiffs for separate trials to their home counties. A motion for rehearing was denied on August 5, 2004.

In April 2002, a state court judge in New Jersey denied plaintiffs' motion to certify a national class of PROPULSID® users for purposes of medical monitoring and refund of the costs of purchasing PROPULSID®. An effort to appeal that ruling has been denied. In June 2002, the federal judge presiding over the PROPULSID® Multi-District Litigation in New Orleans, Louisiana similarly denied plaintiffs' motion there to certify a national class of PROPULSID® users. Plaintiffs in the Multi-District Litigation have said they are preserving their right to appeal that ruling, and other complaints filed against Janssen and the Company include class action allegations, which could be the basis for future attempts to have classes certified.

On February 5, 2004, Janssen announced that it had reached an agreement in principle with the Plaintiffs Steering Committee (PSC), of the PROPULSID® Federal Multi-District Litigation (MDL), to resolve federal lawsuits related to PROPULSID®. There are approximately 4,000 individuals included in the Federal MDL of whom approximately 300 are alleged to have died from use of the drug. The agreement becomes effective once 85 percent of the death claims, and 75 percent of the remainder, agree to the terms of the settlement. In addition, 12,000 individuals who have not filed lawsuits, but whose claims are the subject of tolling agreements suspending the running of the statutes of limitations against those claims, must also agree to participate in the settlement before it will become effective. Those agreeing to participate in the settlement will submit medical records to an independent panel of physicians who will determine whether the claimed injuries were caused by PROPULSID® and otherwise meet the standards for compensation. If those standards are met, a court-appointed special master will determine compensatory damages. If the agreement becomes effective, Janssen will pay as compensation a minimum of $69.5 million and a maximum of $90 million, depending upon the number of plaintiffs who enroll in the program. Janssen will also establish an administrative fund not to exceed $15 million, and will pay legal fees to the PSC up to $22.5 million, subject to court approval.

With respect to all the various PROPULSID® actions against them, Janssen and the Company dispute the claims in those lawsuits and are vigorously defending against them except where, in their judgment, settlement is appropriate. Janssen and the Company believe they have adequate self-insurance accruals and third party product liability insurance with respect to these cases. In communications to the Company, the excess insurance carriers have raised certain defenses to their liability under the policies and to date have declined to reimburse Janssen and the Company for PROPULSID®-related costs despite demand for payment. However, in the opinion of the Company, those defenses are pro forma and lack substance and the carriers will honor their obligations under the policies either voluntarily or after litigation. In March 2004, the Company commenced arbitration against Allianz Underwriters Insurance Company, which issued the first layer of applicable excess insurance coverage, to obtain reimbursement of PROPULSID®-related costs. The arbitration is currently scheduled to begin mid-May 2005 and last several weeks.

The Company's Ethicon, Inc. subsidiary has over the last several years had a number of claims and lawsuits filed against it relating to VICRYL® sutures. The actions allege that the sterility of VICRYL® sutures was compromised by inadequacies in Ethicon's systems and controls, causing patients who were exposed to these sutures to incur infections which would not otherwise have occurred. Ethicon on several occasions recalled batches of VICRYL® sutures in light of questions raised about sterility but does not believe any contamination of suture products in fact occurred. In November 2003, a trial judge in West Virginia certified for class treatment all West Virginia residents who had VICRYL® sutures implanted during Class I or II surgeries from May 1, 1994 to December 31, 1997. The certification is subject to later challenge following the conclusion of discovery. A previous trial date has been adjourned and not reset. Ethicon has been and intends to continue vigorously defending against the claims.

Affirmative Stent Patent Litigation

In patent infringement actions tried in Delaware Federal Court in late 2000, Cordis Corporation, a subsidiary of Johnson & Johnson, obtained verdicts of infringement and patent validity, and damage awards, against Boston Scientific Corporation and Medtronic AVE, Inc., based on a number of Cordis vascular stent patents. On December 15, 2000, the jury in the damage action against Boston Scientific returned a verdict of $324 million and on December 21, 2000, the jury in the Medtronic AVE action returned a verdict of $271 million. These sums represent lost profit and reasonable royalty damages to compensate Cordis for infringement but do not include pre or post judgment interest. In February 2001 a hearing was held on the claims of Boston Scientific and Medtronic AVE that the patents at issue were unenforceable owing to alleged inequitable conduct before the patent office.

In March and May 2002, the district judge issued post trial rulings that confirmed the validity and enforceability of the main Cordis stent patent claims but found certain other Cordis patents unenforceable. Further, the district judge granted Boston Scientific a new trial on liability and damages and vacated the verdict against Medtronic AVE on legal grounds. On August 12, 2003, the Court of Appeals for the Federal Circuit found the trial judge erred in vacating the verdict against Medtronic AVE and remanded the case to the trial judge for further proceedings. The trial judge has scheduled a trial in March 2005 against Boston Scientific and Medtronic AVE in connection with Cordis' efforts to obtain reinstatement of the original verdicts.

In January 2003, Cordis filed an additional patent infringement action against Boston Scientific in Delaware Federal Court accusing its Express2™ and TAXUS® stents of infringing one of the Cordis patents involved in the earlier actions against Boston Scientific and Medtronic AVE. In February 2003, Cordis moved in that action for a preliminary injunction seeking to bar the introduction of the TAXUS® stent based on that patent. On November 21, 2003, the district judge denied that request for a preliminary injunction and that decision was affirmed by the Court of Appeals for the Federal Circuit in May 2004. Trial of the case is scheduled for June 2005. Cordis also has pending in Delaware Federal Court another action against Medtronic AVE accusing Medtronic AVE of infringement by sale of stent products introduced by Medtronic AVE subsequent to its GFX® and MicroStent® products, the subject of the earlier action referenced above.

In early June 2003, an arbitration panel in Chicago, in a preliminary ruling, found in favor of Cordis in its arbitration against

ACS/Guidant involving infringement by ACS/Guidant of a Cordis stent patent. On August 19, 2003, the panel confirmed that ruling, rejecting the challenge of ACS/Guidant. Under the terms of an earlier agreement between Cordis and ACS/Guidant, the arbitration panel's ruling obligated ACS/Guidant to make a payment of $425 million to Cordis which was made in the fiscal fourth quarter of 2003. As a result of resolving this matter, in the fiscal fourth quarter, $230 million was recorded in other income and expense (approximately $142 million after tax) relating to past periods. The balance of the award, $195 million (approximately $120 million after tax), will be recognized in income in future periods over the estimated remaining life of the intellectual property, commencing in the first fiscal quarter of 2004. No additional royalties for ACS/Guidant's continued use of the technology and no injunction are involved.

Patent Litigation Against Various Johnson & Johnson Operating Companies

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

Product	J&J Operating Company	Patents	Plaintiff/ Patent Holder	Court	Trial Date	Date Filed
Stents	Cordis	Jang	Boston Scientific Corporation	D.Del.	6/13/05	3/03
Drug Eluting Stents	Cordis	Ding	Boston Scientific Corporation	D.Del.	6/13/05	4/03
Drug Eluting Stents	Cordis	Kunz Grainger	Boston Scientific Corporation	D.Del.	10/17/05	12/03
Stents	Cordis	Rockey	Arlaine and Gena Rockey Inc.	S.D.Fla.	TBD	7/02
Stents	Cordis	Boneau	Medtronic Inc.	D.Del.	TBD	4/02
Two-layer Catheters	Cordis	Kastenhofer Forman	Boston Scientific Corporation	N.D.Cal.	TBD	2/02
REMICADE®	Centocor	Cerami	Rockefeller University and Chiron Corporation	E.D.Tex.	2/06	4/04
Two-layer Catheters	Cordis	Kastenhofer	Boston Scientific Corporation (Schneider)	Belgium	4/05	12/03
Stents	Cordis	Israel	Medinol	Multiple E.U. jurisdictions	1st trial Neth. 1/05	5/03
Contact Lenses	Vision Care	Nicolson	CIBA Vision	M.D. Fla.	02/06	9/03

Litigation Against Filers of Abbreviated New Drug Applications (ANDAs)

The following chart indicates lawsuits pending against generic firms that filed Abbreviated New Drug Applications seeking to market generic forms of products sold by various subsidiaries of the Company prior to expiration of the applicable patents covering those products. These ANDAs typically include allegations of non-infringement, invalidity and unenforceability of these patents. In the event the subsidiary of the Company involved is not successful in these actions, the firms involved will then 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.

Brand Name Product	Patent / NDA Holder	Generic Challenger	Court	Trial Date	Date Filed
ACIPHEX® 20 mg delayed release tablet	Eisai (for Janssen)	Teva Dr. Reddy's Mylan	S.D.N.Y. S.D.N.Y. S.D.N.Y.	TBD TBD TBD	11/03 11/03 01/04
DITROPAN XL® 5, 10, 15 mg controlled release tablet	Ortho McNeil, ALZA	Mylan Impax	D.W.V. N.D.Cal.	02/14/05 TBD	05/03 09/03
DURAGESIC® 25, 50, 75, 100 micrograms/hr patch	Janssen, ALZA	Mylan	D. Vt.	08/25/03	01/02
LEVAQUIN® Tablets 250, 500, 750 mg tablets	Daiichi, JJPRD, Ortho-McNeil	Mylan Teva	D.W.V. D.N.J.	05/24/04 TBD	02/02 06/02
LEVAQUIN® Injectable Single use vials and 5ml/mg premix	Daiichi, JJPRD, Ortho-McNeil	Bedford/ Ben Venue Sicor (Teva)	D.N.J. D.N.J.	TBD TBD	03/03 12/03
LEVAQUIN® Injectable Single use vials	Daiichi, JJPRD, Ortho-McNeil	American Pharmaceutical Partners	D.N.J.	TBD	12/03
QUIXIN® Ophthalmic Solution (Levofloxacin) Ophthalmic solution	Daiichi, Ortho-McNeil	Hi-Tech Pharmacal	D.N.J.	TBD	12/03
ORTHO TRI-CYCLEN® LO 0.18 mg/0.025 mg 0.215 mg/0.025 mg and 0.25 mg/0.025 mg	Ortho-McNeil	Barr	D.N.J.	TBD	10/03
RISPERDAL® Tablets .25, 0.5, 1, 2, 3, 4 mg tablets	Janssen	Mylan Dr. Reddy's	D.N.J. D.N.J.	TBD TBD	12/03 12/03
SPORANOX® 100 mg capsule	Janssen	Eon Labs	E.D.N.Y.	05/17/04	04/01
TOPAMAX® 25, 100, 200 mg tablet	Ortho-McNeil	Mylan	D.N.J.	TBD	04/04
ULTRACET® 37.5 tram/325 apap tablet	Ortho-McNeil	Kali (Par) Teva Caraco	D.N.J. D.N.J. E.D. Mich.	TBD TBD TBD	11/02 02/04 09/04
PEPCID® Complete	McNeil-PPC, Inc.	Perrigo	S.D.N.Y.	TBD	02/05

In the DURAGESIC® (fentanyl transdermal system) matter referenced above, the district court in March 2004 found ALZA's patent valid, enforceable and infringed by Mylan's generic. That decision was affirmed by the Court of Appeals for the Federal Court. In June 2004, FDA ruled that Mylan's ANDA would be subject to ALZA's period of pediatric exclusivity ending in January 2005. In late June, Mylan filed actions against FDA seeking to require the agency to grant it approval to market on July 24, 2004, the day after the DURAGESIC® patent expired. On August 17, 2004, the district court ruled against Mylan and in favor of FDA's recognition of pediatric exclusivity for DURAGESIC®, which decision was affirmed by the Court of Appeals for the District of Columbia Circuit.

In the action against Mylan involving LEVAQUIN®, the trial judge on December 23, 2004, found the patent at issue valid, enforceable and infringed by Mylan's contemplated ANDA product and issued an injunction precluding sale of the product until patent expiration in late 2010. Mylan has appealed to the Court of Appeals for the Federal Circuit.

In the action against Eon Labs involving SPORANOX® (itraconazole), the district court ruled on July 28, 2004 that Janssen's patent was valid but not infringed by Eon's generic. Janssen has appealed this ruling to the Court of Appeals for the Federal Circuit. Eon launched its generic version of SPORANOX® on February 9, 2005.

In the action against Kali involving ULTRACET® (tramadol hydrochloride/acetaminophen), Kali has moved for summary judgment on the issues of infringement and invalidity. The briefing on that motion was completed in October 2004 and a decision is expected anytime. With respect to claims other than that at issue in the litigation against Kali, Ortho-McNeil

has filed a reissue application in the U.S. Patent and Trademark Office seeking to narrow the scope of the claims.

In the action against Mylan involving DITROPAN XL® (oxybutynin chloride), Mylan moved for summary judgment on July 14, 2004 on the issues of non-infringement and invalidity. That motion was denied in December 2004.

In the action against Mylan relating to TOPAMAX® (topiramate), Mylan on October 8, 2004 filed a motion for summary judgment of non-infringement of Ortho-McNeil's patent. A decision is expected after February 1, 2005.

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

Average Wholesale Price (AWP) Litigation

Johnson & Johnson and its pharmaceutical operating companies, 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 for the drugs at issue. Most of these cases, both federal actions and state actions removed to federal court, have been consolidated for pre-trial purposes in a Multi-District Litigation (MDL) in federal court in Boston, Massachusetts. The plaintiffs in these cases include classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP. In the MDL proceeding in Boston, plaintiffs have moved for class certification of all or some portion of their claims. A decision is expected on that motion in the second or third quarter of 2005.

Ethicon Endo-Surgery, Inc., a Johnson & Johnson operating company which markets endoscopic surgical instruments, and the Company, are named defendants in a North Carolina state court class action lawsuit alleging AWP inflation and improper marketing activities against TAP Pharmaceuticals. Ethicon Endo-Surgery, Inc. is a defendant based on claims that several of its former sales representatives are alleged to have been involved in arbitrage of a TAP drug. The allegation is that these sales representatives persuaded certain physicians in states where the drug's price was low to purchase from TAP excess quantities of the drug and then resell it in states where its price was higher. Ethicon Endo-Surgery, Inc. and the Company deny any liability for the claims made against them in this case and are vigorously defending against it. On April 24, 2003, the trial judge certified a national class of purchasers of the TAP product at issue. On July 6, 2004, that class was decertified by the North Carolina Court of Appeals and the matter remanded to the trial court for additional consideration. On January 5, 2005, the trial judge certified a North Carolina State class of purchases of the TAP product in question. No trial date has been set in this matter.

Other

The New York State Attorney General's office and the Federal Trade Commission issued subpoenas in January and February 2003 seeking documents relating to the marketing of sutures and endoscopic instruments by the Company's Ethicon, Inc. and Ethicon Endo-Surgery, Inc. subsidiaries. The Connecticut Attorney General's office also issued a subpoena for the same documents. These subpoenas focus on the bundling of sutures and endoscopic instruments in contracts offered to Group Purchasing Organizations and individual hospitals in which discounts are predicated on the hospital achieving specified market share targets for both categories of products. The operating companies involved have responded to the subpoenas.

On June 26, 2003, the Company received a request for records and information from the U.S. House of Representatives' Committee on Energy and Commerce in connection with its investigation into pharmaceutical reimbursements and rebates under Medicaid. The Committee's request focuses on the drug REMICADE® (infliximab), marketed by the Company's Centocor, Inc. subsidiary. On July 2, 2003, Centocor received a request that it voluntarily provide documents and information to the criminal division of the U.S. Attorney's Office, District of New Jersey, in connection with its investigation into various Centocor marketing practices. Both the Company and Centocor have responded to these requests for documents and information.

On August 1, 2003, the Securities and Exchange Commission (SEC) advised the Company of its informal investigation under the Foreign Corrupt Practices Act of allegations of payments to Polish governmental officials by U.S. pharmaceutical companies. On November 21, 2003, the SEC advised the Company that the investigation had become formal and issued a subpoena for the information previously requested in an informal fashion, plus other background documents. The Company and its operating units in Poland have responded to these requests.

On December 8, 2003, the Company's Ortho-McNeil Pharmaceutical unit received a subpoena from the United States Attorney's office in Boston, Massachusetts seeking documents relating to the marketing, including alleged off-label marketing, of the drug TOPAMAX® (topiramate). Ortho-McNeil is cooperating in responding to the subpoena. In October 2004, the U.S. Attorney's Office in Boston asked attorneys for Ortho-McNeil Pharmaceutical to cooperate in facilitating the subpoenaed testimony of several present and former Ortho-McNeil witnesses before a grand jury in Boston, for which cooperation is being provided.

On January 20, 2004, the Company's Janssen unit received a subpoena from the Office of the Inspector General of the United States Office of Personnel Management seeking documents concerning sales and marketing of, any and all payments to physicians in connection with sales and marketing of, and clinical trials for, RISPERDAL® (risperidone) from 1997 to 2002. Documents subsequent to 2002 have also been requested. Janssen is cooperating in responding to the subpoena.

In April 2004, the Company's pharmaceutical units were requested to submit information to the Senate Finance Committee on their use of the "nominal pricing exception" in calculating Best Price under the Medicaid Rebate Program. This request was sent to manufacturers for the top twenty drugs reimbursed under the Medicaid Program. The Company's pharmaceutical units have responded to the request.

On July 27, 2004, the Company received a letter request from the New York State Attorney General's Office for documents pertaining to marketing, off-label sales and clinical trials for TOPAMAX® (topiramate), RISPERDAL® (risperidone), PROCRIT® (Epoetin alfa), REMINYL® (galantamine HBr), REMICADE® (infliximab) and ACIPHEX® (rabeprazole sodium). The Company is responding to the request.

On August 9, 2004, Johnson & Johnson Health Care Systems, Inc., a Johnson & Johnson operating company, received a subpoena from the Dallas, Texas U. S. Attorney's Office seeking documents relating to the relationships between the group purchasing organization Novation and HCS and other Johnson & Johnson operating companies. The Company's operating entities involved are responding to the subpoena.

On September 30, 2004, Ortho Biotech Inc. received a subpoena from the U.S. Office of Inspector General's Denver, Colorado field office seeking documents directed to sales and marketing of PROCRIT® (Epoetin alfa) from 1997 to the present. Ortho Biotech is responding to the subpoena.

In September 2004, plaintiffs in an employment discrimination litigation initiated against the Company in 2001 moved to certify a class of all African American and Hispanic salaried employees of the Company and its affiliates in the United States, who were employed at any time from November 1997 to the present. Plaintiffs seek monetary damages for the period 1997 through the present (including punitive damages) and equitable relief. The Company is expected to file its response to plaintiffs' class certification motion in the first half of 2005. A decision by the district court is not expected before late 2005. The Company disputes the allegations in the lawsuit and is vigorously defending against them.

After a remand from the Federal Circuit Court of Appeals in January 2003, a partial retrial was commenced in October and concluded in November 2003 in Boston, Massachusetts in the action Amgen v. Transkaryotic Therapies, Inc. (TKT) and Aventis Pharmaceutical, Inc. The matter is a patent infringement action brought by Amgen against TKT, the developer of a gene-activated EPO product, and Aventis, which holds marketing rights to the TKT product, asserting that TKT's product infringes various Amgen patent claims. TKT and Aventis dispute infringement and are seeking to invalidate the Amgen patents asserted against them. On October 15, 2004, the district court issued rulings that upheld its initial findings in 2001, that Amgen's patent claims were valid and infringed. Further proceedings and an appeal will follow. The Amgen patents at issue in the case are exclusively licensed to Ortho Biotech Inc., a Johnson & Johnson operating company, in the U.S. for non-dialysis indications. Ortho Biotech Inc. is not a party to the action. On October 21, 2004, in a companion action brought by TKT and Aventis against Amgen and Ortho Biotech's U.K. affiliate in the United Kingdom, the House of Lords, acting as the highest court in the U.K., invalidated the pertinent claims of Amgen's U.K. patent on EPO which expired in December 2004.

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 opinion of management, based on its examination of these matters, its experience to date and discussions with counsel, the ultimate outcome of legal proceedings, net of liabilities already accrued in the Company's balance sheet, is not expected to have a material adverse effect on the Company's financial position, although the resolution in any reporting period of one or more of these matters could have a significant impact on the Company's results of operations and cash flows for that period.

19 Earnings Per Share

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the years ended January 2, 2005, December 28, 2003 and December 29, 2002:

(Shares in Millions)	2004	2003	2002
Basic earnings per share	$ 2.87	2.42	2.20
Average shares outstanding—basic	2,968.4	2,968.1	2,998.3
Potential shares exercisable under stock option plans	186.5	166.6	188.3
Less: shares repurchased under treasury stock method	(163.8)	(141.4)	(146.9)
Convertible debt shares	12.4	14.8	14.4
Adjusted average shares outstanding—diluted	3,003.5	3,008.1	3,054.1
Diluted earnings per share	$ 2.84	2.40	2.16

The diluted earnings per share calculation includes the dilution effect of convertible debt: a decrease in interest expense of $14 million, $15 million and $12 million after tax for years 2004, 2003 and 2002, respectively.

Diluted earnings per share excludes 42 million, 47 million and 1 million shares underlying stock options for 2004, 2003 and 2002, respectively, as the exercise price of these options was greater than their average market value, resulting in an anti-dilutive effect on diluted earnings per share.

20 Capital and Treasury Stock

Changes in treasury stock were:

(Amounts in Millions Except Number of Shares in Thousands)	Treasury Stock Shares	Treasury Stock Amount
Balance at December 30, 2001	72,627	$ 1,393
Employee compensation and stock option plans	(22,720)	(1,295)
Conversion of subordinated debentures	(5,742)	(353)
Repurchase of common stock	107,382	6,382
Balance at December 29, 2002	151,547	6,127
Employee compensation and stock option plans	(21,729)	(1,160)
Conversion of subordinated debentures	(83)	(4)
Repurchase of common stock	22,134	1,183
Balance at December 28, 2003	151,869	6,146
Employee compensation and stock option plans	(25,340)	(1,403)
Conversion of subordinated debentures	(2,432)	(123)
Repurchase of common stock	24,722	1,384
Balance at January 2, 2005	148,819	$ 6,004

Shares of common stock issued were 3,119,842,000 shares at the end of 2004, 2003 and 2002.

Cash dividends paid were $1.095 per share in 2004, compared with dividends of $0.925 per share in 2003 and $0.795 per share in 2002.

21 Selected Quarterly Financial Data (Unaudited)

Selected unaudited quarterly financial data for the years 2004 and 2003 are summarized below:

(Dollars in Millions Except Per Share Data)	2004 First Quarter	2004 Second Quarter	2004 Third Quarter[1]	2004 Fourth Quarter[2]	2003 First Quarter[3]	2003 Second Quarter[4]	2003 Third Quarter	2003 Fourth Quarter[5]
Segment sales to customers								
Consumer	$ 2,047	2,000	2,024	2,262	1,791	1,819	1,841	1,979
Pharmaceutical	5,376	5,427	5,485	5,840	4,666	4,884	4,835	5,134
Med Devices & Diagnostics	4,136	4,057	4,044	4,650	3,364	3,629	3,779	4,141
Total sales	$11,559	11,484	11,553	12,752	9,821	10,332	10,455	11,254
Gross profit	8,192	8,322	8,366	9,046	7,099	7,366	7,475	7,746
Earnings before provision for taxes on income	3,504	3,435	3,274	2,625	2,929	2,056	2,949	2,374
Net earnings	2,493	2,458	2,341	1,217	2,070	1,210	2,072	1,845
Basic net earnings per share	$ .84	.83	.79	.41	.70	.41	.70	.62
Diluted net earnings per share	$ .83	.82	.78	.41	.69	.40	.69	.62

[1] The third quarter of 2004 includes an after-tax charge of $12 million for In-Process Research and Development (IPR&D) costs.

[2] The fourth quarter of 2004 includes $789 million for taxes on the repatriation of unremitted foreign earnings associated with the American Jobs Creation Act of 2004.

[3] The first quarter of 2003 includes an after-tax charge of $15 million for IPR&D costs.

[4] The second quarter of 2003 includes an after-tax charge of $900 million for IPR&D costs.

[5] The fourth quarter of 2003 includes after-tax income of $142 million for an arbitration ruling on stent patents and the cost of the retirement enhancement program of $61 million.

Management's Report on Internal Control over Financial Reporting

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

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

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

The Company's management has assessed the effectiveness of the Company's internal control over financial reporting as of January 2, 2005. 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 control over financial reporting.

Based on the Company's processes and assessment, as described above, management has concluded that, as of January 2, 2005, the Company's internal control over financial reporting was effective.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 2, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Johnson & Johnson's fiscal 2004 consolidated financial statements and of its internal control over financial reporting as of January 2, 2005 and audits of its fiscal 2003 and fiscal 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, statements of equity and statements of cash flows present fairly, in all material respects, the financial position of Johnson & Johnson and Subsidiaries (the "Company") at January 2, 2005 and December 28, 2003, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, "Management's Report on Internal Control over Financial Reporting," appearing on page 62 of the 2004 Annual Report to Shareholders, that the Company maintained effective internal control over financial reporting as of January 2, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission "COSO", is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

New York, New York
February 28, 2005

Segments of Business[1] and Geographic Areas

(Dollars in Millions)	Sales to Customers[2] 2004	2003	2002
Consumer—United States	$ 4,224	3,968	3,605
International	4,109	3,463	2,959
Total	8,333	7,431	6,564
Pharmaceutical—United States	14,960	13,271	11,919
International	7,168	6,246	5,232
Total	22,128	19,517	17,151
Medical Devices and Diagnostics—United States	8,586	8,035	6,931
International	8,301	6,879	5,652
Total	16,887	14,914	12,583
Worldwide total	$47,348	41,862	36,298

(Dollars in Millions)	Operating Profit 2004[5]	2003[6]	2002[7]	Identifiable Assets 2004	2003	2002
Consumer	$ 1,514	1,393	1,229	$ 6,142	5,371	5,056
Pharmaceutical	7,608	5,896	5,787	16,058	15,001	11,112
Medical Devices and Diagnostics	4,091	3,370	2,489	15,805	16,082	15,052
Segments total	13,213	10,659	9,505	38,005	36,454	31,220
Expenses not allocated to segments[3]	(375)	(351)	(214)			
General corporate[4]				15,312	11,809	9,336
Worldwide total	$12,838	10,308	9,291	$53,317	48,263	40,556

(Dollars in Millions)	Additions to Property, Plant & Equipment 2004	2003	2002	Depreciation and Amortization 2004	2003	2002
Consumer	$ 227	229	222	$ 222	246	244
Pharmaceutical	1,197	1,236	1,012	1,008	765	557
Medical Devices and Diagnostics	630	639	713	769	761	776
Segments total	2,054	2,104	1,947	1,999	1,772	1,577
General corporate	121	158	152	125	97	85
Worldwide total	$2,175	2,262	2,099	$2,124	1,869	1,662

(Dollars in Millions)	Sales to Customers[2] 2004	2003	2002	Long-Lived Assets[8] 2004	2003	2002
United States	$27,770	25,274	22,455	$14,324	14,367	11,822
Europe	11,151	9,483	7,636	6,142	5,193	4,613
Western Hemisphere excluding U.S.	2,589	2,236	2,018	748	772	583
Asia-Pacific, Africa	5,838	4,869	4,189	620	605	555
Segments total	47,348	41,862	36,298	21,834	20,937	17,573
General corporate				444	448	383
Other non long-lived assets				31,039	26,878	22,600
Worldwide total	$47,348	41,862	36,298	$53,317	48,263	40,556

[1] See Management's Discussion and Analysis, page 28 for a description of the segments in which the Company does business.

[2] Export sales and intersegment sales are not significant. Sales to our top three distributors accounted for 10.2%, 10.0% and 7.5% in 2004, 10.5%, 9.1% and 9.0% in 2003 and 10.3%, 9.8% and 9.2% in 2002.

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

[4] General corporate includes cash and marketable securities.

[5] Includes $18 million of In-Process Research & Development (IPR&D) in the Medical Devices and Diagnostics segment.

[6] Includes $737 million of IPR&D in the Pharmaceutical segment and $181 million of IPR&D and $230 million of an arbitration ruling on stent patents in the Medical Devices and Diagnostics segment.

[7] Includes $150 million of IPR&D, $150 million and $85 million of costs related to an arbitration settlement on PROCRIT® in the Pharmaceutical segment and $39 million of IPR&D in the Medical Devices and Diagnostics segment.

[8] Long-lived assets include property, plant and equipment, net for 2004, 2003 and 2002 of $10,436, $9,846 and $8,710, respectively, and intangible assets, net for 2004, 2003 and 2002 of $11,842, $11,539 and $9,246, respectively.

Summary of Operations and Statistical Data 1994-2004

(Dollars in Millions Except Per Share Figures)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Sales to customers—U.S.	$27,770	25,274	22,455	19,825	17,316	15,532	12,901	11,814	10,851	9,065	7,731
Sales to customers—International	19,578	16,588	13,843	12,492	11,856	11,825	10,910	10,708	10,536	9,472	7,723
Total sales	47,348	41,862	36,298	32,317	29,172	27,357	23,811	22,522	21,387	18,537	15,454
Cost of products sold	13,422	12,176	10,447	9,581	8,957	8,539	7,700	7,350	7,185	6,352	5,393
Selling, marketing and administrative expenses	15,860	14,131	12,216	11,260	10,495	10,065	8,525	8,185	7,848	6,950	5,901
Research expense	5,203	4,684	3,957	3,591	3,105	2,768	2,506	2,373	2,109	1,788	1,416
Purchased in-process research and development	18	918	189	105	66	—	298	108	—	—	37
Interest income	(195)	(177)	(256)	(456)	(429)	(266)	(302)	(263)	(196)	(151)	(85)
Interest expense, net of portion capitalized	187	207	160	153	204	255	186	179	176	184	182
Other (income) expense, net	15	(385)	294	185	(94)	119	565	248	122	70	(5)
	34,510	31,554	27,007	24,419	22,304	21,480	19,478	18,180	17,244	15,193	12,839
Earnings before provision for taxes on income	12,838	10,308	9,291	7,898	6,868	5,877	4,333	4,342	4,143	3,344	2,615
Provision for taxes on income	4,329	3,111	2,694	2,230	1,915	1,604	1,232	1,237	1,185	926	654
Net earnings	8,509	7,197	6,597	5,668	4,953	4,273	3,101	3,105	2,958	2,418	1,961
Percent of sales to customers	18.0	17.2	18.2	17.5	17.0	15.6	13.0	13.8	13.8	13.0	12.7
Diluted net earnings per share of common stock	2.84	2.40	2.16	1.84	1.61	1.39	1.02	1.02	.98	.84	.69
Percent return on average shareholders' equity	29.0	29.0	28.1	25.4	26.5	27.0	22.2	24.6	27.2	27.6	28.4
Percent increase over previous year:											
Sales to customers	13.1	15.3	12.3	10.8	6.6	14.9	5.7	5.3	15.4	19.9	11.4
Diluted net earnings per share	18.3	11.1	17.4	14.3	15.8	36.3	—	4.1	16.7	21.7	9.5
Supplementary expense data:											
Cost of materials and services[1]	21,053	18,568	16,540	15,333	14,113	13,922	11,779	11,702	11,341	9,984	8,104
Total employment costs	11,074	10,005	8,450	7,749	7,085	6,537	5,908	5,586	5,447	4,849	4,401
Depreciation and amortization	2,124	1,869	1,662	1,605	1,592	1,510	1,335	1,117	1,047	886	754
Maintenance and repairs[2]	462	395	360	372	327	322	286	270	285	257	222
Total tax expense[3]	5,393	4,078	3,497	2,995	2,619	2,271	1,881	1,824	1,753	1,458	1,132
Supplementary balance sheet data:											
Property, plant and equipment, net	10,436	9,846	8,710	7,719	7,409	7,155	6,767	6,204	6,025	5,544	5,230
Additions to property, plant and equipment	2,175	2,262	2,099	1,731	1,689	1,822	1,610	1,454	1,427	1,307	979
Total assets	53,317	48,263	40,556	38,488	34,245	31,064	28,966	23,615	22,248	19,355	17,027
Long-term debt	2,565	2,955	2,022	2,217	3,163	3,429	2,652	2,084	2,347	2,702	2,776
Operating cash flow	11,131	10,595	8,176	8,864	6,903	5,920	5,106	4,210	4,001	3,436	2,984
Common stock information											
Dividends paid per share	$ 1.095	.925	.795	.70	.62	.55	.49	.425	.368	.32	.283
Shareholders' equity per share	$ 10.71	9.05	7.65	7.95	6.77	5.70	4.93	4.51	4.07	3.46	2.76
Market price per share (year-end close)	$ 63.42	50.62	53.11	59.86	52.53	46.63	41.94	32.44	25.25	21.38	13.69
Average shares outstanding (millions)—basic	2,968.4	2,968.1	2,998.3	3,033.8	2,993.5	2,978.2	2,973.6	2,951.9	2,938.0	2,820.1	2,796.9
—diluted	3,003.5	3,008.1	3,054.1	3,099.3	3,099.2	3,100.4	3,082.7	3,073.0	3,046.2	2,890.0	2,843.2
Employees (thousands)	109.9	110.6	108.3	101.8	100.9	99.8	96.1	92.6	91.5	84.2	83.4

[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.

Reconciliation of Non-GAAP Measures

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

(Dollars in Millions Except Per Share Data)	2004	2003	2002	'04 vs.'03 % Change	'03 vs.'02 % Change
Net Earnings — as reported	$ 8,509	7,197	6,597	18.2%	9.1
Tax cost on the intended repatriation of undistributed international earnings	789	—	—		
In-process research & development (IPR&D)	12	915	189		
Net Earnings — as adjusted	$ 9,310	8,112	6,786	14.8%	19.5
Diluted net earnings per share — as reported	$ 2.84	2.40	2.16	18.3%	11.1
Tax cost on the intended repatriation of undistributed international earnings	0.26	—	—		
In-process research & development	—	0.30	0.07		
Diluted net earnings per share — as adjusted	$ 3.10	2.70	2.23	14.8%	21.1

The Company believes investors gain additional perspective of underlying business trends and results by providing a measure of net earnings and diluted net earnings per share that excludes IPR&D and the tax cost on the intended repatriation of undistributed international earnings associated with the American Jobs Creation Act of 2004, in order to evaluate ongoing business operations.

Principal Global Affiliates

ADVANCED STERILIZATION PRODUCTS
a Johnson & Johnson company

www.sterrad.com

Advanced Sterilization Products, division of Ethicon, Inc., is a leading developer of innovative instrument sterilization, disinfection, and cleaning technologies, including STERRAD® Systems and the CIDEX® Family of Products. The company is dedicated to protecting patients, health care workers, and the environment with products that focus as much on safety as they do on efficacy and cost-effectiveness. Utilizing advanced instrument processing technologies, its products help customers promote positive patient outcomes while controlling costs, increasing productivity, and enhancing safety.

www.alza.com

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

www.babycenter.com

BabyCenter, L.L.C. is the leading online pregnancy and parenting resource. Through its Web sites, BabyCenter.com and ParentCenter.com, the company provides health, child development and parenting information customized for a woman's stage of pregnancy or her child's age. BabyCenter also offers an online baby store and an online community.

www.centocor.com

Centocor, Inc. is a fully integrated biopharmaceutical and biotechnology company. A world leader in monoclonal antibody technology and manufacturing, Centocor manufactures products including REMICADE® (infliximab) for the treatment of rheumatoid arthritis, Crohn's disease and ankylosing spondylitis, and REOPRO® (abciximab) for use in percutaneous coronary intervention.

Cordis
a Johnson & Johnson company

www.cordis.com

Cordis Corporation is the world's leading developer and manufacturer of interventional cardiology, radiology and electrophysiology products for circulatory disease management. Cordis Corporation comprises four divisions – Cordis Cardiology; Cordis Endovascular; Cordis Neurovascular, and Biosense Webster.

DePuy
a Johnson & Johnson company

www.depuy.com

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

ETHICON
a Johnson & Johnson company

www.ethicon.com

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

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

www.ethiconendo.com

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

GREITER AG

www.pizbuin.com

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

INDEPENDENCE TECHNOLOGY
a Johnson & Johnson company

www.independencenow.com

Independence Technology, L.L.C. markets products and services that increase the independence of people with disabilities. Products include the INDEPENDENCE® iBOT™ 3000 Mobility System.

JANSSEN-CILAG

www.janssen-cilag.com

The Janssen-Cilag companies, which operate outside the U.S., market prescription pharmaceuticals including VELCADE® (bortezomib) for Injection in oncology, EPREX®/ERYPO® (Epoetin alfa) in hematology and nephrology; RISPERDAL® (risperidone), RISPERDAL® CONSTA™ (risperidone) long-acting injection and CONCERTA® (methylphenidate HCl) CII in psychiatry; DUROGESIC® (fentanyl transdermal system) for pain management; TOPAMAX® (topiramate) for epilepsy and migraine prevention; PARIET® (rabeprazole sodium) in gastroenterology; REMINYL® (galantamine HBr) for Alzheimer's disease; ORTHO EVRA® (norelgestromin/ethinyl estradiol) for contraception, and SPORANOX® (itraconazole) for fungal infections.

www.levaquin.com

Janssen Ortho-McNeil Primary Care, Inc. focuses on the primary care area of medicine. The company markets prescription medicines that treat respiratory tract and genitourinary infections, for acute and chronic pain management, and for gastrointestinal disorders. Leading products include LEVAQUIN® (levofloxacin), a leading quinolone antibiotic; DURAGESIC® (fentanyl transdermal system) CII for chronic pain; ULTRACET® (tramadol HCl), an acute pain medication; and ACIPHEX® (rabeprazole sodium), for gastrointestinal conditions.

Janssen

www.janssen.com

Janssen Pharmaceutica Products, L.P. produces and markets prescription medications that treat psychiatric disorders. Leading products include RISPERDAL® (risperidone) and RISPERDAL® CONSTA™ (risperdone) long-acting injection, for psychiatric conditions.

Johnson & Johnson
CONSUMER PRODUCTS COMPANY
Division of Johnson & Johnson Consumer Companies, Inc.

www.johnsonsbaby.com

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

Johnson & Johnson
DEVELOPMENT CORPORATION

www.jjdevcorp.com

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

Johnson & Johnson
GATEWAY

www.jnjgateway.com

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

Johnson & Johnson
HEALTH CARE SYSTEMS INC.

www.jnjgateway.com

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

Johnson & Johnson • MERCK
CONSUMER PHARMACEUTICALS CO.

www.jnj-merck.com

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

Johnson & Johnson
PHARMACEUTICAL RESEARCH & DEVELOPMENT, L.L.C.

www.jnjpharmarnd.com

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

Johnson & Johnson
SALES AND LOGISTICS COMPANY

Johnson & Johnson Sales and Logistics Company, a division of Johnson & Johnson Consumer Companies, Inc., provides sales, marketing and logistical services to U.S. retail customers on behalf of the U.S. consumer companies. It represents one point of contact with our customers for selling teams, customer service, distribution, retail merchandising and professional detailing. Additionally, it provides leadership for an emerging global customer base in the areas of transportation, enterprise-wide systems, business processes and global customer development.

Johnson & Johnson Vision Care, Inc.

www.jnjvision.com

Johnson & Johnson Vision Care, Inc. includes The Spectacle Lens Group and VISTAKON. The Spectacle Lens Group designs, develops, manufactures and markets spectacle lenses, with a focus on Progressive Addition Lens products for presbyopes. VISTAKON specializes in disposable contact lens brands, including ACUVUE® and SUREVUE® Brand contact lenses, ACUVUE® 2 COLOURS™ Brand Contact Lenses and ACUVUE® ADVANCE™ Brand Contact Lenses with HYDRACLEAR™.

LIFESCAN a Johnson & Johnson company

www.LifeScan.com

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

McNeil Consumer & Specialty Pharmaceuticals

www.tylenol.com

McNeil Consumer & Specialty Pharmaceuticals, division of McNeil-PPC, Inc., markets prescription pharmaceuticals and over-the-counter (OTC) products. Prescription products include CONCERTA® (methylphenidate HCl) CII for attention deficit hyperactivity disorder and FLEXERIL® (cyclobenzaprine HCl) 5 mg for the relief of muscle spasm associated with acute, painful musculoskeletal conditions. The company's OTC products include complete lines of TYLENOL® Acetaminophen and MOTRIN® IB Ibuprofen products for adults and children. Other McNeil brands include IMODIUM® A-D anti-diarrheal, ST. JOSEPH® Adult Regimen Aspirin and NIZORAL® A-D Shampoo.

McNeil Nutritionals

www.splenda.com

McNeil Nutritionals, LLC is a global marketer of innovative nutritional products. Its major brands include SPLENDA® No Calorie Sweetener, SPLENDA® Sugar Blend for Baking, VIACTIV® Soft Calcium Chews, VIACTIV® Multi-Vitamin Chews, LACTAID® Milk and Dietary Supplements, and BENECOL® Spreads and Smart Chews.

Neutrogena®

www.neutrogena.com

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

NORAMCO INC

www.noramco.com

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

ORTHO BIOTECH

www.orthobiotech.com

Ortho Biotech Products, L.P., and its worldwide affiliates market PROCRIT®/EPREX®/ERYPO® (Epoetin alfa), used to treat anemia associated with serious chronic conditions. The company also markets ORTHOCLONE OKT®3 (muromonab-CD3), a monoclonal antibody used to treat organ transplant rejection, and LEUSTATIN® (cladribine) to treat hairy cell leukemia. In the U.S. the company also markets ORTHOVISC®, a treatment for osteoarthritis of the knee.

Ortho-Clinical Diagnostics a Johnson & Johnson company

www.orthoclinical.com

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

ORTHO-McNEIL NEUROLOGICS, INC.

www.topamax.com

Ortho-McNeil Neurologics, Inc. develops and markets prescription products focused exclusively on improving neurological health. The company currently markets products that treat Alzheimer's disease, epilepsy, migraine prevention and migraine treatment. These include REMINYL® (galantamine HBr) for Alzheimer's disease; TOPAMAX® (topiramate) Tablets and TOPAMAX® (topiramate capsules) Sprinkle Capsules for epilepsy treatment and migraine prevention; and AXERT® (almotriptan malate tablets) for acute migraine treatment.

Ortho Women's Health & Urology, a division of Ortho-McNeil Pharmaceutical, Inc., is a leader in the fields of women's health and urology and is committed to providing patients with products that help them to live healthier lives. Ortho Women's Health, a trusted partner of health care professionals, is committed to bringing women the most advanced options in contraception, including ORTHO TRI-CYCLEN® LO (norgestimate/ethinyl estradiol) and ORTHO EVRA® (norelgestromin/ethinyl estradiol). Ortho Urology is focused on meeting the specific needs of health care professionals and patients with products such as ELMIRON® (pentosan polysulfate sodium) and DITROPAN XL® (oxybutynin chloride).

www.orthowomenshealth.com

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

www.itsmybody.com

Scios Inc. applies an integrated science and technology approach to its research and development efforts to develop novel therapeutics for cardiovascular and inflammatory diseases, and cancer. Its principal product is NATRECOR® (nesiritide) for acute decompensated congestive heart failure.

www.sciosinc.com

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

www.therakos.com

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

www.tibotec.com

Tibotec Therapeutics, a division of Ortho Biotech Products, L.P., was formed to focus on the U.S. sales and marketing of oncology and virology products. Currently, Tibotec Therapeutics markets DOXIL® (doxorubicin HCl liposome injection) for the treatment of relapsed and refractory ovarian cancer.

www.tibotectherapeutics.com

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

www.veridex.com

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

www.vircolab.com

VISTAKON® Pharmaceuticals, LLC, formed in 2004, currently markets three prescription ophthalmic agents: QUIXIN® (levofloxacin ophthalmic solution) 0.5%, BETIMOL® (timolol ophthalmic solution) and ALAMAST® (pemirolast potassium ophthalmic solution).

www.jnjvision.com

Worldwide Family of Companies

United States

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

ALZA Corporation
Mountain View, California
M. R. Jackson, President

BabyCenter, L.L.C.
San Francisco, California
M. J. Baker, President

Centocor, Inc.
Horsham, Pennsylvania
J. McHugh, President

Research & Development
Radnor, Pennsylvania
J. P. Siegel, President

Global Biologics Supply Chain, LLC
Horsham, Pennsylvania
R. J. Sheroff, President

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

Cordis Endovascular Division
Warren, New Jersey
C. L. Zilm, President

Biosense Webster, Inc.
Diamond Bar, California
R. T. Tanaka, President

Cordis Neurovascular, Inc.
Miami, Florida
C. L. Zilm, President

DePuy
DePuy Orthopaedics, Inc.
Warsaw, Indiana
D. Moreira-Rato, U.S. President

DePuy Spine, Inc.
Raynham, Massachusetts
E. R. Fender, Worldwide President

Codman & Shurtleff, Inc.
Raynham, Massachusetts
G. A. Kashuba, Worldwide President

DePuy Mitek
Westwood, Massachusetts
M. Paul, Worldwide President

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Somerville, New Jersey
CardioVations
R. C. Coradini, Worldwide President

Ethicon Products Division
R. Bianchi, Worldwide President

Gynecare Division
B. Schwartz, Ph.D., Worldwide President

Johnson & Johnson Wound Management Division
D. G. Wildman, Worldwide President

Ethicon Endo-Surgery, Inc.
Cincinnati, Ohio
R. Salerno, President

Oncology Division
C. Groehl, President

Independence Technology, L.L.C.
Warren, New Jersey

Janssen Ortho-McNeil Primary Care, Inc.
Raritan, New Jersey
J. N. Smith, President

Janssen Pharmaceutica Products, L.P.
Titusville, New Jersey
J. S. Vergis, President

Johnson & Johnson Consumer Products Company
Division of Johnson & Johnson Consumer Companies, Inc.
Skillman, New Jersey
S. K. D'Agostino, Global President, Skin Care

S. S. McCoy, Global President, Baby/Kids and Wound Care

Johnson & Johnson Development Corporation
New Brunswick, New Jersey
D. P. Holveck, President

Johnson & Johnson Gateway, LLC
Piscataway, New Jersey
L. Lee, Worldwide Vice President

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Piscataway, New Jersey
M. W. Barstad, President, Acute Care
D. J. Martin, President, Managed Markets

Johnson & Johnson•Merck Consumer Pharmaceuticals Co.
Fort Washington, Pennsylvania
R. Van den Hooff, President

Johnson & Johnson Networking & Computing Services
Division of Johnson & Johnson Services, Inc.
Raritan, New Jersey
M. A. Shea, President

Johnson & Johnson Pharmaceutical Research & Development, L.L.C.
Raritan, New Jersey
G. Neil, President

Johnson & Johnson Sales and Logistics Company
Division of Johnson & Johnson Consumer Companies, Inc.
Skillman, New Jersey

LifeScan, Inc.
Milpitas, California
P. B. Luther, President

McNeil Consumer & Specialty Pharmaceuticals
Division of McNeil-PPC, Inc.
Fort Washington, Pennsylvania
W. L. McComb, President

McNeil Nutritionals
Division of McNeil-PPC, Inc.
Fort Washington, Pennsylvania
C. F. Watts, President

Neutrogena Corporation
Los Angeles, California
J. Hall, President

Noramco, Inc.
Athens, Georgia
R. E. Perkins, President

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Bridgewater, New Jersey
J. Johnson, President

Tibotec Therapeutics Division
Bridgewater, New Jersey
G. Mattes, President

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Raritan, New Jersey
Rochester, New York
C. E. Holland, Worldwide President

Ortho-McNeil Neurologics, Inc.
Titusville, New Jersey
N. F. Fowler, President

OrthoNeutrogena
Division of Ortho-McNeil Pharmaceutical, Inc.
Los Angeles, California
C. Dennis, Global President

Ortho Women's Health & Urology
Division of Ortho-McNeil Pharmaceutical, Inc.
Raritan, New Jersey
W. L. McComb, President

Personal Products Company
Division of McNeil-PPC, Inc.
Skillman, New Jersey
R. E. Kirby, President

Pharmaceutical Sourcing Group – Americas
Division of Ortho-McNeil Pharmaceutical Inc.
Bridgewater, New Jersey
C. E. Austin, President

Scios Inc.
Fremont, California
J. R. Mitchell, President

Research & Development
G. Schreiner, President

Therakos, Inc.
Exton, Pennsylvania
M. Rechtiene, General Manager

The Spectacle Lens Group
Division of Johnson & Johnson Vision Care, Inc.
Roanoke, Virginia
J. F. Hogan, President

Veridex, L.L.C.
Raritan, New Jersey
M. Myslinski, General Manager

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

Vistakon Pharmaceuticals LLC
Jacksonville, Florida
R. W. Maiolo, Vice President

Canada

Janssen-Ortho Inc.
North York, Ontario

Johnson & Johnson Inc.
Montreal, Quebec

Johnson & Johnson Medical Products
Markham, Ontario

LifeScan Canada Ltd.
Burnaby, British Columbia

McNeil Consumer Healthcare, Canada
Guelph, Ontario

Ortho Biotech
Toronto, Ontario

Ortho-Clinical Diagnostics
Mississauga, Ontario

Vistakon
Markham, Ontario

Latin America

Argentina

Janssen-Cilag Farmaceutica
Buenos Aires

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

Johnson & Johnson Medical S.A.
Buenos Aires

Brazil

Janssen-Cilag Farmaceutica Ltda.
São Paulo

Johnson & Johnson Indústria e Comércio Ltda.
São Paulo

Johnson & Johnson Professional Products Ltda.
São Paulo

Chile

Johnson & Johnson de Chile S.A.
Santiago

Colombia

Janssen-Cilag Farmaceutica S.A.
Bogota

Johnson & Johnson de Colombia S.A.
Cali

Johnson & Johnson Medical Colombia
Bogota

Ecuador

Johnson & Johnson del Ecuador, S.A.
Guayaquil

Mexico

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

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

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

Panama

Johnson & Johnson Central America
Panama City

Paraguay

Johnson & Johnson del Paraguay
Asunsion

Peru

Johnson & Johnson del Peru S.A.
Lima

Puerto Rico

Johnson & Johnson (Caribbean)
Caguas

Johnson & Johnson Medical (Caribbean)
Caguas

Uruguay

Johnson & Johnson de Uruguay S.A.
Montevideo

Venezuela

Janssen-Cilag Farmaceutica C.A.
Caracas

Johnson & Johnson de Venezuela, S.A.
Caracas

Europe

Austria

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

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

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

Belgium

Janssen-Cilag N.V.
Antwerp

Janssen Pharmaceutica N.V.
Beerse

Johnson & Johnson Consumer Benelux
Brussels

LifeScan Benelux N.V.
Beerse

Tibotec-Virco N.V.
Mechelen

Virco BVBA
Mechelen

Czech Republic

Janssen-Cilag
Prague

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

Denmark

Janssen-Cilag
Birkerod

England

Cordis U.K. Limited
South Ascot

DePuy International Limited
Leeds

Ethicon Endo-Surgery U.K.
Bracknell

Janssen-Cilag Limited
High Wycombe

Johnson & Johnson Limited
Maidenhead

LifeScan U.K.
High Wycombe

Ortho-Clinical Diagnostics
Amersham

Vistakon Europe
Bracknell

Finland

Janssen-Cilag OY
Espoo

France

Cordis S.A.
Issy-Les-Moulineaux

DePuy France S.A.
Lyon

Ethicon S.A.
Issy-Les-Moulineaux

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

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

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

Johnson & Johnson Vision Care
Issy-Les-Moulineaux

LifeScan
Issy-Les-Moulineaux

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

Germany

Cordis G.m.b.H.
Langenfeld

DePuy Orthopädie G.m.b.H.
Sulzbach

Ethicon G.m.b.H.
Norderstedt

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

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

Johnson & Johnson G.m.b.H.
Düsseldorf

Johnson & Johnson Vision Care
Norderstedt

LifeScan G.m.b.H.
Neckargemund

McNeil Europe
Bad Honnef

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

Greece

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

Johnson & Johnson Hellas S.A.
Athens

Johnson & Johnson
Medical Products S.A.
Athens

Hungary

Janssen-Cilag Kft.
Budapest

Johnson & Johnson Kft.
Budapest

Ireland

DePuy Ireland
Cork

Janssen-Cilag Pharmaceutical Limited
Cork

Johnson & Johnson (Ireland) Limited
Tallaght

Johnson & Johnson Medical
Dublin

Johnson & Johnson Vision Care
Limerick

Italy

Cordis S.p.A.
Milan

DePuy Italy SRL
Milan

Ethicon S.p.A.
Rome

Ethicon Endo-Surgery
Rome

Janssen-Cilag S.p.A.
Milan

Johnson & Johnson S.p.A.
Rome

LifeScan
Milan

Ortho-Clinical
Diagnostics S.p.A.
Milan

Vistakon
Rome

The Netherlands

Cordis Benelux
Amersfoort

Janssen-Cilag B.V.
Tilburg

Johnson & Johnson/Gaba B.V.
Almere

Johnson & Johnson Medical B.V.
Zaventem

Johnson & Johnson Vision Care
Amersfoort

Norway

Janssen-Cilag AS
Oslo

Poland

Janssen-Cilag
Warsaw

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

Portugal

Janssen-Cilag Farmaceutica, Ltda.
Queluz

Johnson & Johnson Limitada
Queluz

Johnson & Johnson Professional
Products, Limitada
Queluz

Russia

Johnson & Johnson L.L.C.
Moscow

Scotland

Ethicon Limited
Edinburgh

Slovenia

Johnson & Johnson S.E.
Ljubljana

Spain

Janssen-Cilag S.A.
Madrid

Johnson & Johnson S.A.
Madrid

Johnson & Johnson Medical
Madrid

LifeScan
Madrid

Ortho-Clinical Diagnostics
Madrid

Johnson & Johnson Vision Care
Madrid

Sweden

Janssen-Cilag AB
Sollentuna

Johnson & Johnson AB
Sollentuna

Johnson & Johnson Consumer
Products
Sollentuna

Switzerland

Cilag AG
Schaffhausen

Greiter AG
Baar

Janssen-Cilag
Zug

Janssen-Cilag AG
Baar

Johnson & Johnson AG
Spreitenbach

Johnson & Johnson Medical
Spreitenbach

LifeScan
Zug

McNeil Consumer Nutritionals Europe
Zug

Turkey

Johnson & Johnson Limited
Istanbul

Janssen-Cilag
Istanbul

Asia-Pacific, Africa

Australia

DePuy Australia Pty. Ltd.
Notting Hill, Victoria

Janssen-Cilag Pty. Ltd.
North Ryde

Johnson & Johnson Medical Pty. Ltd.
North Ryde

Johnson & Johnson Pacific Pty. Limited
Sydney

Johnson & Johnson Vision Care
Sydney

Ortho-Clinical Diagnostics
Mount Waverley, Victoria

Tasmanian Alkaloids Pty. Limited
Westbury, Tasmania

China

Johnson & Johnson China Ltd.
Shanghai

Johnson & Johnson Medical Ltd.
Shanghai

Shanghai Johnson & Johnson Ltd.
Shanghai

Shanghai Johnson & Johnson
Pharmaceuticals Ltd.
Shanghai

Xian-Janssen Pharmaceutical Ltd.
Beijing

Egypt

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

Hong Kong

Janssen-Cilag
Hong Kong

Johnson & Johnson (Hong Kong) Limited
Hong Kong

Johnson & Johnson Medical Hong Kong
Hong Kong

Vistakon
Hong Kong

India

Janssen-Cilag
Mumbai

Johnson & Johnson Limited
Mumbai

Johnson & Johnson Professional
Mumbai

Indonesia

Janssen-Cilag Pharmaceutica
Jakarta

P.T. Johnson & Johnson Indonesia
Jakarta

Israel

Biosense Europe
Haifa

Janssen-Cilag
Kibbutz Shefayim

Johnson & Johnson Medical
Kibbutz Shefayim

Japan

DePuy Japan, Inc.
Tokyo

Janssen Pharmaceutical K.K.
Tokyo

Johnson & Johnson K.K.
Tokyo

Johnson & Johnson Medical
Tokyo

Ortho-Clinical Diagnostics K.K.
Tokyo

Vistakon Japan
Tokyo

Korea

Janssen-Cilag Korea, Ltd.
Seoul

Johnson & Johnson Korea, Ltd.
Seoul

Johnson & Johnson Medical Korea Ltd.
Seoul

Johnson & Johnson Vision Care
Seoul

Malaysia

Johnson & Johnson Sdn. Bhd.
Selangor Darul Ehsan

Morocco

Johnson & Johnson Morocco S.A.
Casablanca

New Zealand

DePuy New Zealand Ltd.
Auckland

Pakistan

Johnson & Johnson Pakistan
(Private) Limited
Karachi

Philippines

Janssen-Cilag Philippines
Metro Manila

Johnson & Johnson (Philippines), Inc.
Metro Manila

Saudi Arabia

Johnson & Johnson Saudi Arabia
Riyadh

Singapore

Janssen-Cilag Singapore/Malaysia
Singapore

Johnson & Johnson Medical Singapore
Singapore

Johnson & Johnson Pte. Ltd.
Singapore

Johnson & Johnson Vision Care
Singapore

Ortho-Clinical Diagnostics
Singapore

South Africa

Janssen-Cilag (Pty.) Ltd.
Sandton

Johnson & Johnson (Pty.) Limited
East London

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

Taiwan

Janssen-Cilag Taiwan
Taipei

Johnson & Johnson Medical Taiwan
Taipei

Johnson & Johnson Taiwan, Ltd.
Taipei

Thailand

Janssen-Cilag Pharmaceutica Limited
Bangkok

Johnson & Johnson Asean Limited
Bangkok

Johnson & Johnson Medical Thailand
Bangkok

United Arab Emirates

Johnson & Johnson (Middle East) Inc.
Dubai

Corporate and Shareholder/Investor Information

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 28, 2005, 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 2004 Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K to the Securities and Exchange Commission, and the Annual Report are available online at www.jnj.com, or to shareholders without charge upon written request to the Secretary at the Company's principal office or by calling (800) 328-9033 or (781) 575-2718 (outside the U.S.).

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

The Company is required to file as an Exhibit to its Form 10-K for fiscal year 2004 Certifications under Section 302 of the Sarbanes-Oxley Act signed by the Chief Executive Officer and the Chief Financial Officer. In addition, the Company will be 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. Following last year's Annual Meeting, said certification was submitted to the New York Stock Exchange on May 11, 2004. Copies of these Certifications are posted on the Company's Corporate Governance Web site promptly after filing.

Common Stock
Listed on New York Stock Exchange
Stock Symbol JNJ

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

Investor Relations Contact
Helen E. Short
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:
EquiServe Trust Company, N.A.
P. O. Box 43069
Providence, Rhode Island 02940-3069
(800) 328-9033 or (781) 575-2718 (outside the U.S.)
Internet: (EquiServe Home Page)
http://www.EquiServe.com

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 stock without brokerage commissions or service charges on stock purchases. If you are interested in joining the Plan and need an authorization form and/or more background information, please call EquiServe 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 EquiServe Trust Company, N.A. via a telecommunications device (TDD). The telephone number for this service is (800) 952-9245 or (781) 575-2692 (outside the U.S.).

World Wide Web Site
http://www.jnj.com

This annual report was printed on recycled paper that includes a minimum of 10% post-consumer recovered fiber.

Our Credo

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

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

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

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

Johnson & Johnson

One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933