

LifeScan Scotland Limited

Annual report and financial statements

For the year ended 1 January 2012

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LifeScan Scotland Limited

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LifeScan Scotland Limited

Company Information

Directors	W Printie T Bacarese-Hamilton S Saini D McMillan (resigned 28 January 2011)
Company secretary	E Fraser
Registered number	SC154012
Registered office	Beechwood Park North Inverness IV2 3ED
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 32 Albyn Place Aberdeen AB10 1YL
Bankers	Royal Bank of Scotland plc London Corporate Service Centre PO Box 39592 2½ Devonshire Square London EC2M 4WS

LifeScan Scotland Limited

Directors' report
For the year ended 1 January 2012

The directors present their annual report and the audited financial statements of the company for the year ended 1 January 2012.

Principal activities

LifeScan Scotland Limited develops advanced blood glucose monitoring products and is principally responsible for the manufacture of electrochemical testing products used by diabetics.

Future outlook

The markets in which the company operates are expected to remain competitive in 2012. The development of new and existing products and processes continues to be important to the success of the company in all areas of the business. Management remains confident that the company will continue to perform well in the future.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to general industry conditions and competition; economic conditions; technological advances; challenges inherent in new product development; and product efficacy or safety concerns resulting in product recalls or regulatory action.

Key performance indicators ('KPIs')

The directors of the company manage the business through a set of financial and non-financial performance measures. These measures are reviewed routinely and used in making tactical and strategic decisions affecting the short and long-term results of the business. Some examples are gross profit, departmental spend, cost per strip, capital efficiency and days of inventory.

Financial risk management

The policies set by the Group are implemented by the company and its finance department. The department has a policy and procedures manual that sets out specific guidelines to manage liquidity risk, interest rate risk and circumstances where it would be appropriate to use financial instruments to manage these.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Liquidity risk

The company is funded within the Johnson & Johnson group of companies. Its funding requirements are reviewed regularly by both the board of directors and the treasury department of Johnson & Johnson to ensure the company has sufficient available funds for operations and planned expansions.

Interest rate cash flow risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets earn interest at a variable rate.

LifeScan Scotland Limited

Directors' report
For the year ended 1 January 2012

Results and dividends

The profit and loss account for the financial year is set out on page 7.

The company's profit for the financial year is £72,110,437 (2010: £61,429,897). Interim dividends of £9.60 (2010: £26.60) per ordinary share amounting to £19,200,000 (2010: £53,200,000) were paid during the year. The aggregate dividends on the ordinary shares recognised during the year amounts to £19,200,000 (2010: £53,200,000). There are no proposed dividends awaiting approval at the balance sheet date (2010: £nil).

Qualifying third party indemnity provisions

At the time the report is approved there are no qualifying third party indemnity provisions in place for the benefit of one or more of the directors.

Directors

The directors who held office during the year and up to the date of signing the financial statements, unless otherwise stated are given below:

W Printie
T Bacarese-Hamilton
S Saini
D McMillan (resigned 28 January 2011)

Charitable and political contributions

Charitable contributions paid during the year amounted to £152,203 (2010: £139,423). The purpose for which these contributions were given is the benefit of the local community.

No donations were made during the year to political organisations (2010: £nil).

Employee involvement

The company is committed to the continued development of employee involvement by an effective communications and consultative framework. Consultative committees covering broad business areas, pensions, health and safety, quality and employee services are well established and meet regularly. Briefing meetings for all staff are held regularly.

The current emphasis is on facilitating cross-functional relationships to increase awareness and to build effective teamwork.

The company's policies and practices are regularly reviewed and feedback is received from all staff levels.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Policy and practice on payment of creditors

The company's policy in respect of its creditors is to settle the terms of payment with those creditors when agreeing the terms of each transaction.

LifeScan Scotland Limited

Directors' report
For the year ended 1 January 2012

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

All directors in office at the time the report is approved confirm:

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that he/she ought to have taken in his/her duty as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

This report was approved by the board and signed on its behalf.



W Printie
Director

Date:

21/8/12

Independent auditors' report to the members of LifeScan Scotland Limited

We have audited the financial statements of LifeScan Scotland Limited for the year ended 1 January 2012 which comprise the profit and loss account, the balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 January 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

LifeScan Scotland Limited

Independent auditors' report to the members of LifeScan Scotland Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Kevin Reynard (Senior statutory auditor)

for and on behalf of

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

32 Albyn Place

Aberdeen

AB10 1YL

Date:

27 August 2012

LifeScan Scotland Limited

Profit and loss account
For the year ended 1 January 2012

	Note	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Turnover	2	169,682,737	168,147,862
Cost of sales		(61,942,909)	(68,890,521)
Gross profit		107,739,828	99,257,341
Administrative expenses		(28,388,387)	(24,362,573)
Other operating income	3	17,636,388	8,767,353
Operating profit	4	96,987,829	83,662,121
Interest receivable and similar income	8	597,147	1,370,052
Interest payable and similar charges	9	(1,526)	(287,979)
Profit on ordinary activities before taxation		97,583,450	84,744,194
Tax on profit on ordinary activities	10	(25,473,013)	(23,314,297)
Profit for the financial year	21	72,110,437	61,429,897

There is no material difference between the profit on ordinary activities before taxation and the profit for the years stated above, and their historical cost equivalents.

All results are derived from continuing operations.

The company has no recognised gains or losses other than the results above and therefore no separate statement of total recognised gains and losses has been prepared.

Balance sheet
As at 1 January 2012

		1 January 2012	2 January 2011
	Note	£	£
Fixed assets			
Tangible assets	12	55,695,689	58,253,013
Current assets			
Stock	13	2,606,890	2,234,145
Debtors	14	241,960,509	179,320,974
Cash at bank and in hand		88,572	191,563
		<u>244,655,971</u>	<u>181,746,682</u>
Creditors: Amounts falling due within one year	15	<u>(39,682,192)</u>	<u>(33,025,631)</u>
Net current assets		<u>204,973,779</u>	<u>148,721,051</u>
Total assets less current liabilities		<u>260,669,468</u>	<u>206,974,064</u>
Creditors: Amounts falling due after more than one year	16	(2,000,000)	(1,600,000)
Provisions for liabilities			
Deferred tax	17	(2,569,748)	(2,309,054)
Other provisions	18	<u>(406,816)</u>	<u>(366,791)</u>
		<u>(2,976,564)</u>	<u>(2,675,845)</u>
Net assets		<u>255,692,904</u>	<u>202,698,219</u>
Capital and reserves			
Called up share capital	20	2,000,000	2,000,000
Capital redemption reserve	21	2,000,000	2,000,000
Other reserves	21	2,814,156	2,729,908
Profit and loss account	21	<u>248,878,748</u>	<u>195,968,311</u>
Total shareholders' funds	22	<u>255,692,904</u>	<u>202,698,219</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



W Printie
Director

Date:

21/8/12

The notes on pages 9 to 24 form part of these financial statements.

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies

Accounting period

The accounting year ended 1 January 2012 consists of 52 weeks. For the purposes of these financial statements the year is referred to as 2011. The accounting year ended 2 January 2011 is referred to as 2010.

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been consistently applied throughout the year are set out below:

Tangible fixed assets

Tangible fixed assets are stated at their purchase cost, together with any incidental expenses of acquisition, and they are stated in the balance sheet at cost less accumulated depreciation. The assets are reassessed periodically.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual value, on a straight line basis over the expected useful economic lives of the assets concerned. Depreciation is not charged on capital assets under construction until the asset is completed for its intended use and transferred to the appropriate fixed asset classification.

The principal annual rates used for this purpose, are:

Plant and equipment - 14-50%
Leasehold improvements - 10%.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the company entered into the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are included in operating profit.

Dividends

Dividends received from subsidiary undertakings are accounted for when received. Dividends paid are accounted for in the year when they are paid.

Turnover

Turnover, which excludes value added tax, represents royalty income and fees receivable from fellow group companies for manufacturing and related services.

Government grants

Government grants are treated as deferred income which is credited to the profit and loss account by installments over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. The periods in which government grants are expected to be credited to the profit and loss account are within the next two to five years.

Finance leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their own useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the year of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly except that assets are depreciated over their useful lives.

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies (continued)

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stock and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value. Stock represents product packaging materials and engineering spares for plant and machinery.

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred, unless it relates to a proven product, when development expenditure will be capitalised and written off over the estimated useful life of the product.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension arrangements

The company participates in the Johnson & Johnson UK Group Retirement Plan. The UK Group operates a funded defined benefit pension scheme and defined contribution scheme for all UK employees. New entrants aged 35 or over are eligible to join the funded defined benefit scheme and new entrants aged under 35 are eligible to join the defined contribution scheme.

More than one employer participates in the Johnson & Johnson UK Group Retirement Plan and because the assets attributable to each individual company cannot be identified on a consistent and reasonable basis, each company's share of the deficit cannot be identified. Under FRS 17, the company is therefore accounting for its contributions to the scheme as if it were a defined contribution scheme. Accordingly the cost to the company in respect of the scheme is equal to the contributions payable to the scheme during the year, and this cost has been recognised within operating profit in the profit and loss account.

Share-based payments

The ultimate parent company, Johnson & Johnson Inc, operates equity-settled, share-based compensation plans. Certain employees of the company are awarded options over the shares in the ultimate parent. The fair value of the employee services received in exchange for these grants of options is recognised as an expense using the Black-Scholes option pricing model, with a corresponding increase in reserves (representing a capital contribution by the ultimate parent). The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to other reserves.

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies (continued)

Share-based payments (continued)

In accordance with FRS 20 (Share based payment), fair value calculations have only been made in respect of share options awarded after 7 November 2002 that remain unvested at 1 January 2006. For all other options awarded prior to 7 November 2002, the company recognises within other reserves the potential recharge from the ultimate parent company for the cost of options outstanding at the year end (based upon the difference between the option exercise prices and the market value at the year end). It has been agreed that the company will no longer be recharged on the exercise of options granted before 1 January 2000. Movements in the underlying potential recharge are reflected in the profit and loss account for the year.

Upon exercise, Johnson & Johnson Inc makes a recharge to the company in respect of share options granted to the company's employees. When incurred, these intercompany charges are offset in other reserves against the relevant capital contribution. If the amount of the intercompany charge exceeds the original capital contribution, that excess is treated as a distribution from the company to its parent.

Employer's National Insurance on share options

Under unapproved share option schemes, the company is required to pay National Insurance on the difference between the exercise price and market value at the exercise date of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. The company therefore calculates the provision by applying the latest enacted National Insurance rate to the difference between the market value of the underlying options at the balance sheet date and the option exercise prices. A full provision is made upon grant of the option as there is no underlying performance year. The amount of the National Insurance actually payable will depend on the number of employees who remain with the company and exercise their options, the market price of the ultimate parent company's shares at the time of exercise and the prevailing National Insurance rates at the time.

Employee benefits – Certificates of Extra Compensation

In addition, the company's employees may be eligible to receive Certificates of Extra Compensation (CEC's).

CECs may be granted by the company if it wishes to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the company and (b) by the formula value of AAR Units as established in the AAR agreement, at the time of termination of employment or death while in such employment.

Cash flow statement

The company is a wholly owned subsidiary of Johnson & Johnson Inc and the cash flows of the company are included in the consolidated financial statements of Johnson & Johnson Inc, which are publicly available. Consequently the company is exempt under the terms of FRS 1 (revised 1996) from preparing a cash flow statement.

Related party transactions

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Johnson & Johnson Inc, whose accounts are publicly available.

Notes to the financial statements
For the year ended 1 January 2012

2. Turnover

In the opinion of the directors there is only one class of business, which involves the development, and manufacture of medical diagnostic devices (electrochemical testing products). Consequently the company is not required to disclose a segmental analysis by class of business and accordingly no such analysis is presented as part of these financial statements.

Turnover, which excludes value added tax, represents royalty income and fees receivable from fellow group companies for manufacturing and related services. The company's turnover arises wholly within Europe.

3. Other operating income

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Other operating income	<u>17,636,388</u>	<u>8,767,353</u>

Other operating income represents fees receivable from fellow group companies for research and development services and government grant income towards research and development expenditure.

4. Operating profit

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Operating profit is stated after charging/(crediting):		
Research and development	10,957,922	18,457,656
Depreciation charge for the year:		
Tangible owned fixed assets (note 12)	6,560,181	7,421,607
Tangible leased fixed assets (note 12)	253,545	253,545
Operating lease charges:		
Plant and machinery	252,471	106,549
Land and buildings	3,191,990	3,120,709
(Profit)/loss on sale of fixed assets	(268,629)	783,078
Foreign exchange loss	<u>89,578</u>	<u>324,604</u>

During the prior year the loss on sale of fixed assets of £783,078 was disclosed on the face of the profit and loss account due to an exceptional write off in 2009. The current year profit on disposal along with the comparative loss for 2010 have been reclassified to cost of sales in these financial statements.

LifeScan Scotland Limited

Notes to the financial statements
For the year ended 1 January 2012

5. Auditors' remuneration

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the company	57,000	51,217

6. Directors' emoluments

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Aggregate emoluments	805,849	885,954

Retirement benefits are accruing to three directors (2010: four directors) under the company's defined benefit pension scheme.

Two directors (2010: one director) exercised share options in the ultimate parent company during the year.

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Highest paid director		
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long term incentive schemes)	282,394	282,269
Defined benefit scheme:		
Accrued pension at year end	19,912	16,845

The highest paid director exercised share options in the year to the value of £nil (2010: £47,188)

Notes to the financial statements
For the year ended 1 January 2012

7. Staff costs

Staff costs were as follows:

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Wages and salaries	33,946,434	33,201,608
Social security costs	2,909,628	3,112,348
Other pension costs (note 19)	6,133,600	6,014,604
Share-based payments - charge/(credit) (note 23)	103,412	(34,705)
	<u>43,093,074</u>	<u>42,293,855</u>

The average monthly number of persons (including executive directors) employed by the company during the year was as follows:

	Year ended 1 January 2012 No.	Year ended 2 January 2011 No.
Production	929	959
Administration	44	47
Product development	134	132
	<u>1,107</u>	<u>1,138</u>

Share-based payments include £52,315 (2010: £16,539) charged in respect of the fair value of employee services provided and a charge (2010: credit) of £51,097 (2010: £51,244) for the movement in potential recharge to ultimate parent in respect of options not being fair valued.

The average number of employees includes graduate trainees, part time employees and those on maternity leave.

8. Interest receivable and similar income

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Interest income on intercompany cash pooling	<u>597,147</u>	<u>1,370,052</u>

9. Interest payable and similar charges

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Interest paid to group undertakings	<u>1,526</u>	<u>287,979</u>

Notes to the financial statements
For the year ended 1 January 2012

10. Tax on profit on ordinary activities

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	25,223,155	23,356,994
Adjustments in respect of prior periods	(10,836)	(145,541)
Total current tax	25,212,319	23,211,453
Deferred tax		
Origination and reversal of timing differences	264,278	102,844
Adjustments in respect of prior periods	(3,584)	-
Total deferred tax (see note 17)	260,694	102,844
Tax on profit on ordinary activities	25,473,013	23,314,297

Factors affecting tax charge for the year

The tax assessed for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 26.5% (2010 - 28%). The differences are explained below:

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Profit on ordinary activities before taxation	97,583,450	84,744,194
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	25,859,614	23,728,374
Effects of:		
Accelerated capital allowances and other timing differences	(494,089)	(243,156)
Adjustments to tax charge in respect of prior periods	(10,836)	(145,541)
Other timing differences	32,924	54,791
Expenses not deductible for tax purposes	274,744	317,224
Additional deduction for research and development	(432,584)	(406,931)
Industrial buildings allowance	(17,454)	(93,308)
Current tax charge for the year (see note above)	25,212,319	23,211,453

Notes to the financial statements
For the year ended 1 January 2012

10. Tax on profit on ordinary activities (continued)

Factors affecting current and future tax charges

The standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 26.5%.

During the year, as a result of the change in the UK main corporation tax rate to 25% that was substantively enacted on 5 July 2011, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the March 2012 and prior Budgets. The additional changes, which are expected to be enacted separately each year, propose to reduce the rate by a further 1% on 1 April 2012 to 24% and by 1% per annum thereafter to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

11. Dividends

	Year ended 1 January 2012 £	Year ended 2 January 2011 £
Interim dividend paid: £9.60 (2010: £26.60) per ordinary £1 share	19,200,000	53,200,000

12. Tangible fixed assets

	Finance leases £	Leasehold improvements £	Plant and equipment £	Assets under construction £	Total £
Cost					
At 3 January 2011	5,499,891	31,951,810	51,763,200	19,543,211	108,758,112
Additions	-	-	-	9,552,823	9,552,823
Disposals	-	(1,837,793)	(1,124,530)	(3,059,479)	(6,021,802)
Transfers	-	65,261	3,238,748	(3,304,009)	-
At 1 January 2012	5,499,891	30,179,278	53,877,418	22,732,546	112,289,133
Accumulated depreciation					
At 3 January 2011	4,748,235	10,641,023	35,115,841	-	50,505,099
Charge for the year	253,545	1,943,249	4,616,932	-	6,813,726
On disposals	-	(260,354)	(465,027)	-	(725,381)
At 1 January 2012	5,001,780	12,323,918	39,267,746	-	56,593,444
Net book amount					
At 1 January 2012	498,111	17,855,360	14,609,672	22,732,546	55,695,689
At 2 January 2011	751,656	21,310,787	16,647,359	19,543,211	58,253,013

LifeScan Scotland Limited

Notes to the financial statements
For the year ended 1 January 2012

13. Stock

	1 January 2012	2 January 2011
	£	£
Raw materials and consumables	722,385	517,450
Work in progress	1,884,505	1,716,695
	<u>2,606,890</u>	<u>2,234,145</u>

Raw materials and consumables represent product packaging materials. There is no material difference between the carrying value and replacement value of stock.

14. Debtors

	1 January 2012	2 January 2011
	£	£
Amounts falling due within one year		
Amounts owed by group undertakings	240,205,910	176,773,345
Other debtors	1,285,925	1,623,984
Prepayments and accrued income	468,674	923,645
	<u>241,960,509</u>	<u>179,320,974</u>

Amounts owed by group undertakings includes an amount of £204,484,001 (2010: £137,932,156) invested with the In-House Bank Cash Pool. This amount is unsecured and interest bearing.

The company, together with other UK based affiliate companies, participates in one or more In-House Bank Cash Pool arrangements administrated by J.C. General Services CVBA, a company incorporated under Belgian law with registered office at Turnhoutseweg 30, 2340 Beerse, Belgium. The centralised financial management provided in relation to the In-House Bank Cash Pool is intended to, among other things, enable the Cash Pool participants, by acting collectively, to have access to the broadest range of credit options at arm's length conditions, while optimizing the use and investment of the liquidities available within the In-House Bank Cash Pool.

All investments with J.C. General Services CVBA are made on behalf of the UK group companies by Johnson and Johnson Medical Limited. Transactions between Johnson and Johnson Medical Limited and UK group affiliates to fund these investments are treated as separate arrangements.

All other amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

15. Creditors: Amounts falling due within one year

	1 January 2012	2 January 2011
	£	£
Trade creditors	7,195,534	3,530,998
Amounts owed to group undertakings	14,567,361	13,325,343
Corporation tax	13,179,948	11,909,353
Accruals and deferred income	4,739,349	4,259,937
	<u>39,682,192</u>	<u>33,025,631</u>

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

Notes to the financial statements
For the year ended 1 January 2012

16. Creditors: Amounts falling due after more than one year

	1 January 2012 £	2 January 2011 £
Deferred income	2,000,000	1,600,000

17. Deferred taxation

	1 January 2012 £	2 January 2011 £
At beginning of year	2,309,054	2,206,210
Charged to profit and loss account	260,694	102,844
At end of year	2,569,748	2,309,054

The provision for deferred taxation recognised in the financial statements is made up as follows:

	1 January 2012 £	2 January 2011 £
Accelerated capital allowances	3,374,991	3,145,162
Short term timing differences	(805,243)	(836,108)
	2,569,748	2,309,054

The company had no unrecognised deferred tax at the year end.

18. Provisions for liabilities

	Share options £
At 3 January 2011	366,791
Charged to profit and loss account	150,597
Utilised during the year	(110,572)
At 1 January 2012	406,816

Share options

The share option provision represents Employer's National Insurance on unexercised share options (see note 23). This is expected to be utilised within the next 10 years.

Notes to the financial statements
For the year ended 1 January 2012

19. Pension commitments

LifeScan Scotland Limited participates in two pension arrangements in conjunction with other companies in the Johnson & Johnson Group. These are a funded, defined benefit plan called the "Johnson & Johnson UK Group Retirement Plan 35", a defined contribution plan with some underlying guarantees for employees called the "Johnson & Johnson UK Group Retirement Plan 16".

It also participates in a life assurance arrangement called the "Johnson & Johnson UK Approved Life Assurance Plan".

Johnson & Johnson UK Group Retirement Plan 35 and Plan 16

The FRS17 disclosure requirements refer to the situation where either there is only one employer participating in a defined benefit scheme, or there is more than one employer and each employer's share of the underlying assets and liabilities can be identified. In Johnson & Johnson's funded defined benefit scheme the assets attributable to each individual company cannot be identified on a reasonable and consistent basis and so each company's share of the surplus/deficit cannot be identified. In this circumstance, the Accounting Standards Board allows the actual contributions paid by the company to be used as a substitute for 'defined benefit' FRS17 costs.

Contributions paid to the Johnson & Johnson UK Group Retirement Plan 35 by the company in the year 3 January 2011 to 1 January 2012 amounted to £5,621,000.

Contributions paid by the company to Plan 16 in the year 3 January 2011 to 1 January 2012 amounted to £513,000.

At the end of 2011, no contributions were outstanding.

For comparison, during 2010 the company paid contributions of £5,395,000 into Plan 35 and £620,000 into Plan 16.

The best estimate of the company contributions expected in the period 2 January 2012 to 30 December 2012 to be paid to Johnson & Johnson UK Group Retirement Plan 35 is £6,484,000.

The best estimate of the company contributions expected in the period 2 January 2012 to 30 December 2012 to be paid to Johnson & Johnson UK Group Retirement Plan 16 is £162,000.

The company is also required to disclose the overall funding position of the UK Group Retirement Plan (both Plan 35 and Plan 16).

Composition of the Plan

The actuarial valuation of Plan 35 as at 31 March 2011 is currently being carried out. The preliminary valuation results at this date have been updated to 1 January 2012 by a qualified independent actuary. The major assumptions used by the actuary were (in notional terms):

	2011	2010	2009	2008	2007
Rate of increases in salaries	4.25%	4.25%	3.00%	4.00%	4.00%
Rate of increase in pensions in payment (where 5% LPI applies)	3.00%	3.00%	3.00%	2.75%	2.75%
Discount rate	5.00%	5.50%	5.75%	6.75%	5.75%
Inflation assumption (RPI)	3.25%	3.25%	3.25%	3.00%	3.00%
Inflation assumption (CPI)	2.50%	2.50%	- %	- %	- %
Deferred revaluation assumption	2.50%	2.50%	- %	- %	- %

Notes to the financial statements
For the year ended 1 January 2012

19. Pension commitments (continued)

In addition to the major financial assumptions above, it is assumed that male members currently aged 45 will live for 23.6 years from age 65 and those currently aged 65 will live for 22.3 years from age 65. It is also assumed that all members commute 80% of the maximum permissible amount of their pension for cash in line with current commutation terms.

Taking the liabilities calculated on the above basis and the assets of Plan 35 and Plan 16 at market value gives an aggregate pension scheme deficit at 1 January 2012, for the whole UK Johnson & Johnson Group, of £147,212,000.

Where a deficit exists, the method of removing that deficit is determined by agreement of the Participating Employers and the Trustee. It should be noted that the basis used to calculate the deficit amount for these funding purposes does not correspond to the basis set out by FRS17.

The Johnson & Johnson UK Group Retirement Plan does not have any self investments.

Life Assurance

LifeScan Scotland Limited participate in an approved life assurance plan. The premiums paid to these arrangements during 2011 were:

Johnson & Johnson UK Approved Life Assurance Plan	£ 91,000
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20. Share capital

	1 January 2012 £	2 January 2011 £
Authorised		
2,000,000 ordinary shares of £1 each	2,000,000	2,000,000
2,000,000 6% cumulative redeemable preference shares of £1 each	2,000,000	2,000,000
	4,000,000	4,000,000
Allotted, called up and fully paid		
2,000,000 ordinary shares of £1 each	2,000,000	2,000,000

LifeScan Scotland Limited

Notes to the financial statements
For the year ended 1 January 2012

21. Reserves

	Capital redemption reserve £	Other reserves £	Profit and loss account £
At 3 January 2011	2,000,000	2,729,908	195,968,311
Profit for the financial year	-	-	72,110,437
Dividends (note 11)	-	-	(19,200,000)
Share based payment: services provided (note 23)	-	954,238	-
Share based payment: recharge to ultimate parent (note 23)	-	(869,990)	-
At 1 January 2012	<u>2,000,000</u>	<u>2,814,156</u>	<u>248,878,748</u>

22. Reconciliation of movement in shareholders' funds

	1 January 2012 £	2 January 2011 £
Opening shareholders' funds	202,698,219	194,504,522
Profit for the financial year	72,110,437	61,429,897
Dividends (note 11)	(19,200,000)	(53,200,000)
Share based payment: services provided (note 23)	954,238	682,668
Share based payment: recharge to ultimate parent (note 23)	(869,990)	(718,868)
Closing shareholders' funds	<u>255,692,904</u>	<u>202,698,219</u>

Notes to the financial statements
For the year ended 1 January 2012

23. Share based payments

Share options

At 1 January 2012 the company's employees were members of 7 stock-based compensation plans operated by the ultimate parent company. The shares outstanding are for contracts under Johnson & Johnson's 2000 and 2005 UK Approved Stock Option Plans, the 2000 and 2005 UK Unapproved Stock Option Plans, the 2000 Non-Qualified Option Plan, the 1996 Selfcare Unapproved Option Scheme, and the 1996 Inverness ISO Plan. All of these arrangements are settled in equity.

A reconciliation of option movements over the year to 1 January 2012 is shown below:

	1 January 2012		2 January 2011	
	Number ('000)	Weighted average exercise price	Number ('000)	Weighted average exercise price
Outstanding at start of year	252	\$61.12	277	\$60.21
Granted	12	\$62.20	23	\$62.62
Forfeited/Cancelled	(2)	\$58.31	(3)	\$59.51
Exercised	(26)	\$59.12	(32)	\$55.44
Transferred	1	-	13	-
Outstanding at end of year	237	\$61.40	252	\$61.12
Exercisable at end of year	175		154	

The weighted average fair value of options granted in the year was \$91,612 (2010: \$185,052).

For options outstanding at the end of the year, the range of exercise prices and weighted average remaining contractual life are as follows:

1 January 2012				2 January 2011			
Weighted average exercise price	Number of shares ('000)	Weighted average remaining life:		Weighted average exercise price	Number of shares ('000)	Weighted average remaining life:	
		Expected	Contractual			Expected	Contractual
\$52.20	13	1.1 yrs	1.1 yrs	\$52.20	13	2.1 yrs	2.1 yrs
\$53.93	20	2.1 yrs	2.1 yrs	\$53.93	24	3.1 yrs	3.1 yrs
\$58.33	28	7.1 yrs	7.1 yrs	\$58.33	29	8.1 yrs	8.1 yrs
\$58.34	22	4.1 yrs	4.1 yrs	\$58.34	33	5.1 yrs	5.1 yrs
\$61.75	37	6.1 yrs	6.1 yrs	\$61.75	46	7.1 yrs	7.1 yrs
\$62.20	12	9.1 yrs	9.1 yrs	\$62.62	23	9.1 yrs	9.1 yrs
\$62.62	22	8.1 yrs	8.1 yrs	\$65.62	50	6.1 yrs	6.1 yrs
\$65.62	48	5.1 yrs	5.1 yrs	\$66.18	34	4.1 yrs	4.1 yrs
\$66.18	35	3.1 yrs	3.1 yrs				

All options are granted at the current market price on a specific grant date during each calendar year. There is therefore no weighted average exercise price as the shares granted each year are all granted at the same price, given in the table above.

The total charge for the year relating to employee share based payment plans was £52,315 (2010: £16,539), all of which related to equity-settled share based payment transactions. After deferred tax at 25% (2010: 27%), the total charge was £39,236 (2010: £12,073).

Notes to the financial statements
For the year ended 1 January 2012

23. Share based payments (continued)

Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

	1 January 2012	2 January 2011
Share price at grant date and exercise price	\$62.20	\$62.62
Number of employees	12	25
Shares granted in year	12,261	23,043
Vesting period (years)	3 years	3 years
Expected volatility	18.27%	17.43%
Option life (years)	10 years	10 years
Expected life (years)	6 years	6 years
Risk free rate	2.41%	2.78%
Expected dividend yield	3.60 %	3.30%
Fair value per option	\$7.47	\$8.03

Starting in 2006, expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. Prior to 2006, expected volatility was based on a 5-year weekly historical volatility rate. Historical data is used to determine the expected life of the option. The risk free rate was based on the US Treasury yield curve in effect at the time of grant.

Restricted Stock Units

The company also grants Restricted Stock Units (RSU's). These were first granted in 2006 and have a vesting period of 3 years. The average fair value of these units granted during the year was \$55.84, using the fair market value at the date of grant. The fair value of restricted stock units was discounted for dividends, which are not paid on the restricted stock units during the vesting period.

	Number of shares ('000)
Shares at 3 January 2011	57
Stock granted	17
Stock forfeited	-
Stock issued	(18)
Stock transferred	1
Shares at 1 January 2012	57

Certificates of Extra Compensation

In addition, the company's employees may be eligible to receive Certificates of Extra Compensation (CEC's).

CEC's may be granted by the company if it wishes to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the company and (b) by the formula value of AAR Units as established in the AAR agreement, at the time of termination of employment or death while in such employment.

Notes to the financial statements
For the year ended 1 January 2012

23. Share based payments (continued)

National Insurance

Share options granted subsequent to 5 April 1999 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on exercise of such options by UK employees.

A provision of £76,766 (2010: £49,372) for employers' national insurance has been made at the balance sheet date based on the year-end share price of \$65.58. It has been assumed that 100% of shares held by employees at the balance sheet date will be exercised.

In addition a provision of £330,049 (2010: £317,419) has been made for the employers' national insurance on restricted stock units.

24. Commitments and contingencies

Capital expenditure commitments

	1 January 2012 £	2 January 2011 £
Future capital expenditure contracted but not provided for	<u>22,732,546</u>	<u>19,543,211</u>

Annual commitments under non-cancellable operating leases

At 1 January 2012 the company had annual commitments under non-cancellable operating leases expiring as follows:

	1 January 2012		2 January 2011	
	Land and buildings £	Other £	Land and buildings £	Other £
Within one year	-	4,706	-	-
Within two to five years	653,250	422,493	653,250	418,284
Over five years	2,130,431	-	2,130,431	-
	<u>2,783,681</u>	<u>427,199</u>	<u>2,783,681</u>	<u>418,284</u>

25. Ultimate and immediate parent companies and controlling party

The immediate parent company is Diabetes Diagnostics Inc.

The directors regard Johnson & Johnson Inc, a company registered in the United States of America, as the ultimate parent company and ultimate controlling party. This is the smallest and largest group of which the company is a member and for which group financial statements are prepared. Copies of the consolidated financial statements may be obtained from Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey, 08933, USA.