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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 30, 2001 COMMISSION FILE NUMBER 1-3215

JOHNSON & JOHNSON
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| NEW JERSEY | 22-1024240 |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| ONE JOHNSON & JOHNSON PLAZA NEW BRUNSWICK, NEW JERSEY | 08933 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (732) 524-0400

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| - Common Stock, Par Value $1.00 New | York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant on February 26, 2002 was approximately $181 billion.

On February 26, 2002 there were 3,047,147,480 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

| | |
|---|---|
| Parts I and II: | Portions of registrant's annual report to shareowners for fiscal year 2001. |
| Part III: | Portions of registrant's proxy statement for its 2002 annual meeting of shareowners. |

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PART I



Form 10-Q Quarterly Reports Available. A copy of Johnson & Johnson's Quarterly Report on Form 10-Q for any of the first three quarters of the current fiscal year, without exhibits, will be provided without charge to any shareowner submitting a written request to the Secretary at the principal executive offices of the Company or by calling 800-328-9033. Each report will be available about 45 days after the end of the quarter to which it relates.

PART I

ITEM 1. BUSINESS

GENERAL

Johnson & Johnson, employing approximately 101,800 people worldwide, is engaged in the manufacture and sale of a broad range of products in the health care field. With over 190 operating companies, it conducts business in virtually all countries of the world. Johnson & Johnson's primary interest, both historically and currently, has been in products related to human health and well-being. Johnson & Johnson was organized in the State of New Jersey in 1887.

Johnson & Johnson is organized on the principle of decentralized management. The Executive Committee of Johnson & Johnson is the principal management group responsible for the allocation of the resources of the Company. This Committee oversees and coordinates the activities of U.S. and international companies related to each of the Consumer, Pharmaceutical and Medical Devices & Diagnostics businesses. Each international subsidiary is, with some exceptions, managed by citizens of the country where it is located.

SEGMENTS OF BUSINESS; GEOGRAPHIC AREAS

Johnson & Johnson's worldwide business is divided into three segments: Consumer, Pharmaceutical and Medical Devices & Diagnostics. Additional information required by this item is incorporated herein by reference to the narrative and tabular (but not the graphic) descriptions of segments and geographic areas captioned "Management's Discussion and Analysis of Results of Operations and Financial Condition -- Segments of Business, Consumer, Pharmaceutical, Medical Devices & Diagnostics and Geographic Areas" on pages 27 through 29 and 49 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

CONSUMER

The Consumer segment's principal products are personal care and hygienic products, including nonprescription drugs, adult skin and hair care products, baby care products, oral care products, first aid products and sanitary protection products. Major brands include AVEENO skin care products; BAND-AID Brand Adhesive Bandages; BENECOL food products; CAREFREE Panty Shields; CLEAN & CLEAR teen skin care products; IMODIUM A-D, an antidiarrheal; JOHNSON'S Baby line of products; JOHNSON'S pH 5.5 skin and hair care products; LACTAID lactose-intolerance products; MONISTAT, a remedy for vaginal yeast infections; adult and children's MOTRIN IB ibuprofen products; MYLANTA gastrointestinal products and PEPCID AC Acid Controller from the Johnson & Johnson - Merck Consumer Pharmaceuticals Co.; NEUTROGENA skin and hair care products; o.b. Tampons; PENATEN and NATUSAN baby care products; PIZ BUIN and SUNDOWN sun care products; REACH toothbrushes; RoC skin care products; SHOWER TO SHOWER personal care products; SPLENDA, a non-caloric sugar substitute; STAYFREE sanitary protection products; the broad family of TYLENOL acetaminophen products; and VIACTIV calcium supplements. These products are marketed principally to the general public and distributed both to wholesalers and directly to independent and chain retail outlets.

PHARMACEUTICAL

The Pharmaceutical segment's principal worldwide franchises are in the antifungal, anti-infective, cardiovascular, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, psychotropic, urology and women's health fields. These products are distributed both directly and through wholesalers for use by health care professionals and the general public. Prescription drugs in the antifungal field include NIZORAL (ketoconazole), SPORANOX (itraconazole), TERAZOL (terconazole) and DAKTARIN (miconazole nitrate) antifungal products. Prescription drugs in the anti-infective field include FLOXIN (ofloxacin) and LEVAQUIN (levofloxacin). Prescription drugs in the cardiovascular field include RETAVASE (reteplase), a recombinant biologic cardiology care product for the treatment of acute myocardial infarction to improve blood flow to the heart, and REOPRO (abciximab) for the treatment of

acute cardiac disease. Prescription drugs in the dermatology field include RETIN-A MICRO (tretinoin), a dermatological cream for acne. Prescription drugs in the gastrointestinal field include ACIPHEX (rabeprazole sodium, sold outside the U.S. as PARIET), a proton pump inhibitor for treating erosive gastroesophageal reflux disease (GERD), symptomatic GERD and duodenal ulcers; IMODIUM (loperamide HCl), an antidiarrheal; MOTILIUM (domperidone), a gastrointestinal mobilizer; and REMICADE (infliximab), a novel monoclonal antibody for treatment of certain Crohn's disease patients. REMICADE is also indicated for the treatment of rheumatoid arthritis.

Prescription drugs in the hematology field include PROCRIT (epoetin alfa, sold outside the U.S. as EPREX), a biotechnology derived version of the human hormone erythropoietin that stimulates red blood cell production, which accounted for 10.4% of the Company's total revenues in 2001. Prescription drugs in the immunology field include ORTHOCLONE OKT-3 (muromonab-CD3), for reversing the rejection of kidney, heart and liver transplants. Prescription drugs in the neurology field include REMINYL (galantamine), TOPAMAX (topiramate) and STUGERON (cinnarizine). Prescription drugs in the oncology field include DOXIL (doxorubicin), an anti-cancer treatment, ERGAMISOL (levamisole hydrochloride), a colon cancer drug, and LEUSTATIN (cladribine), for hairy cell leukemia. Prescription drugs in the pain management field include DURAGESIC (fentanyl transdermal system, sold abroad as DUROGESIC), a transdermal patch for chronic pain; ULTRACET (tramadol hydrochloride/acetaminophen) for the short-term management of acute pain; and ULTRAM (tramadol hydrochloride), an analgesic for moderate to moderately severe pain. Prescription drugs in the psychotropics (central nervous system) field include RISPERDAL (risperidone) and HALDOL (haloperidol), antipsychotic drugs, and CONCERTA (methylphenidate) for Attention Deficit/Hyperactivity Disorder. Prescription drugs in the urology field include DITROPAN XL (oxybutynin) for treatment of overactive bladder. Prescription drugs in the women's health field include ORTHO-NOVUM (norethindrone/ethinyl estradiol) and TRICILEST (norgestimate/ethinyl estradiol, sold in the U.S. as ORTHO TRI-CYCLEN) group of oral contraceptives and ORTHO-PREFEST (17 (beta)-estradiol/norgestimate) for hormone replacement therapy. In 2001, sales to three distributors, McKesson HBOC, Cardinal Distribution and AmerisourceBergen Corp. accounted for 10.4%, 10.3% and 10.2%, respectively, of total revenues. These sales were concentrated in the Pharmaceutical segment.

MEDICAL DEVICES & DIAGNOSTICS

The Medical Devices & Diagnostics segment includes a broad range of products used by or under the direction of health care professionals, including, suture and mechanical wound closure products, surgical equipment and devices, wound management and infection prevention products, interventional and diagnostic cardiology products, diagnostic equipment and supplies, joint replacements and disposable contact lenses. These products are used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. Distribution to these markets is done both directly and through surgical supply and other dealers.

INTERNATIONAL

The international business of Johnson & Johnson is conducted by subsidiaries located in 54 countries outside the United States, which are selling products in more than 175 countries throughout the world. The products made and sold in the international business include many of those described above under "Business -- Consumer, Pharmaceutical and Medical Devices & Diagnostics." However, the principal markets, products and methods of distribution in the international business vary with the country and the culture. The products sold in the international business include not only those which were developed in the United States but also those which were developed by subsidiaries abroad.

Investments and activities in some countries outside the United States are subject to higher risks than comparable domestic activities because the investment and commercial climate is influenced by restrictive economic policies and political uncertainties.

RAW MATERIALS

Raw materials essential to Johnson & Johnson's business are generally readily available from multiple sources.

PATENTS AND TRADEMARKS

Johnson & Johnson has made a practice of obtaining patent protection on its products and processes where possible. Johnson & Johnson owns or is licensed under a number of patents relating to its products and manufacturing processes, which in the aggregate are believed to be of material importance in the operation of its business. However, it is believed that except for the patents related to PROCRIT/EXPREX, no single patent or related group of patents is material in relation to Johnson & Johnson as a whole.

Johnson & Johnson has made a practice of selling its products under trademarks and of obtaining protection for these trademarks by all available means. Johnson & Johnson's trademarks are protected by registration in the United States and other countries where its products are marketed. Johnson & Johnson considers these trademarks in the aggregate to be of material importance in the operation of its business.

SEASONALITY

Worldwide sales do not reflect any significant degree of seasonality; however spending has been heavier in the fourth quarter of each year than in other quarters. This reflects increased spending decisions, principally for advertising and research grants.

COMPETITION

In all its product lines, Johnson & Johnson companies compete with companies both large and small, located in the United States and abroad. Competition is strong in all lines without regard to the number and size of the competing companies involved. Competition in research, involving the development of new products and processes and the improvement of existing products and processes, is particularly significant and results from time to time in product and process obsolescence. The development of new and improved products is important to Johnson & Johnson's success in all areas of its business. This competitive environment requires substantial investments in continuing research and in multiple sales forces. In addition, the winning and retention of customer acceptance of Johnson & Johnson's consumer products involve heavy expenditures for advertising, promotion and selling.

RESEARCH

Research activities are important to all segments of Johnson & Johnson's business. Major research facilities are located not only in the United States but also in Australia, Belgium, Brazil, Canada, Germany, Switzerland and the United Kingdom. The costs of Johnson & Johnson's worldwide research activities relating to the development of new products, the improvement of existing products, technical support of products and compliance with governmental regulations for the protection of the consumer amounted to $3,591, $3,105, and $2,768 million for fiscal years 2001, 2000 and 1999, respectively. These costs are charged directly to income in the year in which incurred. All research was sponsored by Johnson & Johnson.

ENVIRONMENT

During the past year Johnson & Johnson was subject to a variety of federal, state and local environmental protection measures. Johnson & Johnson believes that its operations comply in all material respects with applicable environmental laws and regulations. Johnson & Johnson's compliance with these requirements did not and is not expected to have a material effect upon its capital expenditures, earnings or competitive position.

REGULATION

Most of Johnson & Johnson's business is subject to varying degrees of governmental regulation in the countries in which operations are conducted, and the general trend is toward regulation of increasing stringency. In the United States, the drug, device, diagnostics and cosmetic industries have long been subject to regulation by various federal, state and local agencies, primarily as to product safety, efficacy, advertising and labeling. The exercise of broad regulatory powers by the Food and Drug Administration (the "FDA")

continues to result in increases in the amounts of testing and documentation required for FDA clearance of new drugs and devices and a corresponding increase in the expense of product introduction. Similar trends toward product and process regulation are also evident in a number of major countries outside of the United States, especially in the European Economic Community where efforts are continuing to harmonize the internal regulatory systems.

The costs of human health care have been and continue to be a subject of study, investigation and regulation by governmental agencies and legislative bodies in the United States and other countries. In the United States, attention has been focused on drug prices and profits and programs that encourage doctors to write prescriptions for particular drugs or recommend particular medical devices. Even in the absence of new government regulation, managed care has become a more potent force in the market place and it is likely that increased attention will be paid to drug and medical device pricing, appropriate drug and medical device utilization and the quality of health care.

The regulatory agencies under whose purview Johnson & Johnson operates have administrative powers that may subject Johnson & Johnson to such actions as product recalls, seizure of products and other civil and criminal sanctions. In some cases Johnson & Johnson may deem it advisable to initiate product recalls voluntarily.

ITEM 2. PROPERTIES

Johnson & Johnson and its worldwide subsidiaries operate 148 manufacturing facilities occupying approximately 17 million square feet of floor space.

The manufacturing facilities are used by the industry segments of Johnson & Johnson's business approximately as follows:

| SQUARE FEET SEGMENT (IN THOUSANDS) |
|---|
| Consumer | 5,144 |
| Pharmaceutical | 5,008 |
| Medical Devices & Diagnostics | 6,848 |
| Worldwide total | 17,000 |

Within the United States, 10 facilities are used by the Consumer segment, 13 by the Pharmaceutical segment and 46 by the Medical Devices & Diagnostics segment. Johnson & Johnson's manufacturing operations outside the United States are often conducted in facilities which serve more than one segment of the business.

The locations of the manufacturing facilities by major geographic areas of the world are as follows:

| NUMBER OF FACILITIES | SQUARE FEET GEOGRAPHIC AREA (IN THOUSANDS) |
|---|---|
| United States | 69 | 7,426 |
| Europe | 34 | 5,296 |
| Western Hemisphere excluding U.S.A. | 17 | 2,606 |
| Africa, Asia and Pacific | 28 | 1,672 |
| Worldwide total | 148 | 17,000 |

In addition to the manufacturing facilities discussed above, Johnson & Johnson maintains numerous office and warehouse facilities throughout the world. Research facilities are also discussed in Item 1 under "Business -- Research."

Johnson & Johnson generally seeks to own its manufacturing facilities, although some, principally in locations abroad, are leased. Office and warehouse facilities are often leased.

Johnson & Johnson's properties are maintained in good operating condition and repair and are well utilized.

For information regarding lease obligations see Note 4 "Rental Expense and Lease Commitments" under "Notes to Consolidated Financial Statements" on page 37 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001. Segment information on additions to Johnson & Johnson's property, plant and equipment is contained on page 49 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

ITEM 3. LEGAL PROCEEDINGS

The information set forth in Note 18 "Legal Proceedings" under "Notes to Consolidated Financial Statements" on page 46 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001 is incorporated herein by reference.

The Company or its subsidiaries are parties to a number of proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, and comparable state laws, in which the primary relief sought is the cost of past and future remediation. While it is not feasible to predict or determine the outcome of these proceedings, in the opinion of the Company, such proceedings would not have a material adverse effect on the results of operations, cash flows or financial position of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Listed below are the executive officers of Johnson & Johnson as of March 18, 2002, each of whom, unless otherwise indicated below, has been an employee of the Company or its affiliates and held the position indicated during the past five years. There are no family relationships between any of the executive officers, and there is no arrangement or understanding between any executive officer and any other person pursuant to which the executive officer was selected. At the annual meeting of the Board of Directors which follows the Annual Meeting of Shareowners executive officers are elected by the Board to hold office for one year and until their respective successors are elected and qualified, or until earlier resignation or removal.

Information with regard to the directors of the Company, including those of the following executive officers who are directors, is incorporated herein by reference to pages 4 through 8 of Johnson & Johnson's Proxy Statement dated March 13, 2002.

| NAME | AGE | POSITION |
|---|---|---|
| Robert J. Darretta | 55 | Member, Board of Directors; Member, Executive Committee; Vice President, Finance |
| Russell C. Deyo | 52 | Member, Executive Committee; Vice President, Administration(a) |
| Michael J. Dormer | 50 | Member, Executive Committee; Franchise Group Chairman for Medical Devices(b) |
| Roger S. Fine | 59 | Member, Executive Committee; Vice President, General Counsel(c) |
| Colleen A. Goggins | 47 | Member, Executive Committee; Worldwide Chairman, Consumer & Personal Care Group(d) |
| JoAnn Heffernan Heisen | 52 | Member, Executive Committee; Vice President, Chief Information Officer(e) |
| Ralph S. Larsen | 63 | Chairman, Board of Directors and Chief Executive Officer; Chairman, Executive Committee(f) |

| NAME | AGE | POSITION |
|---|---|---|
| James T. Lenehan | 53 | Vice Chairman, Board of Directors; Member, Executive Committee; Worldwide Chairman, Medical Devices & Diagnostics Group |
| Brian D. Perkins | 48 | Member, Executive Committee; Worldwide Chairman, Consumer Pharmaceuticals & Nutritionals Group(g) |
| Per A. Peterson, M.D., Ph.D. | 57 | Member, Executive Committee; Chairman, Research & Development, Pharmaceuticals Group(h) |
| Christine A. Poon | 49 | Member, Executive Committee; Worldwide Chairman, Pharmaceuticals Group(i) |
| William C. Weldon | 53 | Vice Chairman, Board of Directors; Member, Executive Committee |
| Robert N. Wilson | 61 | Senior Vice Chairman, Board of Directors; Vice Chairman Executive Committee |

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(a) Mr. R. C. Deyo joined the Company in 1985 and became Associate General Counsel in 1991. He became a Member of the Executive Committee and Vice President, Administration in 1996.

(b) Mr. M. J. Dormer joined the Company in 1998 as Company Group Chairman, Worldwide Franchise Chairman for DePuy and Codman, when the Company acquired DePuy, Inc. At the time of that acquisition, he had been Chief Operating Officer of DePuy, Inc. since 1996. Mr. Dormer served as President of DePuy International Ltd. from 1992 to 1996. Mr. Dormer became a Member of the Executive Committee and Franchise Group Chairman for Medical Devices in February 2001. Mr. Dormer is expected to be named Worldwide Chairman, Medical Devices & Diagnostics Group, at the annual meeting of the Board of Directors.

(c) Mr. R. S. Fine joined the Company in 1974 and became a Member of the Executive Committee and Vice President, Administration in 1991 and Vice President, General Counsel in 1996.

(d) Ms. Goggins joined the Company in 1981 and held various positions before becoming President of Personal Products Company in 1994. She was named President of Johnson & Johnson Consumer Products Company in 1995 and Company Group Chairman, North America, Johnson & Johnson Consumer Products in 1998. Ms. Goggins became a Member of the Executive Committee and Worldwide Chairman, Consumer & Personal Care Group in June 2001.

(e) Ms. J. H. Heisen joined the Company in 1989 and became Treasurer in 1991 and Controller in 1995. She became a Member of the Executive Committee and Vice President, Chief Information Officer in 1997.

(f) Mr. Larsen assumed his present responsibilities as Chairman, Board of Directors, and Chief Executive Officer in 1989. Mr. Larsen has announced his decision to retire from the Company as of July 1, 2002, and is not seeking re-election to the Board of Directors at the Annual Meeting of Shareowners. He joined the Company in 1962 as a manufacturing trainee with Johnson & Johnson Products, Inc. and has held numerous positions in the Company. Mr. Larsen was appointed Company Group Chairman in 1986 before being appointed Vice Chairman of the Executive Committee and Chairman of a Sector Operating Committee later in 1986. Mr. Larsen was elected to the Board of Directors in 1987.

(g) Mr. B. D. Perkins joined the Company in 1980 and held various positions before becoming President of McNeil Consumer Products Company in 1994 and Company Group Chairman for OTC Pharmaceuticals in 1999. He became a Member of the Executive Committee and Worldwide Chairman, Consumer Pharmaceuticals & Nutritionals Group in 1999.

(h) Dr. P. A. Peterson joined the Company in 1994 as Vice President, Drug Discovery, of The R.W. Johnson Pharmaceutical Research Institute. He was named Group Vice President of The Pharmaceutical Research Institute in April 1998 and its President in November 1998. In 2000, Dr. Peterson was named Chairman, Research & Development, Pharmaceuticals Group. Dr. Peterson became a Member of the Executive Committee in August 2001 and serves as President of Johnson & Johnson Pharmaceutical Research & Development, L.L.C.

(i) Ms. Poon joined the Company in November 2000 as a Company Group Chairman in the Pharmaceuticals Group. Ms. Poon became a Member of the Executive Committee and Worldwide Chairman, Pharmaceuticals Group in August 2001. Prior to joining the Company, she served in various management positions at Bristol-Myers Squibb for 15 years, most recently as President of International Medicines (1998 - 2000) and President of Medical Devices (1997 - 1998).

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREOWNER MATTERS

The information called for by this item is incorporated herein by reference to the material captioned "Management's Discussion and Analysis of Results of Operations and Financial Condition -- Common Stock Market Prices and Cash Dividends Paid" on page 31 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

### ITEM 6. SELECTED FINANCIAL DATA

The information called for by this item is incorporated herein by reference to the material captioned "Summary of Operations and Statistical Data 1991-2001" on page 50 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information called for by this item is incorporated herein by reference to the narrative and tabular (but not the graphic) material included in the material captioned "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 25 through 31 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

In February 2002, the Board of Directors approved a stock repurchase program, authorizing the Company to buy back up to $5 billion of its common stock on the open market. As of March 15, 2002, 13,387,800 shares had been repurchased pursuant to the program, with an average per share price of $60.83. The repurchase program has no time limit and may be suspended for periods or discontinued.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is incorporated herein by reference to the material captioned "Management's Discussion and Analysis of Results of Operations and Financial Condition -- Financial Instruments" on page 30 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this item is incorporated herein by reference to the Consolidated Financial Statements and the Notes thereto and the material captioned "Independent Auditor's Report" on pages 32 through 48 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by this item is incorporated herein by reference to (a) the material under the caption "Election of Directors -- Nominees" on pages 3 through 8 of Johnson & Johnson's Proxy Statement dated March 13, 2002, (b) the material in Part I hereof under the caption "Executive Officers of the Registrant" and (c) the material under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" on page 10 of Johnson & Johnson's Proxy Statement dated March 13, 2002.

### ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the following sections of Johnson & Johnson's Proxy Statement dated March 13, 2002: "Election of Directors -- Directors' Fees, Committees and Meetings" on pages 9 through 10; "Compensation Committee Report on Executive Compensation" on pages 11 through 15; "Shareowner Return Performance Graph" on page 16; and "Executive Compensation" on pages 17 through 21.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this item is incorporated herein by reference to the material captioned "Election of Directors -- Stock Ownership/Control" on pages 8 through 9 of Johnson & Johnson's Proxy Statement dated March 13, 2002.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report

1. Financial Statements

The following Consolidated Financial Statements and the Notes thereto and the Independent Auditor's Report on pages 32 through 48 of Johnson & Johnson's Annual Report to Shareowners for fiscal year 2001 are incorporated herein by reference:

Consolidated Balance Sheets at end of Fiscal Years 2001 and 2000

Consolidated Statements of Earnings for Fiscal Years 2001, 2000 and 1999

Consolidated Statements of Equity for Fiscal Years 2001, 2000 and 1999

Consolidated Statements of Cash Flows for Fiscal Years 2001, 2000 and 1999

Notes to Consolidated Financial Statements

Independent Auditor's Report

2. Financial Statement Schedules

Schedule II -- Valuation and Qualifying Accounts

Schedules other than those listed above are omitted because they are not required or are not applicable.

3. Exhibits Required to be Filed by Item 60l of Regulation S-K

The information called for by this item is incorporated herein by reference to the Exhibit Index in this report.

(b) Reports on Form 8-K

A Report on Form 8-K was filed on October 22, 2001, which included the press release announcing the Company's sales and earnings for the fiscal quarter ended September 30, 2001.

A Report on Form 8-K was filed on November 27, 2001, which included a press release announcing the completion of the Company's acquisition of Inverness Medical Technology, Inc.'s diabetes care products business.

A Report on Form 8-K/A was filed on November 30, 2001, amending the Form 8-K filed on November 27.

JOHNSON & JOHNSON AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

FISCAL YEARS ENDED DECEMBER 30, 2001, DECEMBER 31, 2000 AND JANUARY 2, 2000(A)
(DOLLARS IN MILLIONS)

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | ADDITIONS CHARGED TO COSTS AND EXPENSES(B) | DEDUCTIONS FROM RESERVES | BALANCE AT END OF PERIOD |
|---|---|---|---|---|
| 2001 | | | | |
| Reserves deducted from accounts receivable, trade | | | | |
| Reserve for doubtful accounts | $182 | 66 | Write-offs less recoveries | 43 |
| Currency adjustments | 8 | 197 | | |
| Reserve for customer rebates | 188 | 1,543 | Customer rebates allowed | 1,475 |
| Currency adjustments | 4 | 252 | | |
| Reserve for cash discounts | 69 | 557 | Cash discounts allowed | 550 |
| Currency adjustments | 2 | 74 | | |
| | $439 | 2,166 | | 2,082 |
| 2000 | | | | |
| Reserves deducted from accounts receivable, trade | | | | |
| Reserve for doubtful accounts | $206 | 89 | Write-offs less recoveries | 106 |
| Currency adjustments | 7 | 182 | | |
| Reserve for customer rebates | 140 | 1,220 | Customer rebates allowed | 1,170 |
| Currency adjustments | 2 | 188 | | |
| Reserve for cash discounts | 61 | 494 | Cash discounts allowed | 484 |
| Currency adjustments | 2 | 69 | | |
| | $407 | 1,803 | | 1,771 |
| 1999 | | | | |
| Reserves deducted from accounts receivable, trade | | | | |
| Reserve for doubtful accounts | $188 | 90 | Write-offs less recoveries | 91 |
| Currency adjustments | (19) | 206 | | |
| Reserve for customer rebates | 157 | 1,033 | Customer rebates allowed | 1,056 |
| Currency adjustments | (6) | 140 | | |
| Reserve for cash discounts | 47 | 520 | Cash discounts allowed | 506 |
| | 61 | | | |
| | $392 | 1,643 | | 1,628 |

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(A) This schedule has been prepared to give retroactive effect to the merger between Johnson & Johnson and ALZA on June 22, 2001.

(B) Charges related to customer rebates and cash discounts are reflected as reductions of sales to customers.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 19, 2002

JOHNSON & JOHNSON

(Registrant)

By /s/ R. S. LARSEN

R. S. Larsen, Chairman, Board of Directors and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ R. S. LARSEN | Chairman, Board of Directors and Chief Executive Officer (Principal Executive Officer) | March 19, 2002 |
| /s/ R. J. DARRETTA | Vice President -- Finance and Director (Principal Financial Officer) | March 12, 2002 |
| /s/ S. J. COSGROVE | Controller (Principal Accounting Officer) | March 19, 2002 |
| G. N. BURROW | Director | March 19, 2002 |
| /s/ J. G. COONEY | Director | March 15, 2002 |
| J. G. Cooney | | |

| | | |
|---|---|---|
| J. G. CULLEN | Director | March 17, 2002 |
| J. G. Cullen /s/ | | |
| M. J. FOLKMAN | Director | March 16, 2002 |
| M. J. Folkman /s/ | | |
| A. D. JORDAN | Director | March 15, 2002 |
| A. D. Jordan /s/ | | |
| A. G. LANGBO | Director | March 13, 2002 |
| A. G. Langbo | | |

| SIGNATURE | TITLE | DATE |
| --- | --- | --- |
| - /s/ J.T. LENEHAN | Vice Chairman, Board of Directors | March 19, 2002 |
| - ---------- and J.T. Lenehan | Director | March 19, 2002 |
| /s/ J. S. MAYO | Director | March 14, 2002 |
| ---------- J. S. Mayo | Director | March 14, 2002 |
| /s/ L.F. MULLIN | Director | March 18, 2002 |
| ---------- L.F. Mullin | Director | March 18, 2002 |
| /s/ H. B. SCHACHT | Director | March 12, 2002 |
| ---------- H. B. Schacht | Director | March 12, 2002 |
| /s/ M. F. SINGER | Director | March 12, 2002 |
| ---------- M. F. Singer | Director | March 12, 2002 |
| /s/ J. W. SNOW | Director | March 19, 2002 |
| ---------- J. W. Snow | Director | March 19, 2002 |
| /s/ W.C. WELDON | Vice Chairman, Board of Directors | March 19, 2002 |

- ------ -------- -------- -------- -------- ---- and Director W.C. Weldon /s/ R. N. WILSON Senior Vice Chairman, Board of March 19, 2002 - ------ -------- -------- -------- -------- ---- Directors and Director R. N. Wilson

REPORT OF INDEPENDENT ACCOUNTANTS ON

FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated January 21, 2002 appearing in the Johnson & Johnson Annual Report to Shareowners for the fiscal year ended December 30, 2001 (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14 of this Form 10-K.

In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS LLP

New York, New York
January 21, 2002

EXHIBIT INDEX

| REG. S-K EXHIBIT TABLE ITEM NO. | DESCRIPTION OF EXHIBIT |
|---|---|
| 3(a)(i) | Restated Certificate of Incorporation dated April 26, 1990 -- Incorporated herein by reference to Exhibit 3(a) of the Registrant's Form 10-K Annual Report for the year ended December 30, 1990. |
| 3(a)(ii) | Certificate of Amendment to the Restated Certificate of Incorporation of the Company dated May 20, 1992 -- Incorporated herein by reference to Exhibit 3(a) of the Registrant's Form 10-K Annual Report for the year ended January 3, 1993. |
| 3(a)(iii) | Certificate of Amendment to the Restated Certificate of Incorporation of the Company dated May 21, 1996 -- Incorporated herein by reference to Exhibit 3(a)(iii) of the Registrant's Form 10-K Annual Report for the year ended December 29, 1996. |
| 3(a)(iv) | Certificate of Amendment to the Restated Certificate of Incorporation of the Company effective May 22, 2001 -- Incorporated herein by reference to |

Exhibit 3 of the Registrant's Form 10-Q Quarterly Report for the quarter ended July 1, 2001. 3(b) By-Laws of the Company, as amended effective June 11, 2001 -- Incorporated herein by reference to Exhibit 99.2 of the Registrant's Form 10-Q Quarterly Report for the quarter ended July 1, 2001. 4(a) Upon the request of the Securities and Exchange Commission, the Registrant will furnish a copy of all instruments defining the rights of holders of long term debt of the Registrant. 10(a) Stock Option Plan for Non-Employee Directors -- Incorporated herein by reference to Exhibit 10(a) of the Registrant's Form 10-K Annual Report for the year ended December 29, 1996.* 10(b) 2000 Stock Option Plan -- Incorporated herein by reference to Exhibit 10(b) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2000.* 10(c) 1995 Stock Option Plan (as amended) -- Incorporated herein by reference to Exhibit 10(b) of the Registrant's Form 10-K Annual Report for the year ended January 3, 1999.* 10(d) 1991 Stock Option Plan

(as amended) -- Incorporated herein by reference to Exhibit 10(c) of the Registrant's Form 10-K Annual Report for the year ended December 28, 1997.* 10(e) 2000 Stock Compensation Plan -- Incorporated herein by reference to Exhibit 10(e) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2000.* 10(f) Executive Incentive Plan (as amended) -- Incorporated herein by reference to Exhibit 10(f) of the Registrant's Form 10-K Annual Report for the year ended December 31, 2000.* 10(g) Domestic Deferred Compensation (Certificate of Extra Compensation) Plan (as amended) -- Filed with this document.* 10(h) Deferred Fee Plan for Directors (as amended) -- Incorporated herein by reference to Exhibit 10(h) of the Registrant's Form 10-K Annual Report for the year ended December 29, 1996.* 10(i) Executive Income Deferral Plan (as amended) -- Incorporated herein by reference to Exhibit 10(i) of the Registrant's Form 10-K Annual Report for the year ended January 2, 2000.* 10(j) Excess Savings Plan --

Incorporated herein by reference to Exhibit 10(j) of the Registrant's Form 10-K Annual Report for the year ended December 29, 1996.* 10(k) Supplemental Retirement Plan -- Incorporated herein by reference to Exhibit 10(h) of the Registrant's Form 10-K Annual Report for the year ended January 3, 1993.* 10(l) Executive Life Insurance Plan -- Incorporated herein by reference to Exhibit 10(i) of the Registrant's Form 10-K Annual Report for the year ended January 3, 1993.*

| REG. S-K EXHIBIT TABLE DESCRIPTION ITEM NO. OF EXHIBIT | |
|---|---|
| -- | 10(m) Stock Option Gain Deferral Plan -- Incorporated herein by reference to Exhibit 10(m) of the Registrant's Form 10-K Annual Report for the year ended January 2, 2000.* |
| 10(n) Estate Preservation Plan -- Incorporated herein by reference to Exhibit 10(n) of the Registrant's Form 10-K Annual Report for the year ended January 2, 2000.* | |
| 12 -- Statement of Computation of Ratio of Earnings to Fixed Charges -- Filed with this document. | |
| 13 -- Pages 25 through 50 of the Company's Annual Report to Shareowners for fiscal year 2001 (only those portions of the Annual Report incorporated by reference in this report are deemed "filed") -- Filed with this document. | |
| 21 -- Subsidiaries -- Filed with this document. | |
| 23 -- Consent of Independent Accountants -- Filed with this document. | |
| 99(a) -- Annual Reports on Form 11-K for the Johnson & | |

| | |
|---|---|
| | Johnson Savings Plans, to be filed on or before June 30, 2002. 99(b) -- Cautionary Statement pursuant to Private Securities Litigation Reform Act of 1995: "Safe Harbor" for Forward-Looking Statements -- Filed with this document. |

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* Management contracts and compensatory plans and arrangements required to be filed as Exhibits to this form pursuant to Item 14(c) of the report.

A copy of any of the Exhibits listed above will be provided without charge to any shareowner submitting a written request specifying the desired exhibit(s) to the Secretary at the principal executive offices of the Company.

JOHNSON & JOHNSON
CERTIFICATE OF EXTRA COMPENSATION PLAN

WITNESSETH - WHEREAS, Johnson & Johnson (the "Company") wishes to reward its employees, as well as employees of its subsidiaries (an "Employee") for faithful service in the past and more particularly to encourage Employees in their future work by permitting Employees to share in the growth and success of the Company's enterprises by issuing to them Shares of Certificates of Extra Compensation (the "CEC Shares"), and to that end to 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 (the "Common Stock") and (b) the formula value of such CEC Shares as established pursuant to Article "NINTH" of this Plan (the "Formula Value") at the time of termination of employment or death while in such employment:

NOW, THEREFORE, in consideration of the premises and the promises herein contained, and so long as the Employee shall remain an Employee, it is agreed that:

FIRST: The number of CEC Shares designated upon which the Employee's extra compensation shall be based is the aggregate number of CEC Shares awarded to such Employee in accordance with the Plan as evidenced by the written records of Company.

SECOND: While the Employee remains an Employee, the Company shall pay to the Employee on the same date on which is paid any cash dividend on the Company's Common Stock, a sum equivalent to such cash dividend multiplied by the total number of CEC Shares designated for such Employee.

THIRD: In the event of the Employee's death while an Employee, the Company shall pay to the Employee's beneficiary (as last recorded over the Employee's signature on the records of the Company) a sum of money which shall be determined as a percentage of the Formula Value of such CEC Shares. This percentage shall be based upon the period elapsing between the date a CEC Share has been awarded and death, as follows:

- In the event of death within eighteen (18) months of the date of an award: 30%

- In the event of death after eighteen (18) months but within forty-two (42) months of the date of an award: 70%

- In the event of death after forty-two (42) months of the date of an award: 100%

In the event of the termination of the Employee's employment because of retirement, physical or mental disability, or otherwise (except by reason of death), the Company shall pay to the Employee a sum of money which shall be determined as a percentage of the Formula Value of such CEC Shares. For the purposes of this Plan, an Employee placed on

long-term disability is not considered to be an Employee. This percentage shall be based upon the period elapsing between the date a CEC Share has been awarded and such termination of employment, as follows:

- In the event of such termination within twelve (12) months of the date of an award: 0%

- In the event of such termination after twelve (12) months but within twenty-four (24) months of the date of an award: 20%

- In the event of such termination after twenty-four (24) months but within thirty-six (36) months of the date of an award: 40%

- In the event of such termination after thirty-six (36) months but within forty-eight (48) months of the date of an award: 60%

- In the event of such termination after forty-eight (48) months but within sixty (60) months of the date of an award: 80%

- In the event of such termination after sixty (60) months from the date of an award: 100%

The Company shall pay any such sum of money due under this Article "THIRD", in a single lump sum, unless Employee has duly elected, pursuant to the provisions of Article "SEVENTH" to defer receipt of such sum upon his/her retirement.

FOURTH: At the election of each Employee, to be made as provided for below, the payment of any sum due to an Employee upon his/her retirement may be deferred and paid in either a single lump sum or in installments. A lump sum payment may be deferred for up to ten taxable years following the Employee's retirement date. if installment payments are elected, the first installment payment may be made immediately upon retirement or be deferred for up to ten taxable years. Installment payments will be made annually (in the manner described below) and in approximately equal installment amounts (i.e., the value of the CEC payout balance, plus accrued interest, divided by the number of remaining installments). The minimum number of annual installments is two (2) and the maximum number is fifteen (15). An Employee may elect to defer up to 100% of the value of his/her total CEC holdings at retirement; or, any percentage increment less than that. The following rules shall apply with respect to all payments:

a) Immediate Lump Sum Payment - The Employee will receive the full value of his/her CEC holdings in the calendar month of his/her retirement effective date. Employees retiring prior to the determination of the prior years CEC value will receive 97% of the estimated value with the remainder paid shortly after the final value is determined.

b) Deferred Lump Sum Payment - The Employee will receive the full value of his/her CEC holdings, plus any accrued interest, on or about January 15 of the year he/she elects to receive payment in.

c) Immediate Commencement of Installments - The Employee will receive the first installment in the calendar month of his/her retirement

effective date. All subsequent installments, plus any accrued interest, will be paid on or about January 15 of each year.

d) Deferred Commencement of Installments - The Employee will receive the first and all subsequent installments, plus any accrued interest, on or about January 15 of each year.

FIFTH: With respect to any payments which are deferred and/or paid in installments, interest shall be paid by the Company from the effective date of retirement to the date of any such payment. The interest rate for all deferred and/or installment payments to an Employee shall be fixed at the date of retirement and shall be the rate (rounded to 1 decimal place) offered, as reported in the Wall Street Journal on the effective retirement date, on a United States Treasury Instrument for the period comparable to the length of the period of the deferral and/or installment payments. The interest shall be compounded semi-annually on, the last calendar day of June and December of each year. If more than one instrument is quoted, the average of such rates shall be utilized. By way of example, if an election is made to receive installments over eight (8) years, the comparable eight (8) year U.S. Treasury Rate shall be utilized; if an election is made to defer the commencement of installments for two (2) years with installments paid out over ten (10) years, the comparable twelve (12) year U.S. Treasury Rate shall be utilized. Once established, the interest rate shall remain fixed for the period of the deferral.

SIXTH: In the event of death of an Employee (whether or not prior to the termination of his/her employment) the Company will make payment in full of the balance, plus any accrued interest, as soon as administratively practical in a single lump sum payment to the designated beneficiary.

In the event no deferral or installment election is made, the total amount of the CEC holdings will be paid in accordance with the provisions of paragraph (a) of Article "FOURTH" in a lump sum payment as soon as practical following an Employee's retirement effective date.

SEVENTH: An election by an Employee to defer payment or elect installments of all or a part of his/her CEC holdings beyond his/her effective retirement date must be made a minimum of twelve (12) months prior to the date of such retirement date. Any such election may be revised or revoked up to twelve (12) months prior to such retirement date. For the twelve month period prior to such retirement date, any election is irrevocable and thus may not be revoked or otherwise revised.

The Company may disallow an Employee's desire to defer payments and/or elect installments if it determines that such participation would jeopardize the Plan's compliance with applicable law or the Plan's status as a "top hat plan" under ERISA.

Notwithstanding the above, an exception has been made for Employees who have a retirement effective date between January 1, 1997

and June 30, 1997. For such Employees, the deferral and/or installment election must be made a minimum of three (3) months and in the calendar year prior to the retirement date. For example, an Employee who retires on January 1, 1997, must make the deferral and/or installment election no later than September 30, 1996; if the retirement date is May 1, 1997, such election must, be made not later than December 31, 1996. With respect to any retirement occurring between July 1, 1997, and December 1, 1997, an election must be made prior to December 31, 1996. Any such election to defer and/or receive installment payments may only be revised or revoked prior to the last permissible date for making such election. After such time the election may not be revoked or otherwise revised.

An election to defer payment and/or be paid in installments is effective only when filed with the administrator referred to in Article "FIFTEENTH" on the form utilized for such purpose. Any election made after the required deadline shall be disregarded.

AN ELECTION TO DEFER AND/OR BE PAID IN INSTALLMENTS SHOULD ONLY BE MADE IN CONSULTATION WITH AN EMPLOYEE'S TAX AND/OR FINANCIAL ADVISOR.

EIGHTH: The number of CEC Shares designated and upon which is based and by which is measured the extra compensation of the Employee shall be increased proportionately from time to time to the extent that a stock split or a dividend in Common Stock is declared and paid upon the issued and outstanding Common Stock of the Company. Likewise, the number of CEC Shares shall be reduced proportionately from time to time to the extent that the number of CEC Shares of issued and outstanding Common Stock of the Company is reduced by reorganization, reduction of capital, or otherwise.

NINTH: For the purposes of Article "THIRD" of this agreement, the Formula Value of the CEC Shares shall be determined by the Company's Board of Directors which shall, except in the event mentioned below, determine such Formula Value as the sum of one-half of the asset value per share of Common Stock plus one-half of the earning-power value per share of Common Stock calculated as follows:

> The sum of one-half of the consolidated net asset value per share of Common Stock (being assets per share, less liabilities (including reserves, other than surplus reserve) per share, as such assets and liabilities appear on the books of the Company and its subsidiaries as of the fiscal year end immediately preceding the date of valuation) plus one-half of the consolidated earning-power value per share of Common Stock (determined as the average of annual net earnings per share of Common Stock after all taxes as such net earnings appear on the books of the Company and its subsidiaries for five (5) fiscal years preceding the date of valuation, capitalized as a return on capital invested at eight percent (8%), i.e., a multiple of twelve and one-half (121 1/2) times such average earnings per share).

For the purpose of the foregoing calculation, the books of the Company and its subsidiaries shall be conclusive. The method of consolidation shall be that adopted by the Company in preparing the

last previous annual report to its stockholders, including appropriate provision for taxes both foreign and domestic which might be incurred in remitting income of the subsidiaries to the Company. The decisions of the Company's Treasurer at all times, and from time to time, as to procedures to be adopted in maintaining the books of the Company and its subsidiaries, preparation of balance sheets and income statements, method of and adjustments made in consolidation, and all matters of accounting practice and procedures shall be conclusive.

In the event that it shall be the opinion of the Board of Directors of the Company that the calculation made as provided above does not result in a true value, as of any date at which under Article "THIRD" such determination is necessary, the Board may but shall not be obligated to vary the formula to the extent of modifying the multiple by which the average earnings per share shall be multiplied.

The Board of Directors shall, on or before May fifteenth of each year, determine and announce the Formula Value of the Company's common stock as of the immediately preceding fiscal year end for the purposes of this Plan.

TENTH: Dividends and share values are used herein only as measures of the extra compensation to be paid hereunder. Nothing herein contained shall be construed as an agreement to transfer to the Employee, or to his/her beneficiary, nor shall either acquire, by virtue of his/her being awarded CEC Shares, any right, title, or interest whatsoever in or to, any of the Company's Common Stock.

ELEVENTH: No right of benefit to CEC Shares awarded under the Plan is assignable. The Company does not fund the obligations created by the Employee participation in the CEC Plan. Rather, the Company makes an unsecured promise to pay these obligations out of general corporate assets. This applies to obligations for both active and retired participants. Commencing with awards made at year end 1996, certificates representing CEC shares will no longer be issued. Instead the number of CEC shares awarded shall be recorded on the books of the Company.

TWELFTH: Regular part-time employees (those working 20 hours or more a week) shall be considered Employees under this Plan. Any change to part-time status of less than 20 hours a week shall be considered a termination, provided, however, that in the event such employee is over the age of 55, such employee shall, for purposes of this Plan only, be deemed to have retired. Nothing contained in the Plan shall be construed to alter the present employment for an indefinite term, which is terminable by either Employee or Company without prior advance notice to the other.

THIRTEENTH: An employee who leaves the Company or one of its subsidiaries, at the request of the Company, to work at a joint venture operation in which the Company (or one of its subsidiaries) has a minority partnership interest, may, in the sole discretion of the Management Compensation Committee, be considered an "Employee" solely for the purposes of this Plan for a period of up to three years

following his or her departure from the Company. This arrangement may be extended for up to two additional years, if the Management Compensation Committee, in its sole discretion, determines that it is in the best interest of the Company to do so. If any such person ceases employment with such a joint venture operation, without a concomitant return to employment with the Company (or one of its subsidiaries), then such person shall immediately be considered to be terminated, and cease to be considered an Employee, for the purposes of this Plan.

FOURTEENTH: An Employee may designate one or more beneficiaries to receive the value of his/her payout upon death. Should a beneficiary predecease the Employee, or should a beneficiary not be named, the amount designated for such beneficiary or the Employee's payout balance, as the case may be, will be distributed to the Employee's Estate. Beneficiary designations may be made or revised at any time by submitting a Beneficiary Designation Form to the Company. The beneficiary or beneficiaries indicated in such Form shall supersede any prior designation, including designations appearing on any certificates representing CEC Shares.

FIFTEENTH: In the first quarter of each calendar year, statements will be sent to active Employees participating in the CEC Plan as well as to retirees with deferred CEC holdings. The report for active Employees will provide the value of CEC holdings based on the prior years' final CEC value. The statement will also include previously made deferral elections and beneficiary designations. The report for retirees will provide the deferred CEC payout balance plus interest, as well as the deferred and/or installment election and beneficiary designations.

SIXTEENTH: The CEC Plan is administered by the Extra Compensation Services Department at the Corporate Headquarters of Company. Questions in regard to the administration of the CEC Plan should be addressed to it.

EXHIBIT 12

JOHNSON & JOHNSON AND SUBSIDIARIES

STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES(1)
(DOLLARS IN MILLIONS)

| FISCAL YEAR ENDED | | | | |
|---|---|---|---|---|
| | DECEMBER 30, 2000 | DECEMBER 31, 2000 | JANUARY 2, 1999(2) | JANUARY 3, 1997 | DECEMBER 28, 2001 |
| Determination of Earnings: | | | | | |
| Earnings Before Provision for Taxes on Income | $7,898 | 6,868 | 5,877 | 4,333 | 4,342 |
| Fixed Charges | 245 | 292 | 337 | 269 | 260 |
| Total Earnings as Defined | $8,143 | 7,160 | 6,214 | 4,602 | 4,602 |
| Fixed Charges and Other: | | | | | |
| Rents | 92 | 88 | 82 | 83 | 81 |
| Interests | 153 | 204 | 255 | 186 | 179 |
| Fixed Charges | 245 | 292 | 337 | 269 | 260 |
| Capitalized Interest | 95 | 97 | 84 | 73 | 41 |
| Total Fixed Charges | $ 340 | 389 | 421 | 342 | 301 |
| Ratio of Earnings to Fixed Charges | 23.95 | 18.41 | 14.76 | 13.46 | 15.29 |

- ---

(1) The ratio of earnings to fixed charges represents the historical ratio of Johnson & Johnson and is calculated on a total enterprise basis. The ratio is computed by dividing the sum of earnings before provision for taxes and fixed charges (excluding capitalized interest) by fixed charges. Fixed charges represent interest (including capitalized interest) and amortization of debt discount and expense and the interest factor of all rentals, consisting of an appropriate interest factor on operating leases.

(2) Earnings for the year ended January 3, 1999 include charges related to restructuring of $613 million and in-process research and development charges of $298 million. Excluding the effect of these charges, the ratio of earnings to fixed charges would have been 16.12.

Management's Discussion and Analysis of Results
of Operations and Financial Condition

## OVERVIEW

Record 2001 sales of $33.0 billion exceeded 2000 sales by $3.2 billion or 10.6% and marked the 69th year of consecutive positive sales growth. This growth was led by the strong performances of the Pharmaceutical and Medical Devices & Diagnostics segments. During 2001, the Company completed its merger with ALZA Corporation, a research-based pharmaceutical company with innovative drug delivery technologies and completed the acquisition of Inverness Medical Technology, a supplier of LifeScan's electromechanical products. These investments are part of the Company's continuing commitment to build a strong science and technology-based business.

The balance sheet remains strong with cash generated from worldwide operations at a record $8.9 billion in 2001. Cash dividends per share paid to shareowners in 2001 increased by 12.9% over 2000 and represented the 39th consecutive year of cash dividend increases. The Company continues to be one of a few companies with a Triple A credit rating.

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. In 2001, $3.6 billion or 10.9% of sales was invested in research and development, recognizing the importance of on-going development of new and differentiated products and services.

The Company's system of management operates on a decentralized basis. With more than 190 operating companies located in 54 countries, the Company views this management philosophy 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. Businesses are managed for the long term in order to sustain leadership positions and achieve growth that provides an enduring source of value to shareowners.

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 shareowners. 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.

## DESCRIPTION OF BUSINESS

The Company and its subsidiaries have 101,800 employees worldwide and are 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. The Company's primary interest, both historically and currently, has been in products related to human health and well-being.

The Company is organized on 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 domestic and international companies which span the Consumer, Pharmaceutical and Medical Devices & Diagnostics businesses. Each international subsidiary is, with some exceptions, managed by citizens of the country where it is located.

In all its product lines, the Company competes with companies both large and small, located in the United States of America and abroad. Competition is strong in all 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 and results from time to time in product and process obsolescence. 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 in multiple sales forces. In addition, the winning and retention of customer acceptance of the Company's consumer products involves heavy expenditures for advertising, promotion and selling.

[SALES TO CUSTOMERS BAR GRAPH]

SALES TO CUSTOMERS
Millions of Dollars

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|
| Domestic | 7138 | 7378 | 7986 | 9372 | 11215 | 12183 | 13251 | 15921 | 17707 | 20204 |
| International | 6868 | 6944 | 7930 | 9696 | 10769 | 10935 | 11147 | 12086 | 12139 | 12800 |

### Sales and Earnings

In 2001, worldwide sales increased 10.6% to $33.0 billion, compared to increases of 6.6% in 2000 and 14.8% in 1999. In 2001, sales to three distributors,

McKesson HBOC, Cardinal Distribution and AmerisourceBergen Corp., accounted for 10.4%, 10.3% and 10.2%, respectively, of total revenues. Excluding the impact of foreign currencies, worldwide sales increased 13.2% in 2001, 9.9% in 2000 and 16.7% in 1999.

[NET EARNINGS BAR GRAPH]

NET EARNINGS
Millions of Dollars

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1998* | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Earnings | 977 | 1786 | 1961 | 2418 | 2958 | 3105 | 3101 | 3798 | 4273 | 4953 | 5668 |

* 1998 results excluding Restructuring and In-Process R&D charges.

Worldwide net earnings for 2001 were $5.7 billion, reflecting a 14.4% increase over 2000. Worldwide net earnings per share for 2001 equaled $1.84 per share, an increase of 14.3% from the

$1.61 net earnings per share in 2000. Excluding the impact of special charges, worldwide net earnings were $5.9 billion and net earnings per share were $1.91, representing an increase of 18.0% and 17.2%, respectively, over 2000. The after-tax special charges taken in 2001 include $126 million related to the ALZA merger completed on June 22, 2001, and $105 million of in-process research and development (IPR&D) costs associated with the acquisitions of Inverness Medical Technology and TERAMed, Inc. that were completed in the fourth quarter.

Worldwide net earnings for 2000 were $5.0 billion, reflecting a 15.9% increase over 1999. Worldwide net earnings per share for 2000 equaled $1.61 per share, an increase of 15.8% from the $1.39 net earnings per share in 1999. Excluding the impact of special charges, worldwide net earnings were $5.0 billion and net earnings per share were $1.63, representing an increase of 14.9% and 14.8%, respectively, over 1999. The special charges taken in 2000 included IPR&D costs associated with the acquisitions of Atrionix, Inc. and Crescendo of $66 million, net of a favorable adjustment of $21 million to the costs associated with the 1998 global manufacturing restructuring charge. Other income and expense included gains related to the sale of certain equity securities.

Worldwide net earnings for 1999 were $4.3 billion, reflecting a 37.8% increase over 1998. Worldwide net earnings per share for 1999 equaled $1.39 per share, an increase of 36.3% from the $1.02 net earnings per share in 1998. Excluding the impact of special charges, worldwide net earnings were $4.3 billion and net earnings per share were $1.42, representing an increase of 14.8% and 14.5%, respectively over 1998. The special charges included costs associated with the Centocor and SEQUUS mergers in 1999 and the reconfiguration of the worldwide manufacturing network and IPR&D charges in 1998.

Average diluted shares of common stock outstanding were 3.1 billion in 2001, 2000 and 1999.

Sales by domestic companies were $20.2 billion in 2001, $17.7 billion in 2000 and $15.9 billion in 1999. This represents an increase of 14.1% in 2001, 11.2% in 2000 and 20.1% in 1999.

Sales by international companies were $12.8 billion in 2001, $12.1 billion in 2000 and $12.1 billion in 1999. This represents an increase of 5.4% in 2001, 0.4% in 2000 and 8.4% in 1999. Excluding the impact of the foreign currency fluctuations over the past three years, international company sales increased 11.8% in 2001, 7.9% in 2000 and 12.4% in 1999.

All geographic areas throughout the world posted operational gains during 2001. Excluding the effect of exchange rate fluctuations between the U.S. dollar and foreign currencies, sales increased 11.2% in Europe, 10.6% in the Western Hemisphere (excluding the U.S.) and 13.0% in the Asia-Pacific, Africa regions.

The Company achieved an annual compound growth rate of 10.1% for worldwide sales for the 10-year period since 1991 with domestic sales growing at a rate of 12.2% and international sales growing at a rate of 7.5%. Worldwide net earnings achieved a 10-year annual growth rate of 16.1%, while earnings per share grew at a rate of 15.4%. For the last five years, the annual compound growth rate for sales was 8.5%. The annual compound growth rate for net earnings was 13.9%, and the annual compound growth rate for earnings per share was 13.4%. Excluding the impact of foreign currency fluctuations, the annual compound growth rate for sales for the 5-year period and 10-year period was 11.3% and 11.9%, respectively.

DISTRIBUTION OF SALES REVENUES

The distribution of sales revenues for 2001, 2000 and 1999 was:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Employment costs | 23.5% | 23.8% | 23.3% |
| Costs of materials and services | 46.4 | 47.3 | 49.7 |
| Depreciation and amortization of property and intangibles | 4.9 | 5.3 | 5.4 |
| Taxes other than payroll | 7.3 | 6.9 | 6.2 |
| Earnings reinvested in business | 11.0 | 10.8 | 10.0 |
| Cash dividends paid | 6.2 | 5.8 | 5.3 |
| Special charges/IPR&D | 0.7 | 0.1 | 0.1 |

COST AND EXPENSES

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 special charges and IPR&D, were as follows:

| (Millions of Dollars) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Research expense | $ 3,591 | 3,105 | 2,768 |
| Percent increase over prior year | 15.7% | 12.2% | 10.5% |
| Percent of sales | 10.9 | 10.4 | 9.9 |

Research expense as a percent of sales for the Pharmaceutical segment was 16.6% for 2001, 16.4% for 2000 and 15.7% for 1999 while averaging 6.2%, 6.0% and 6.0% in the other two segments for 2001, 2000 and 1999, respectively.

[RESEARCH EXPENSE BAR GRAPH]

RESEARCH EXPENSE
Millions of Dollars

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|---|
| Expenses | 1282 | 1296 | 1416 | 1788 | 2109 | 2373 | 2506 | 2768 | 3105 | 3591 |

Advertising expenses, which are comprised of television, radio, print media, as well as Internet advertising, were $1.43 billion in 2001, $1.37 billion in 2000 and $1.43 billion in 1999.

The Company believes that its operations comply in all material respects with applicable environmental laws and regulations. The Company or its subsidiaries are parties to a number of proceedings brought under the Comprehensive

Environmental Response, Compensation and Liability Act, commonly known as Superfund, and comparable state laws, in which primary relief sought is the cost of past and future remediation. While it is not feasible to predict or determine the outcome of these proceedings, in the opinion of the Company, such proceedings would not have a material adverse effect on the results of operations, cash flows or financial position of the Company.

Worldwide sales do not reflect any significant degree of seasonality; however, spending has been heavier in the fourth quarter of each year than in other quarters. This reflects increased spending decisions, principally for advertising and research grants.

The worldwide effective income tax rate was 28.2% in 2001, 27.9% in 2000 and 27.3% in 1999. Refer to Note 8 for additional information.

SEGMENTS OF BUSINESS

Financial information for the Company's three worldwide business segments is summarized below. See Note 12 for additional information on segments of business.

[SALES BY SEGMENT OF BUSINESS BAR GRAPH]

SALES BY SEGMENT OF BUSINESS
Millions of Dollars

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Consumer | 24.5% | 23.1% | 21.1% |
| Pharmaceutical | 40.1% | 42.4% | 45.0% |
| Medical Devices & Diagnostics | 35.4% | 34.5% | 33.9% |
| Total Amount | $28,007 | $29,846 | $33,004 |

SALES

| (Millions of Dollars) | 2001 | 2000 | Increase Amount | Increase Percent |
|---|---|---|---|---|
| Consumer | $ 6,962 | 6,904 | 58 | 0.8% |
| Pharmaceutical | 14,851 | 12,661 | 2,190 | 17.3 |
| Med Devices & Diag | 11,191 | 10,281 | 910 | 8.9 |
| Worldwide total | $33,004 | 29,846 | 3,158 | 10.6% |

[OPERATING PROFIT BY SEGMENT OF BUSINESS BAR GRAPH]

OPERATING PROFIT BY SEGMENT OF BUSINESS

| Millions of Dollars | 1999(3) | 2000(2) | 2001(1) |
|---|---|---|---|
| Consumer | 11.3% | 12.4% | 12.7% |
| Pharmaceutical | 61.7% | 63.2% | 62.1% |
| Med Devices & Diag | 27.0% | 24.4% | 25.2% |
| Worldwide total | $ 6,050 | $6,957 | $7,933 |

(1) 2001 results include special charges related to the ALZA merger and In-Process Research and Development. Excluding these charges, operating profit as a percentage of sales for the Pharmaceutical segment was 34.2% and Medical Devices & Diagnostics segment was 18.8%.

(2) 2000 results include special charges related to In-Process Research and Development and a gain related to restructuring. Excluding these charges, operating profit as a percentage of sales was: Consumer segment 12.2%, Pharmaceutical segment 34.8% and Medical Devices & Diagnostics segment 17.0%.

(3) 1999 results include special charges related to the Centocor and SEQUUS mergers. Excluding these charges, operating profit as a percentage of sales for the Pharmaceutical segment was 34.0%.

OPERATING PROFIT

| (Millions of Dollars) | 2001(1) | 2000(2) | Percent of Sales 2001 | Percent of Sales 2000 |
|---|---|---|---|---|
| Consumer | $ 1,004 | 867 | 14.4% | 12.6% |
| Pharmaceutical | 4,928 | 4,394 | 33.2 | 34.7 |
| Med Devices & Diag | 2,001 | 1,696 | 17.9 | 16.5 |

| | | | | |
|---|---|---|---|---|
| Segments total | 7,933 | 6,957 | 24.0 | 23.3 |
| Expenses not allocated to segments | (35) | (89) | | |
| Earnings before taxes on income | $ 7,898 | 6,868 | 23.9% | 23.0% |

(1) 2001 results include special charges related to the ALZA merger and In-Process Research and Development. Excluding these charges, operating profit as a percentage of sales for the Pharmaceutical segment was 34.2% and Medical Devices & Diagnostics segment was 18.8%.

(2) 2000 results include special charges related to In-Process Research and Development and a gain related to restructuring. Excluding these charges, operating profit as a percentage of sales was: Consumer segment 12.2%, Pharmaceutical segment 34.8% and Medical Devices & Diagnostics segment 17.0%.

CONSUMER

The Consumer segment's principal products are personal care and hygienic products, including nonprescription drugs, adult skin and hair care products, baby care products, oral care products, first aid products and sanitary protection products. Major brands include NEUTROGENA skin and hair care products; AVEENO skin care products; BAND-AID Brand Adhesive Bandages; BENECOL food products; CAREFREE Panty Shields; CLEAN & CLEAR teen skin care products; IMODIUM A-D, an antidiarrheal; JOHNSON'S Baby line of products; JOHNSON'S pH5.5 skin and hair care products; MONISTAT, a remedy for vaginal yeast infections; adult and children's MOTRIN IB analgesic products; MYLANTA gastrointestinal products and PEPCID AC Acid Controller from the Johnson & Johnson o Merck Consumer Pharmaceuticals Co.; o.b. Tampons; PENATEN and NATUSAN baby care products; PIZ BUIN and SUNDOWN sun care products; REACH toothbrushes; RoC skin care products; SHOWER TO SHOWER personal care products; SPLENDA, a non-caloric sugar substitute; STAYFREE sanitary protection products; and the broad family of TYLENOL acetaminophen products. These products are marketed principally to the general public and distributed both to wholesalers and directly to independent and chain retail outlets.

Consumer segment sales in 2001 were $7.0 billion, an increase of 0.8% over 2000. Domestic sales increased by 0.8% while international sales gains in local currency of 7.6% were offset by a negative currency impact of 6.7%. Consumer sales experienced strong growth in McNeil Nutritionals' SPLENDA sweetener products and the recently acquired VIACTIV brand calcium supplement. Solid growth also was achieved in the skin care franchise, which includes the NEUTROGENA, RoC, AVEENO and CLEAN & CLEAR product lines.

During the fourth quarter of 2001, the Company introduced NEUTROGENA Men's Line, consisting of eight premium skin care products that provide dermatologist tested, clinically proven solutions to men's skin care problems.

Consumer segment sales in 2000 were $6.9 billion, an increase of 0.6% over 1999. Domestic sales increased by 2.5% while international sales gains in local currency of 5.0% were

offset by a negative currency impact of 6.6%. Consumer sales were led by continued strength in the skin care franchise, which includes the NEUTROGENA, RoC, AVEENO and CLEAN & CLEAR product lines, as well as strong performances from the JOHNSON'S line of baby skin care products. During 2000, the Company acquired the ST. JOSEPH aspirin business. The acquisition is the first entry into the cardio-protective aspirin market by McNeil Consumer & Specialty Pharmaceuticals, the world leader in over-the-counter analgesics.

Consumer segment sales in 1999 were $6.9 billion, an increase of 5.2% over 1998. Domestic sales increased by 10.4% while international sales declined by 0.2%. International sales gains in local currency of 7.0% were offset by a negative currency impact of 7.2%. During 1999, the Company launched various products that included BENECOL, the dietary ingredient stanol ester that aids in the reduction of cholesterol, and also completed the acquisition of the AVEENO brand products.

PHARMACEUTICAL

The Pharmaceutical segment's principal worldwide franchises are in the antifungal, anti-infective, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, psychotropic (central nervous system) and urology fields. These products are distributed both directly and through wholesalers for use by health care professionals and the general public. Prescription drugs in the antifungal field include NIZORAL (ketoconazole), SPORANOX (itraconazole), TERAZOL (terconazole) and DAKTARIN (miconazole nitrate) antifungal products. Prescription drugs in the anti-infective field include FLOXIN (ofloxacin) and LEVAQUIN (levofloxacin). Prescription drugs in the cardiovascular field include RETAVASE (reteplase), a recombinant biologic cardiology care product for the treatment of acute myocardial infarction to improve blood flow to the heart, and REOPRO (abciximab) for the treatment of acute cardiac disease. Prescription drugs in the contraceptive field include ORTHO-NOVUM (norethindrone/ethinyl estradiol) and TRICILEST (norgestimate/ethinyl estradiol, sold in the U.S. as ORTHO TRI-CYCLEN) group of oral contraceptives. Prescription drugs in the dermatology field include RETIN-A MICRO (tretinoin), a dermatological cream for acne. Prescription drugs in the gastrointestinal field include ACIPHEX (rabeprazole sodium, sold outside the U.S. as PARIET), a proton pump inhibitor for treating erosive gastroesophageal reflux disease (GERD) and duodenal ulcers; IMODIUM (loperamide HCl), an antidiarrheal; MOTILIUM (domperidone), a gastrointestinal mobilizer; and REMICADE (infliximab), a novel monoclonal antibody for treatment of certain Crohn's disease patients. REMICADE is also indicated for the treatment of rheumatoid arthritis.

Prescription drugs in the hematology field include EPREX (Epoetin alfa, sold in the U.S. as PROCRIT), a biotechnology derived version of the human hormone erythropoietin that stimulates red blood cell production. Prescription drugs in the immunology field include ORTHOCLONE OKT3 (muromonab-CD3), for reversing the rejection of kidney, heart and liver transplants. Prescription drugs in the neurology field include TOPAMAX (topiramate), REMINYL (galantamine) and STUGERON (cinnarizine). Prescription drugs in the oncology field include DOXIL (doxorubicin), an anti-cancer treatment, ERGAMISOL (levamisole hydrochloride), a colon cancer drug, and LEUSTATIN (cladribine), for hairy cell leukemia. Prescription drugs in the psychotropics (central nervous system) field include antipsychotic drugs RISPERDAL (risperidone) and HALDOL (haloperidol), and CONCERTA (methylphenidate) for attention deficit hyperactivity disorder. Prescription drugs in the pain management field include DURAGESIC (fentanyl transdermal system, sold abroad as DUROGESIC), a transdermal patch for chronic pain; and ULTRAM (tramadol hydrochloride), an analgesic for moderate to moderately severe pain. Prescription drugs in the urology field include DITROPAN XL (oxybutynin) for the treatment of overactive bladder.

Johnson & Johnson markets over 100 prescription drugs around the world, with 31.0% of the sales generated outside the United States of America. Thirty-three drugs sold by the Company had 2001 sales in excess of $50 million, with 20 of them in excess of $100 million.

Pharmaceutical segment sales in 2001 were $14.9 billion, an increase of 17.3% over 2000 including 21.3% growth in domestic sales. Operationally, international sales increased 14.2% but were partially offset by a negative currency impact of 4.9%. Worldwide sales gains in local currency of 19.0% were partially offset by a negative currency impact of 1.7%.

Sales growth reflects the strong performance of PROCRIT/EPREX, RISPERDAL, DURAGESIC, CONCERTA, REMICADE, ULTRAM, TOPAMAX, and ACIPHEX/PARIET. Sales of PROCRIT/EPREX accounted for 10.4% of total Company revenues for 2001.

During the fourth quarter of 2001, the Company received U.S. Food and Drug Administration (FDA) approval for ORTHO EVRA, the first birth control patch. ORTHO EVRA is a thin, beige patch that delivers continuous levels of the hormones norelgestromin and ethinyl estradiol (progestin and estrogen, respectively) through the skin and into the bloodstream. The patch is worn for one week at a time and is replaced on the same day of the week for three consecutive weeks. The fourth week is "patch-free."

The Company also filed several new drug applications with the FDA in December 2001. These include LEVAQUIN for the treatment of nosocomial pneumonia, an orally disintegrating formulation of RISPERDAL and a synthetic oral solution of REMINYL for Alzheimer's disease.

Pharmaceutical segment sales in 2000 were $12.7 billion, an increase of 12.7% over 1999 including 21.4% growth in domestic sales. Operationally, international sales increased 7.6% but were more than offset by a negative currency impact of 8.9%. Worldwide sales gains in local currency of 16.1% were partially offset by a negative currency impact of 3.4%. Sales growth reflects the strong performance of PROCRIT/EPREX, RISPERDAL, DURAGESIC, LEVAQUIN, REMICADE, ULTRAM, TOPAMAX, ACIPHEX/PARIET and the oral contraceptive line of

products. Sales growth was partially offset by restricted access to or limited indications for PROPULSID/PREPULSID in a number of markets around the world.

Pharmaceutical segment sales in 1999 were $11.2 billion, an increase of 20.7% over 1998, including 28.9% growth in domestic sales. International sales increased 9.4% as sales gains in local currency of 13.5% were offset by a negative currency impact of 4.1%. Worldwide growth reflected the strong performance of PROCRIT, RISPERDAL, DURAGESIC, LEVAQUIN, and the oral contraceptive line of products.

Significant research activities continued in the Pharmaceutical segment, increasing to $2.5 billion or 16.6% of sales in 2001. This represents an increase of 18.6% over 2000 and a compound annual growth rate of approximately 13.6% for the five-year period since 1996. Johnson & Johnson Pharmaceutical Research & Development, L.L.C., formerly known as the Janssen Research Foundation and the R.W. Johnson Pharmaceutical Research Institute, is the worldwide pharmaceutical research organization with additional research conducted by Centocor, ALZA and through a collaboration with the James Black Foundation in London, England.

MEDICAL DEVICES & DIAGNOSTICS

The Medical Devices & Diagnostics segment includes a broad range of products used by or under the direction of health care professionals. These include suture and mechanical wound closure products, surgical equipment and devices, wound management and infection prevention products, interventional and diagnostic cardiology products, diagnostic equipment and supplies, joint replacements and disposable contact lenses. These products are used principally in the professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories and clinics. Acquisitions in the Medical Devices & Diagnostics segment during recent years have been an integral part of an ongoing process to transform this segment from what was once principally a medical supply business to one serving a range of higher technology medical specialties.

Worldwide sales in 2001 of $11.2 billion in the Medical Devices & Diagnostics segment represented an increase of 8.9% over 2000. Domestic sales were up 12.2%, while international sales increased 5.0% as sales gains in local currency of 12.0% were offset by a negative currency impact of 7.0%. Worldwide sales gains in local currency of 12.1% were reduced by 3.2% due to the strength of the U.S. dollar. Strong sales growth from Cordis' circulatory disease management products; DePuy's orthopaedic joint reconstruction and spinal products; Ethicon's wound closure, surgical sports medicine and women's health products; Ethicon Endo-Surgery's minimally invasive surgical and vascular access products, and LifeScan's blood glucose monitoring products were the primary contributors to the Medical Devices and Diagnostics segment growth.

In the fourth quarter of 2001, Cordis announced the FDA approval of the Bx VELOCITY Coronary Stent with HEPACOAT on the RAPTORRAIL Stent Delivery System (rapid exchange). The stent is coated with heparin, a blood-thinning agent used to reduce the risk of clot formation. In addition, Cordis completed the acquisition of TERAMed, Inc., a privately held company developing a proprietary, catheter-based system for the treatment of abdominal aortic aneurysms.

In November 2001, the Company completed the acquisition of Inverness Medical Technology, a manufacturer and developer of advanced blood glucose monitoring products. Inverness is now a wholly owned subsidiary of Johnson & Johnson and together with Johnson & Johnson's LifeScan business unit forms our leading blood glucose monitoring franchise.Inverness Medical Technology was acquired in order to provide technology for the development of future products.

Additionally, Vistakon introduced ACUVUE 2 COLOURS Brand Contact Lenses, which provides exceptional comfort and handling in a soft frequent replacement color contact lens. ACUVUE 2 COLOURS is a two-week, daily wear lens available with or without vision correction in seven natural-looking colors. The unique COLOURS-WRAPPED-IN-COMFORT design eliminates the color touching the eye, while offering natural color depth.

Worldwide sales in 2000 of $10.3 billion in the Medical Devices & Diagnostics segment represented an increase of 3.7% over 1999. Domestic sales were up 4.0%, while international sales increased 3.4% as sales gains in local currency of 10.3% were offset by a negative currency impact of 6.9%. Worldwide sales gains in local currency of 6.9% were reduced by 3.2% due to the strength of the U.S. dollar. Strong sales growth from Cordis' coronary and endovascular stents, DePuy's spinal products, Ethicon's MITEK suture anchors and Gynecare's women's health products, Ethicon Endo-Surgery's MAMMOTOME breast biopsy system and ULTRACISION Harmonic Scalpel and Vistakon's disposable contact lens products were the primary contributors to the Medical Devices & Diagnostics segment growth.

Worldwide sales in 1999 of $9.9 billion in the Medical Devices & Diagnostics segment represented an increase of 15.7% over 1998. Domestic sales increased 16.9%, while international sales gains in local currency of 15.7% were partially offset by the strength of the U.S. dollar. In the fourth quarter, Cordis launched the new Bx VELOCITY coronary stent in Europe, where it has been well received by the medical community. Ethicon's new products included: PRONOVA Poly (hexafluoropropylene-VDF) Suture, a synthetic nonabsorbable monofilament for cardiovascular and vascular surgery and SURGIFOAM Absorbable Gelatin Sponge USP, which has been proven in surgery for over 50 years in Europe and has given Ethicon a full line of hemostasis products. In 1999, Ethicon also received approval for Gynecare's THERMACHOICE II Uterine Balloon Therapy System, the latex-free next generation ablation technology system used for excessive uterine bleeding.

GEOGRAPHIC AREAS

The Company's sales by major geographic area are presented below:

| SALES | | | Increase | |
|---|---|---|---|---|
| (Millions of Dollars) | 2001 | 2000 | Amount | Percent |
| United States | $20,204 | 17,707 | 2,497 | 14.1% |
| Europe | 6,853 | 6,365 | 488 | 7.7 |
| Western Hemisphere excluding U.S. | 2,142 | 2,084 | 58 | 2.8 |
| Asia-Pacific, Africa | 3,805 | 3,690 | 115 | 3.1 |
| Worldwide total | $33,004 | 29,846 | 3,158 | 10.6% |

International sales were negatively impacted by the translation of local currency operating results into U.S dollars in all regions. Average exchange rates to the dollar have declined each year since 1995. See Note 12 for additional information on geographic areas.

[SALES BY GEOGRAPHIC AREA OF BUSINESS BAR GRAPH]

SALES BY GEOGRAPHIC AREA OF BUSINESS
Millions of Dollars

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| United States | 56.8% | 59.3% | 61.2% |
| Europe | 24.6% | 21.3% | 20.8% |
| Western Hemisphere excluding U.S. | 7.2% | 7.0% | 6.5% |
| Asia-Pacific, Africa | 12.0 | 12.4% | 11.5% |
| Total Sales in dollars | $28,007 | $29,846 | $33,004 |

## LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations and selected borrowings provides the major source of funds for the growth of the business, including working capital, additions to property, plant and equipment and acquisitions. Cash and current marketable securities totaled $8.0 billion at the end of 2001 as compared with $6.8 billion at the end of 2000. For the year ended December 30, 2001, there was a change in the timing of salary increases and bonuses to employees from December 2001 to February 2002. This change was enacted to have 2001 results finalized in order to align compensation and performance. The result of this change was an increase of approximately $450 million in accrued salaries, wages and commissions in the balance sheet at December 30, 2001 and results in a corresponding increase in cash flows from operating activities.

Total unused credit available to the Company approximates $3.0 billion, including $1.5 billion of credit commitments with various banks worldwide that expire on October 3, 2002. The Company's shelf registration filed with the Securities and Exchange Commission enables the Company to issue up to $2.6 billion of unsecured debt securities and warrants to purchase debt securities under its medium term note (MTN) program. No MTNs were issued in 2001. At December 30, 2001, the Company had $1.8 billion remaining on its shelf registration. The Company continues to be one of a few companies with a Triple A credit rating.

Total borrowings at the end of 2001 and 2000 were $2.8 billion and $4.7 billion, respectively. In 2001 net cash (cash and current marketable securities net of debt) was $5.2 billion. In 2000, net cash (cash and current marketable securities net of debt) was $2.1 billion. Total debt represented 10.3% of total capital (shareowners' equity and total debt) in 2001 and 18.6% of total capital in 2000. Shareowners' equity per share at the end of 2001 was $7.95 compared with $6.77 at year-end 2000, an increase of 17.4%. For the period ended December 30, 2001, there were no material cash commitments. A summary of borrowings can be found in Note 6.

On February 13, 2002, the Company announced a stock repurchase program of up to $5 billion with no time limit on this program.

## FINANCIAL INSTRUMENTS

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 December 30, 2001 market rates would increase the unrealized value of the Company's forward contracts by $233 million. Conversely, a 10% depreciation of the U.S. Dollar from December 30, 2001 market rates would decrease the unrealized value of the Company's forward contracts by $285 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 enters into currency swap contracts to manage the Company's exposure to changes in currency exchange rates and hedge foreign currency denominated assets and liabilities. The impact of a 1% change in interest rates on the Company's interest rate sensitive financial instruments would be immaterial.

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 is remote.

## CHANGING PRICES AND INFLATION

Johnson & Johnson is aware that its products are used in a setting where, for more than a decade, policymakers, consumers and businesses have expressed concern 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 1991 - 2001, in the United States, the weighted average compound annual growth rate of Johnson & Johnson 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) for the period.

Inflation rates, even though moderate in many parts of the world during 2001, 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.

## KEY ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

As previously described, the Company is engaged in the manufacture and sale of products in the healthcare field. Due to the nature of the business, it is unlikely that any accounting policies, that are open to interpretation, could have a material effect on the Company's results of operations. Certain key accounting policies that may affect the results of the Company are the timing of revenue recognition and the fact that all research and development expenses are expensed as incurred. Note 1 to the consolidated financial statements describes the Company's other significant accounting policies.

During 2001, the Emerging Issues Task Force (EITF) reached a consensus on "Accounting for Certain Sales Incentives" (EITF 00-14) that addresses the recognition, measurement and statement of earnings classification of certain sales incentives. Additionally, EITF Issue No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" (EITF 00-25) addresses the classification in

the statement of earnings of consideration from a vendor to an entity that purchases the vendor's products for resale. These pronouncements are effective beginning with the first quarter of 2002. The impact of these pronouncements on the Company's financial statements will result in a corresponding reduction in sales and expenses estimated at $160 million, $132 million and $132 million for 2001, 2000 and 1999, respectively, for EITF 00-14, and $518 million, $533 million and $518 million for 2001, 2000 and 1999, respectively, for EITF 00-25.

In June 2001, the Financial Accounting Standards Board (FASB) issued pronouncement SFAS No. 141, "Business Combinations" (SFAS 141) which requires that the purchase method of accounting must be used for all business combinations initiated after June 30, 2001 and eliminates the use of the pooling-of-interests method of accounting. SFAS 141 also further clarifies the criteria for recognition of intangible assets separately from goodwill. SFAS No. 142, "Goodwill and other Intangible Assets" (SFAS 142) effective January 1, 2002 was also issued by the FASB in June 2001. SFAS No. 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with a determinable useful life will continue to be amortized while the amortization of goodwill and other intangible assets acquired prior to June 30, 2001 will be eliminated upon adoption of SFAS 142. The rules established by SFAS 142 were applied immediately to goodwill and other intangible assets acquired after June 30, 2001. See Notes 7 and 17 for additional information.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses the accounting and reporting of an entity's legal obligations associated with the retirement of long-lived assets due to an acquisition, development or normal operation of the asset. The pronouncement is effective for the fiscal year beginning after June 15, 2002. In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) that is effective for the first quarter of 2002. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for segments of a business to be disposed of as previously defined in that Opinion. The implementations of SFAS 143 and SFAS 144 are not expected to have a material effect on the Company's results of operations, cash flows or financial position.

## 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 (adjusted for the 2-for-1 stock split effective May 22, 2001) for Johnson & Johnson common stock during 2001 and 2000 were:

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First quarter | $52.34 | 40.25 | 48.47 | 33.07 |
| Second quarter | 54.20 | 42.60 | 50.94 | 35.00 |
| Third quarter | 57.60 | 50.00 | 50.72 | 45.13 |
| Fourth quarter | 60.97 | 53.05 | 52.97 | 44.60 |
| Year-end close | 59.86 | | 52.53 | |

## CASH DIVIDENDS PAID

The Company increased its dividends in 2001 for the 39th consecutive year. Cash dividends paid were $0.70 per share in 2001 compared with dividends of $0.62 per share in 2000 and $0.55 per share in 1999. The dividends were distributed as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| First quarter | $ .16 | .14 | .13 |
| Second quarter | .18 | .16 | .14 |
| Third quarter | .18 | .16 | .14 |
| Fourth quarter | .18 | .16 | .14 |
| Total | $ .70 | .62 | .55 |

On January 2, 2002, the Board of Directors declared a regular cash dividend of $0.18 per share, paid on March 12, 2002 to shareowners of record as of February 19, 2002.

The Company expects to continue the practice of paying regular cash dividends.

## 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. Furthermore, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments. The Company's report on Form 10-K for the year ended December 30, 2001 that will be filed in March 2002, will contain, as an Exhibit, a discussion of various factors that could cause actual results to differ from expectations. Prior to that filing, investors should reference the Company's report on Form 10-K for the fiscal year ended December 31, 2000. The Company notes these factors as permitted by the Private Securities Litigation Reform Act of 1995.

| At December 30, 2001 and December 31, 2000 (Dollars in Millions) (Note 1) | 2001 | 2000 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Notes 1, 14 and 15) | $ 3,758 | 4,278 |
| Marketable securities (Notes 1, 14 and 15) | 4,214 | 2,479 |
| Accounts receivable trade, less allowances for doubtful accounts $197 (2000, $182) | 4,630 | 4,601 |
| Inventories (Notes 1 and 2) | 2,992 | 2,905 |
| Deferred taxes on income (Note 8) | 1,192 | 1,174 |
| Prepaid expenses and other receivables | 1,687 | 1,254 |
| TOTAL CURRENT ASSETS | 18,473 | 16,691 |
| Marketable securities, non-current (Notes 1, 14 and 15) | 969 | 657 |
| Property, plant and equipment, net (Notes 1 and 3) | 7,719 | 7,409 |
| Intangible assets, net (Notes 1 and 7) | 9,077 | 7,535 |
| Deferred taxes on income (Note 8) | 288 | 240 |
| Other assets | 1,962 | 1,713 |
| TOTAL ASSETS | $ 38,488 | 34,245 |
| LIABILITIES AND SHAREOWNERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Loans and notes payable (Note 6) | $ 565 | 1,489 |
| Accounts payable | 2,838 | 2,122 |
| Accrued liabilities | 3,135 | 2,793 |
| Accrued salaries, wages and commissions | 969 | 529 |
| Taxes on income | 537 | 322 |
| TOTAL CURRENT LIABILITIES | 8,044 | 7,255 |
| Long-term debt (Note 6) | 2,217 | 3,163 |
| Deferred tax liability (Note 8) | 493 | 255 |
| Employee related obligations (Note 5) | 1,870 | 1,804 |
| Other liabilities | 1,631 | 1,373 |
| SHAREOWNERS' 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) | (30) | (35) |
| Accumulated other comprehensive income (Note 11) | (530) | (461) |
| Retained earnings | 23,066 | 18,113 |
| | 25,626 | 20,737 |
| Less: common stock held in treasury, at cost (Note 20) (72,627,000 and 105,218,000) | 1,393 | 342 |
| TOTAL SHAREOWNERS' EQUITY | 24,233 | 20,395 |
| TOTAL LIABILITIES AND SHAREOWNERS' EQUITY | $ 38,488 | 34,245 |

See Notes to Consolidated Financial Statements

| (Dollars in Millions Except Per Share Figures) (Note 1) | 2001 | 2000 | 1999 |
|---|---|---|---|
| SALES TO CUSTOMERS | $ 33,004 | 29,846 | 28,007 |
| Cost of products sold | 9,536 | 8,908 | 8,498 |
| Gross profit | 23,468 | 20,938 | 19,509 |
| Selling, marketing and administrative expenses | 11,992 | 11,218 | 10,756 |
| Research expense | 3,591 | 3,105 | 2,768 |
| Purchased in-process research and development (Note 17) | 105 | 66 | -- |
| Interest income | (456) | (429) | (266) |
| Interest expense, net of portion capitalized (Note 3) | 153 | 204 | 255 |
| Other (income) expense, net | 185 | (94) | 119 |
| | 15,570 | 14,070 | 13,632 |
| Earnings before provision for taxes on income | 7,898 | 6,868 | 5,877 |
| Provision for taxes on income (Note 8) | 2,230 | 1,915 | 1,604 |
| NET EARNINGS | $ 5,668 | 4,953 | 4,273 |
| BASIC NET EARNINGS PER SHARE (NOTES 1 AND 19) | $ 1.87 | 1.65 | 1.43 |
| DILUTED NET EARNINGS PER SHARE (NOTES 1 AND 19) | $ 1.84 | 1.61 | 1.39 |

See Notes to Consolidated Financial Statements

| (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, JANUARY 3, 1999 | $ 14,674 | | 12,375 | (44) | (333) | 3,120 | (444) |
| Net earnings | 4,273 | 4,273 | 4,273 | | | | |
| Cash dividends paid | (1,479) | | (1,479) | | | | |
| Employee compensation and stock option plans | 428 | | (401) | | | | 829 |
| Repurchase of common stock | (840) | | | | | | (840) |
| Business combinations | 2 | | | | | | 2 |
| Other comprehensive income, net of tax: | | | | | | | |
| Currency translation adjustment | (155) | (155) | | | (155) | | |
| Unrealized gains (losses) on securities | 89 | 89 | | | 89 | | |
| Reclassification adjustment | | 11 | | | | | |
| Total comprehensive income | | 4,218 | | | | | |
| Note receivable from ESOP | 3 | | | 3 | | | |
| BALANCE, JANUARY 2, 2000 | $ 16,995 | | 14,768 | (41) | (399) | 3,120 | (453) |
| Net earnings | 4,953 | 4,953 | 4,953 | | | | |
| Cash dividends paid | (1,724) | | (1,724) | | | | |
| Employee compensation and stock option plans | 619 | | (456) | | | | 1,075 |
| Conversion of subordinated debentures | 504 | | 504 | | | | |
| Repurchase of common stock | (973) | | | | | | (973) |
| Business combinations | 77 | | 68 | | | | 9 |
| Other comprehensive income, net of tax: | | | | | | | |
| Currency translation adjustment | (45) | (45) | | | (45) | | |
| Unrealized gains (losses) on securities | (2) | (2) | | | (2) | | |
| Pension liability adjustment | (15) | (15) | | | (15) | | |
| Reclassification adjustment | | (52) | | | | | |
| Total comprehensive income | | 4,839 | | | | | |
| Note receivable from ESOP | 6 | | | 6 | | | |
| BALANCE, DECEMBER 31, 2000 | $ 20,395 | | 18,113 | (35) | (461) | 3,120 | (342) |
| Net earnings | 5,668 | 5,668 | 5,668 | | | | |
| Cash dividends paid | (2,047) | | (2,047) | | | | |
| Employee compensation and stock option plans | 842 | | (602) | | | | 1,444 |
| Conversion of subordinated debentures | 815 | | 632 | | | | 183 |
| Repurchase of common stock | (2,742) | | | | | | (2,742) |
| Business combinations | 1,366 | | 1,302 | | | | 64 |
| Other comprehensive income, net of tax: | | | | | | | |
| Currency translation adjustment | (175) | (175) | | | (175) | | |
| Unrealized gains (losses) on securities | 8 | 8 | | | 8 | | |
| Pension liability adjustment | -- | -- | | | | | |
| Gains/(losses) on derivatives & hedges | 98 | 98 | | | 98 | | |
| Reclassification adjustment | | (14) | | | | | |
| Total comprehensive income | | 5,585 | | | | | |
| Note receivable from ESOP | 5 | | | 5 | | | |
| BALANCE, DECEMBER 30, 2001 | $ 24,233 | | 23,066 | (30) | (530) | 3,120 | (1,393) |

See Notes to Consolidated Financial Statements

| (Dollars in Millions) (Note 1) | 2001 | 2000 | 1999 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net earnings | $ 5,668 | 4,953 | 4,273 |
| Adjustments to reconcile net earnings to cash flows: | | | |
| Depreciation and amortization of property and intangibles | 1,605 | 1,592 | 1,510 |
| Purchased in-process research and development | 105 | 66 | -- |
| (Increase) in deferred taxes | (106) | (128) | (26) |
| Accounts receivable reserves | 99 | 41 | 23 |
| Changes in assets and liabilities, net of effects from acquisition of businesses: | | | |
| (Increase) in accounts receivable | (258) | (468) | (630) |
| (Increase) decrease in inventories | (167) | 128 | (347) |
| Increase in accounts payable and accrued liabilities | 1,401 | 41 | 226 |
| (Increase) decrease in other current and non-current assets | (270) | 124 | 310 |
| Increase in other current and non-current liabilities | 787 | 554 | 581 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 8,864 | 6,903 | 5,920 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | (1,731) | (1,689) | (1,822) |
| Proceeds from the disposal of assets | 163 | 166 | 55 |
| Acquisition of businesses, net of cash acquired (Note 17) | (225) | (151) | (271) |
| Purchases of investments | (8,188) | (5,676) | (3,832) |
| Sales of investments | 5,967 | 4,827 | 3,057 |
| Other | (79) | (142) | (280) |
| NET CASH USED BY INVESTING ACTIVITIES | (4,093) | (2,665) | (3,093) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends to shareowners | (2,047) | (1,724) | (1,479) |
| Repurchase of common stock | (2,570) | (973) | (840) |
| Proceeds from short-term debt | 338 | 814 | 3,208 |
| Retirement of short-term debt | (1,109) | (1,485) | (4,063) |
| Proceeds from long-term debt | 14 | 591 | 793 |
| Retirement of long-term debt | (391) | (35) | (187) |
| Proceeds from the exercise of stock options | 514 | 387 | 221 |
| NET CASH USED BY FINANCING ACTIVITIES | (5,251) | (2,425) | (2,347) |
| Effect of exchange rate changes on cash and cash equivalents | (40) | (47) | (72) |
| (Decrease)/increase in cash and cash equivalents | (520) | 1,766 | 408 |
| Cash and cash equivalents, beginning of year (Note 1) | 4,278 | 2,512 | 2,104 |
| CASH AND CASH EQUIVALENTS, END OF YEAR (NOTE 1) | $ 3,758 | 4,278 | 2,512 |
| **SUPPLEMENTAL CASH FLOW DATA** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 185 | 215 | 238 |
| Income taxes | 2,090 | 1,651 | 1,459 |
| **SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | | |
| Treasury stock issued for employee compensation and stock option plans, net of cash proceeds | $ 971 | 754 | 675 |
| Conversion of debt | 815 | 504 | 6 |
| ACQUISITIONS OF BUSINESSES | | | |
| Fair value of assets acquired | $ 1,925 | 241 | 271 |
| Fair value of liabilities assumed | (434) | (5) | -- |
| | 1,491 | 236 | 271 |
| Treasury stock issued at fair value | (1,266) | (85) | -- |
| Net cash paid for acquisitions | $ 225 | 151 | 271 |

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

BASIS OF PRESENTATION
The consolidated financial statements of Johnson & Johnson have been prepared to give retroactive effect to the merger with ALZA Corporation (ALZA) on June 22, 2001.

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

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 reevaluates such determination at each balance sheet date.

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 |

REVENUE RECOGNITION
The Company recognizes revenue from product sales when the goods are shipped or delivered and title passes to the customer.

SALES INCENTIVES AND TRADE PROMOTIONAL ALLOWANCES
The Company currently recognizes the expense related to coupons, certain sales incentives and trade promotions upon issuance and classifies these expenses as selling, marketing and administrative expense. The Company will adopt EITF Issues No. 00-14 and No. 00-25, which are effective beginning with the first quarter of 2002. The impact on the Company is a reclassification from expense to a reduction of sales of $160 million, $132 million and $132 million for 2001, 2000 and 1999 for EITF No. 00-14, and $518 million, $533 million and $518 million for 2001, 2000 and 1999 for EITF No. 00-25.

SHIPPING AND HANDLING
Shipping and handling costs incurred were $473 million, $492 million and $470 million in 2001, 2000, and 1999, respectively, and are included in selling, marketing and administrative expense. The amount of revenue received for shipping and handling is immaterial for all periods presented.

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

INTANGIBLE ASSETS
For acquisitions completed on or before June 30, 2001, the excess of the cost over the fair value of net assets of purchased businesses is recorded as goodwill and is amortized on a straight-line basis over periods of 40 years or less. The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives. The Company continually evaluates the carrying value of goodwill and other intangible assets. Any impairments would be recognized when the expected future operating cash flows derived from such intangible assets is less than their carrying value.

The Company has adopted SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." All business combinations consummated after July 1, 2001 are accounted for in accordance with the new pronouncements. Goodwill relating to acquisitions completed subsequent to June 30, 2001 is not amortized and is subject to impairment testing. In addition, effective January 1, 2002, the Company will no longer be required to amortize goodwill and certain other intangible assets relating to acquisitions completed prior to July 1, 2001.

FINANCIAL INSTRUMENTS
Effective January 1, 2001, the Company adopted 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, an amendment of FASB Statement No. 133," collectively referred to as SFAS 133. SFAS 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 it is,

depending on the type of hedge transaction.

The Company uses forward exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future product purchases 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 later of the date of entering into the derivative contract or January 1, 2001. 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 that is highly effective, are recorded in accumulated other comprehensive income, until the underlying transaction affects earnings and are then reclassed 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.

At inception, and on an ongoing basis, the Company assesses whether each derivative is expected 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.

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.

ADVERTISING

Costs associated with advertising are expensed in the year incurred. Advertising expenses worldwide, which are comprised of television, radio, print media as well as Internet advertising, were $1.43 billion in 2001, $1.37 billion in 2000 and $1.43 billion in 1999.

INCOME TAXES

The Company intends to continue to reinvest its undistributed international earnings to expand its international operations; therefore no tax has been provided to cover the repatriation of such undistributed earnings. At December 30, 2001, and December 31, 2000, the cumulative amount of undistributed international earnings was approximately $12.1 billion and $9.5 billion, respectively.

NET EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareowners 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 or other contracts to issue common stock were exercised or converted into common stock.

RISKS AND UNCERTAINTIES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported. Actual results may or may not differ from those estimates.

ANNUAL CLOSING DATE

The Company follows the concept of a fiscal year which ends on the Sunday nearest to the end of the month of December. Normally each fiscal year consists of 52 weeks, but every five or six years, as was the case in 1998, the fiscal year consists of 53 weeks.

RECLASSIFICATION

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

STOCK SPLIT

On April 26, 2001, the Board of Directors declared a 2-for-1 stock split. Shareowners of record at the close of business on May 22, 2001 were issued one additional share of Johnson & Johnson common stock on June 12, 2001 for each share held as of the record date. All shares and per share data for all periods presented in these financial statements have been adjusted to reflect the stock split.

## 2 INVENTORIES

At the end of 2001 and 2000, inventories were comprised of:

| (Dollars in Millions) | 2001 | 2000 |
|---|---|---|
| Raw materials and supplies | $ 842 | 718 |
| Goods in process | 605 | 480 |
| Finished goods | 1,545 | 1,707 |
| | $2,992 | 2,905 |

## 3 PROPERTY, PLANT AND EQUIPMENT

At the end of 2001 and 2000, property, plant and equipment at cost and accumulated depreciation were:

| (Dollars in Millions) | 2001 | 2000 |
|---|---|---|
| Land and land improvements | $ 459 | 427 |
| Buildings and building equipment | 3,911 | 3,659 |
| Machinery and equipment | 6,805 | 6,312 |
| Construction in progress | 1,283 | 1,468 |
| | 12,458 | 11,866 |
| Less accumulated depreciation | 4,739 | 4,457 |
| | $ 7,719 | 7,409 |

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2001, 2000 and 1999 was $95 million, $97 million and $84 million, 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 adjusted to earnings.

4 RENTAL EXPENSE AND LEASE COMMITMENTS

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases amounted to approximately $275 million in 2001, $264 million in 2000 and $245 million in 1999.

The approximate minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 30, 2001 are:

| (Dollars in Millions) | 2002 | 2003 | 2004 | 2005 | 2006 | After 2006 | Total |
|---|---|---|---|---|---|---|---|
| | $117 | 109 | 88 | 73 | 65 | 210 | 662 |

Commitments under capital leases are not significant.

5 EMPLOYEE RELATED OBLIGATIONS

At the end of 2001 and 2000, employee related obligations were:

| (Dollars in Millions) | 2001 | 2000 |
|---|---|---|
| Post retirement benefits | $ 848 | 822 |
| Post employment benefits | 105 | 101 |
| Pension liabilities | 606 | 601 |
| Deferred compensation | 311 | 280 |
| Employee related obligations | $1,870 | 1,804 |

6 BORROWINGS

The components of long-term debt are as follows:

| (Dollars in Millions) | 2001 | Eff. Rate% | 2000 | Eff. Rate% |
|---|---|---|---|---|
| 3% Zero Coupon Convertible Subordinated Debentures due 2020 | $ 626 | 3.00 | 609 | 3.00 |
| 5.25% Zero Coupon Convertible Subordinated Debentures due 2014 | 117 | 5.25 | 464 | 5.25 |
| 4.75% Convertible Subordinated Debentures due 2005 | -- | -- | 460 | 4.75 |
| 8.72% Debentures due 2024 | 300 | 8.72 | 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 |
| 6% Eurodollar due 2001 | -- | -- | 250 | 6.02 |
| 7.375% Notes due 2002 | 200 | 7.49 | 200 | 7.49 |
| 8.25% Eurodollar Notes due 2004 | 199 | 8.37 | 199 | 8.37 |
| 6.625% Notes due 2009 | 198 | 6.80 | 198 | 6.80 |
| 5% Deutsche Mark Notes due 2001(2) | -- | -- | 85 | 1.98 |
| 5.12% Notes due 2003(3) | 60 | 0.82 | 60 | 0.82 |
| Industrial Revenue Bonds | 39 | 5.30 | 44 | 5.77 |
| Other, principally international | 163 | -- | 150 | -- |
| | 2,445 | 5.98(1) | 3,562 | 5.63(1) |
| Less current portion | 228 | | 399 | |
| | $2,217 | | 3,163 | |

(1) Weighted average effective rate.

(2) Represents 5% Deutsche Mark notes due 2001 issued by a Japanese subsidiary and converted to a 1.98% fixed rate yen note via a currency swap.

(3) Represents 5.12% U.S. Dollar notes due 2003 issued by a Japanese subsidiary and converted to a 0.82% fixed rate yen note via a currency swap.

The Company has access to substantial sources of funds at numerous banks worldwide. Total unused credit available to the Company approximates $3.0 billion, including $1.5 billion of credit commitments with various banks worldwide that expire on October 3, 2002. Interest charged on borrowings under the credit line agreements is based on either bids provided by the banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material.

The Company's shelf registration filed with the Securities and Exchange Commission enables the Company to issue up to $2.6 billion of unsecured debt securities and warrants to purchase debt securities under its medium term note (MTN) program. No MTN's were issued in 2001. At December 30, 2001, the Company had $1.8 billion remaining on its shelf registration.

Long term debt includes convertible subordinated debentures issued by Centocor and ALZA prior to their respective mergers with Johnson & Johnson.

With respect to the 4.75% Convertible Subordinated Debentures which were originally issued by Centocor, the Company exercised its option to redeem the debentures and set February 21, 2001 as the redemption date, at a price equal to 102.714% of the principal amount plus accrued interest. The debentures were converted by the holders into approximately 11.9 million shares of Johnson & Johnson stock at a conversion price of $38.546 per share.

On July 28, 2000, ALZA completed a private offering of the 3% Zero Coupon Convertible Subordinated Debentures which were issued at a price of $551.26 per $1,000 principal amount at maturity. At December 30, 2001, the outstanding 3% Debentures had a total principal amount at maturity of $1.1 billion 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 21,000 shares have been issued as of December 30, 2001 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, 2003, 2008 or 2013, at a purchase price equal to the issue price plus accreted original issue discount to such purchase date. The Company, at its option, may elect to deliver either Johnson & Johnson common stock or cash, or a combination of stock and cash, in the event of repurchase of the 3% Debentures. The Company, at its option, may also redeem any or all of the 3% Debentures after July 28, 2003 at the issue price plus accreted original issue discount. At December 30, 2001 and December 31, 2000, the fair value based on quoted market value of the 3% Debentures was $909.9 million and $759.8 million, respectively.

In 1994, ALZA issued the 5.25% Zero Coupon Convertible Subordinated Debentures at a price of $354.71 per $1,000 principal amount at maturity. At December 30, 2001, the outstanding 5.25% Debentures had a total principal amount at maturity of $223.7 million, with a yield to maturity of 5.25% per annum, computed on a semiannual bond equivalent basis. There are no periodic interest payments. Under the terms of the debentures, note holders are entitled to convert their debentures into approximately 24.0 million shares of Johnson & Johnson stock at a price of $13.939 per share. Approximately 18.3 million shares of Johnson & Johnson stock have been issued as at December 30, 2001 due to voluntary conversions by note holders. At the option of the holder, the 5.25% Debentures may be purchased by the Company on July 14, 2004 or July 14, 2009, 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 common stock or cash in the event of conversion or purchase of the 5.25% Debentures. The Company, at its option, may also redeem any or all of the 5.25% Debentures for cash after July 14, 1999 at a redemption price equal to the issue price plus accreted original issue discount. At December 30, 2001 and December 31, 2000, the fair value based on quoted market value of the 5.25% Debentures was $339.2 million and $1,038.3 million, respectively.

Short-term borrowings and current portion of long-term debt amounted to $565 million at the end of 2001. These borrowings are comprised of the $200 million 7.375% notes and $365 million of local borrowings, principally by international subsidiaries.

Aggregate maturities of long-term obligations commencing in 2001 are:

| (Dollars in Millions) | 2002 | 2003 | 2004 | 2005 | 2006 | After 2006 |
|---|---|---|---|---|---|---|
| | $228 | 69 | 272 | 9 | 6 | 1,861 |

7 INTANGIBLE ASSETS

At the end of 2001 and 2000, the gross and net amounts of intangible assets were:

| (Dollars in Millions) | 2001 | 2000 |
|---|---|---|
| Goodwill -- gross | $ 5,245 | 4,377 |
| Less accumulated amortization | 674 | 540 |
| Goodwill -- net | $ 4,571 | 3,837 |
| Patents and trademarks -- gross | $ 2,816 | 1,948 |
| Less accumulated amortization | 508 | 457 |
| Patents & trademarks -- net | $ 2,308 | 1,491 |
| Other intangibles -- gross | $ 2,849 | 2,751 |
| Less accumulated amortization | 651 | 544 |
| Other intangibles -- net | $ 2,198 | 2,207 |
| Total intangible assets -- gross | $10,910 | 9,076 |
| Less accumulated amortization | 1,833 | 1,541 |
| Total intangible assets -- net | $ 9,077 | 7,535 |

The weighted average amortization periods for goodwill, patents and trademarks and other intangibles are 32 years, 21 years and 18 years, respectively. The intangible assets above include $1.6 billion related to acquisitions completed after June 30, 2001 that have been accounted for under the new provision of SFAS 141 and SFAS 142. The effect of implementation of these new provisions on the intangibles recorded prior to June 30, 2001 will be a reduction of amortization expense of approximately $120 million, prospectively. Refer to Note 17 for additional information.

8 INCOME TAXES

The provision for taxes on income consists of:

| (Dollars in Millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Currently payable: | | | |
| U.S. taxes | $ 1,726 | 1,375 | 1,031 |
| International taxes | 610 | 668 | 599 |
| | 2,336 | 2,043 | 1,630 |
| Deferred: | | | |
| U.S. taxes | (22) | (36) | 75 |
| International taxes | (84) | (92) | (101) |
| | (106) | (128) | (26) |
| | $ 2,230 | 1,915 | 1,604 |

A comparison of income tax expense at the federal statutory rate of 35% in 2001, 2000 and 1999, to the Company's effective tax rate is as follows:

| (Dollars in Millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| U.S. | $ 4,744 | 3,892 | 3,365 |
| International | 3,154 | 2,976 | 2,512 |
| Earnings before taxes on income: | $ 7,898 | 6,868 | 5,877 |
| Statutory taxes | $ 2,764 | 2,404 | 2,057 |
| Tax rates: | | | |
| Statutory | 35.0% | 35.0% | 35.0% |
| Puerto Rico and Ireland operations | (5.4) | (5.0) | (5.3) |
| Research tax credits | (0.4) | (0.8) | (0.7) |
| Domestic state and local | 0.9 | 0.8 | 1.0 |
| International subsidiaries excluding Ireland | (2.6) | (2.9) | (2.4) |
| IPR&D | 0.5 | 0.3 | 0.1 |
| All other | 0.2 | 0.5 | (0.4) |
| Effective tax rate | 28.2% | 27.9% | 27.3% |

During 2001, the Company had subsidiaries operating in Puerto Rico under a tax incentive grant expiring in 2014. In addition, the Company has subsidiaries manufacturing in Ireland under an incentive tax rate effective through the year 2010.

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.

Temporary differences and carryforwards for 2001 are as follows:

| (Dollars in Millions) | Deferred Tax Asset | Deferred Tax Liability |
|---|---|---|
| Employee related obligations | $ 625 | |
| Depreciation | | (294) |
| Non-deductible intangibles | | (959) |
| International R&D capitalized for tax | 237 | |
| Reserves & liabilities | 636 | |
| Income reported for tax purposes | 313 | |
| Miscellaneous international | 275 | (260) |
| Capitalized intangible | 156 | |
| Miscellaneous U.S. | 183 | |
| Total deferred income taxes | $ 2,425 | (1,513) |

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 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.

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 which are reflected in operating results.

An analysis of the changes during 2001 and 2000 for foreign currency translation adjustments is included in Note 11.

Net currency transaction and translation gains and losses included in other expense were after-tax losses of $3 million, $65 million and $47 million, in 2001, 2000 and 1999, respectively.

## 10 COMMON STOCK, STOCK OPTION PLANS AND STOCK COMPENSATION AGREEMENTS

At December 30, 2001 the Company had 24 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 Employee Stock Option Plans, the 1997 Non-Employee Director's Plan and the Mitek, Cordis, Biosense, Gynecare, Centocor, Innovasive Devices, ALZA and Inverness Stock Option plans.

Stock options expire 10 years from the date they are granted and vest over service periods that range from one to six 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 2002 through 2005, in addition to any other available shares as described above. Shares available for future grants under the 2000 plan were 57.0 million, at the end of 2001.

A summary of the status of the Company's stock option plans as of December 30, 2001, December 31, 2000 and January 2, 2000 and changes during the years ending on those dates, is presented below:

| (Shares in Thousands) | Options Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Balance at January 3, 1999 | 173,842 | $20.76 |
| Options granted | 33,674 | 41.95 |
| Options exercised | (21,410) | 11.68 |
| Options canceled/forfeited | (4,620) | 25.11 |
| Balance at January 2, 2000 | 181,486 | 25.65 |
| Options granted | 46,456 | 48.29 |
| Options exercised | (27,130) | 15.22 |
| Options canceled/forfeited | (6,824) | 33.03 |
| Balance at December 31, 2000 | 193,988 | 32.27 |

| | | |
|---|---|---|
| Options granted | 8,975(1) | 36.31 |
| Options exercised | (30,622) | 19.00 |
| Options canceled/forfeited | (5,117) | 49.38 |
| Balance at December 30, 2001 | 167,224 | $34.37 |

(1) Includes 3,108 options issued to replace Inverness options outstanding at or granted prior to the acquisition.

For the year ended December 30, 2001, there was a change in the timing of granting stock compensation and options to employees from December 2001 to February 2002. This change was enacted to have 2001 results finalized in order to align compensation with performance.

The Company applies the provision of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," that calls for companies to measure employee stock compensation expense based on the fair value method of accounting. However, as allowed by the Statement, the Company elected continued use of Accounting Principle Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," with pro forma disclosure of net income and earnings per share determined as if the fair value method had been applied in measuring compensation cost. Had the fair value method been applied, net income would have been reduced by $263 million or $.08 per share in 2001, $189 million or $.06 per share in 2000 and $140 million or $.05 per share in 1999. These calculations only take into account the options issued since January 1, 1995. The average fair value of options granted was $13.72 in 2001, $14.79 in 2000 and $15.00 in 1999. The fair value was estimated using the Black-Scholes option pricing model based on the weighted average assumptions of:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Risk-free rate | 4.87% | 5.45% | 6.32% |
| Volatility | 27.0% | 27.0% | 24.0% |
| Expected life | 5.0 yrs | 5.0 yrs | 5.0 yrs |
| Dividend yield | 1.33% | 1.40% | 1.13% |

The following table summarizes stock options outstanding and exercisable at December 30, 2001:

| (Shares in Thousands) | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Exercise Price Range | Options | Average Life(a) | Average Exercise Price | Options | Average Exercise Price |
| $.20-$11.15 | 8,746 | 2.6 | $ 9.66 | 8,746 | $ 9.66 |
| $11.16-$21.24 | 25,634 | 2.6 | 12.81 | 25,626 | 12.81 |
| $21.57-$32.63 | 47,577 | 5.0 | 26.51 | 44,878 | 26.47 |
| $32.64-$50.08 | 46,794 | 7.7 | 45.27 | 19,856 | 40.73 |
| $50.11-$60.69 | 38,431 | 8.8 | 50.81 | 28 | 52.11 |
| $63.30-$86.42 | 42 | 4.0 | 70.92 | 42 | 70.92 |
| $.20-$86.42 | 167,224 | 6.1 | $ 34.37 | 99,176 | $ 24.34 |

(a) Average contractual life remaining in years.

11 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) |
|---|---|---|---|---|---|
| Jan. 3, 1999 | $(322) | (11) | | | (333) |
| 1999 changes | (155) | 89 | | | (66) |
| Jan. 2, 2000 | $(477) | 78 | | | (399) |
| 2000 changes | (45) | (2) | (15) | | (62) |
| Dec. 31, 2000 | $(522) | 76 | (15) | | (461) |
| 2001 changes | | | | | |
| Transition Adjustment | -- | -- | | 17 | |
| Net change due to hedging transactions | -- | -- | -- | 228 | |
| Net amount reclassed to net earnings | -- | -- | -- | (147) | |
| Net 2001 changes | (175) | 8 | -- | 98 | (69) |
| Dec. 30, 2001 | $(697) | 84 | (15) | 98 | (530) |

Total other comprehensive income for 2001 includes reclassification adjustment gains of $21 million realized from the sale of equity securities and the

associated tax expense of $7 million. In 2000, total other comprehensive income included reclassification adjustment gains of $80 million realized from the sale of equity securities and the associated tax expense of $28 million. In 1999, total other comprehensive income included reclassification adjustment losses of $18 million and the associated tax benefit of $7 million.

The tax effect on these unrealized gains/(losses) on equity securities is an expense of $64 million in 2001, $53 million in 2000 and $48 million in 1999. The tax effect on the gains/(losses) on derivatives and hedges is an expense of $53 million in 2001. 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 non-U.S. subsidiaries.

## 12 SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS

See page 49 for information on segments of business and geographic areas.

## 13 RETIREMENT AND PENSION 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 domestic retired employees and their dependents.

Most international employees are covered by government sponsored programs and the cost to the Company is not significant.

Retirement plan benefits are primarily based on the employee's compensation during the last three to five years before retirement and the number of years of service. The Company's objective in funding its domestic plans is to accumulate funds sufficient to provide for all accrued benefits. International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts or reserves are provided.

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

Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for 2001, 2000 and 1999 include the following components:

| | Retirement Plans | | | Other Benefit Plans | | |
|---|---|---|---|---|---|---|
| (Dollars in Millions) | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Service cost | $ 219 | 201 | 208 | 23 | 20 | 24 |
| Interest cost | 325 | 295 | 270 | 52 | 51 | 50 |
| Expected return on plan assets | (413) | (377) | (330) | (5) | (5) | (5) |
| Amortization of prior service cost | 18 | 21 | 17 | (3) | (1) | (1) |
| Amortization of net transition asset | (6) | (7) | (12) | -- | -- | -- |
| Recognized actuarial (gain)/loss | (68) | (81) | (17) | (7) | (10) | (2) |
| Curtailments and settlements | (1) | -- | 2 | -- | -- | -- |
| Net periodic benefit cost | $ 74 | 52 | 138 | 60 | 55 | 66 |

The net periodic (income) cost attributable to domestic retirement plans was $28 million in 2001, ($14) million in 2000 and $61 million in 1999.

The following tables provide the weighted-average assumptions used to develop net periodic benefit cost and the actuarial present value of projected benefit obligations:

| | Retirement Plans | | | Other Benefit Plans | | |
|---|---|---|---|---|---|---|
| DOMESTIC BENEFIT PLANS | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Weighted average discount rate | 7.50% | 7.50% | 7.75% | 7.50% | 7.50% | 7.75% |
| Expected long-term rate of return on plan assets | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |
| Rate of increase in compensation levels | 4.50 | 5.00 | 5.00 | 4.50 | 5.00 | 5.00 |
| INTERNATIONAL BENEFIT PLANS | | | | | | |
| Weighted average discount rate | 5.75% | 6.00% | 5.75% | 6.75% | 6.75% | 6.75% |
| Expected long-term rate of return on plan assets | 7.50 | 7.50 | 7.50 | -- | -- | -- |
| Rate of increase in compensation levels | 3.50 | 3.50 | 3.50 | 4.25 | 4.25 | 4.50 |

Health care cost trends in the United States are projected at annual rates, for all individuals, grading from 9.0% to 4.5% by the year 2009 and beyond. The effect of a 1% change in these assumed cost trends on the accumulated postretirement benefit obligation at the end of 2001 would be a $96 million increase or a $79 million decrease and the effect on the service and interest cost components of the net periodic postretirement benefit cost for 2001 would be a $12 million increase or a $9 million decrease.

The following tables set forth the change in benefit obligations and change in plan assets at year-end 2001 and 2000 for the Company's defined benefit retirement plans and other postretirement plans:

| (Dollars in Millions) | Retirement Plans | | Other Benefit Plans | |
|---|---|---|---|---|
| CHANGE IN BENEFIT OBLIGATION | 2001 | 2000 | 2001 | 2000 |
| Benefit obligation -- beginning of year | $ 4,555 | 4,206 | 722 | 694 |
| Service cost | 219 | 201 | 23 | 20 |
| Interest cost | 325 | 295 | 52 | 51 |
| Plan participant contributions | 15 | 14 | -- | -- |
| Amendments | 8 | 2 | -- | (16) |
| Actuarial loss | 210 | 186 | 22 | 10 |
| Acquisitions | 1 | 1 | -- | -- |
| Curtailments & settlements | (1) | (13) | -- | -- |
| Total benefits paid | (223) | (219) | (34) | (35) |
| Effect of exchange rates | (83) | (118) | (3) | (2) |
| Benefit obligation -- end of year | $ 5,026 | 4,555 | 782 | 722 |
| CHANGE IN PLAN ASSETS | | | | |
| Plan assets at fair value -- beginning of year | $ 4,847 | 5,254 | 58 | 62 |
| Actual return on plan assets | (276) | (150) | (8) | (1) |
| Company contributions | 56 | 62 | 31 | 31 |
| Plan participant contributions | 15 | 14 | -- | -- |
| Acquisitions | -- | (5) | -- | -- |
| Benefits paid from plan assets | (212) | (209) | (33) | (34) |
| Effect of exchange rates | (75) | (119) | -- | -- |
| Plan assets at fair value -- end of year | $ 4,355 | 4,847 | 48 | 58 |

AMOUNTS RECOGNIZED IN THE COMPANY'S BALANCE SHEET CONSIST OF THE FOLLOWING:

| | Retirement Plans | | Other Benefit Plans | |
|---|---|---|---|---|
| (Dollars in Millions) | 2001 | 2000 | 2001 | 2000 |
| Plan assets in excess of (less than) projected benefit obligation | $ (671) | 292 | (734) | (664) |
| Unrecognized actuarial gains | (14) | (984) | (123) | (166) |
| Unrecognized prior service cost | 118 | 128 | (21) | (23) |
| Unrecognized net transition asset | (9) | (20) | -- | -- |
| Total recognized in the consolidated balance sheet | $ (576) | (584) | (878) | (853) |
| Book reserves | $ (782) | (748) | (878) | (853) |
| Prepaid benefits | 177 | 138 | -- | -- |
| Other assets | 29 | 26 | -- | -- |
| Total recognized in consolidated balance sheet | $ (576) | (584) | (878) | (853) |

PLANS WITH ACCUMULATED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS CONSIST OF THE FOLLOWING:

| | Retirement Plans | | Other Benefit Plans | |
|---|---|---|---|---|
| (Dollars in Millions) | 2001 | 2000 | 2001 | 2000 |
| Accumulated benefit obligation | $ (544) | (407) | (782) | (722) |
| Projected benefit obligation | $ (645) | (524) | -- | -- |
| Plan assets at fair value | $ 111 | 49 | 48 | 58 |

14 MARKETABLE SECURITIES

| (Dollars in Millions) | December 30, 2001 Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value | December 31, 2000 Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|---|---|---|
| Money market funds | $1,276 | -- | -- | 1,276 | 705 | -- | -- | 705 |
| Commercial paper | 54 | -- | -- | 54 | 911 | -- | -- | 911 |
| Time deposits | 1,162 | -- | -- | 1,162 | 980 | -- | -- | 980 |
| Government securities and obligations | 1,046 | 2 | -- | 1,048 | 517 | -- | -- | 517 |
| Asset backed securities | 7 | -- | -- | 7 | 3 | -- | -- | 3 |
| Bank notes | 118 | -- | -- | 118 | 15 | -- | -- | 15 |
| Corporate debt securities | 3,221 | 16 | -- | 3,237 | 2,741 | 3 | -- | 2,744 |
| Total current marketable securities | $6,884 | 18 | -- | 6,902 | 5,872 | 3 | -- | 5,875 |
| Government securities | 314 | 6 | -- | 320 | 136 | 1 | -- | 137 |
| Asset backed securities | 122 | -- | -- | 122 | 68 | -- | -- | 68 |
| Bank notes | 131 | 2 | -- | 133 | 172 | -- | -- | 172 |
| Corporate debt securities | 311 | 7 | -- | 318 | 176 | 1 | -- | 177 |
| Investments held in trust | 91 | 4 | -- | 95 | 105 | 2 | -- | 107 |
| Total non-current marketable securities | $ 969 | 19 | -- | 988 | 657 | 4 | -- | 661 |

Current marketable securities include $2.7 billion and $3.4 billion that are classified as cash equivalents on the balance sheet at December 30, 2001 and December 31, 2000, respectively.

15 FINANCIAL INSTRUMENTS

Effective January 1, 2001, the Company adopted SFAS 133 requiring that all derivative instruments be recorded on the balance sheet at fair value. On January 1, 2001 the Company recorded a $17 million net-of-tax cumulative effect transition adjustment gain in accumulated other comprehensive income to recognize at fair value all derivative instruments designated as cash flow hedges. The adjustment to net earnings was immaterial.

As of December 30, 2001 the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $98 million (after tax). Of this amount, the Company expects that $95 million 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. The primary types of underlying transactions which will cause the amount in accumulated other comprehensive income to affect net earnings primarily consist of sales to third parties. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 15 months.

For the year ended December 30, 2001 the net impact of the hedges' ineffectiveness to the Company's financial statements was insignificant. For the year ended December 30, 2001 the Company has recorded a net gain of $2 million (after tax) in the "other (income) expense, net" category of the consolidated statement of earnings, 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 11 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 short-term liquid money market instruments. Refer to Note 14 for additional information. 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. The Company sells a broad range of products in the health care field in most countries of the world. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required. In 2001, sales to three distributors accounted for a total of 30.9% of total Company revenues. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

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 is paid in Company stock under an employee stock ownership plan (ESOP). 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 shareowners' equity.

Total contributions to the plans were $96 million in 2001, $81 million in 2000, and $73 million in 1999.

## 17 MERGERS & ACQUISITIONS

On June 22, 2001, Johnson & Johnson and ALZA Corporation (ALZA) completed the merger between the two companies. This transaction was accounted for as a pooling-of-interests. ALZA had approximately 239 million shares outstanding (286 million on a fully diluted basis) that were exchanged for approximately 234 million shares of Johnson & Johnson common stock. On a diluted basis when adjusted for stock options and convertible debt, the total number of Johnson & Johnson shares issued total approximately 280 million shares. Holders of ALZA common stock received 0.98 of a share of Johnson & Johnson common stock, valued at $52.39 per share.

ALZA is a research-based pharmaceutical company with leading drug delivery technologies. The company applies its delivery technologies to develop pharmaceutical products with enhanced therapeutic value for its own portfolio and for many of the world's leading pharmaceutical companies.

The financial statements have been prepared to give retroactive effect to Johnson & Johnson's merger with ALZA. The only adjustments to ALZA's historical financial statements have been the reflection of income tax expense as if the companies had been combined for all periods presented, the elimination of transactions with Johnson & Johnson affiliate companies and the reclassification of certain amounts to conform with Johnson & Johnson presentation. For the first quarter of 2001, the revenue and net earnings for Johnson & Johnson prior to the merger with ALZA were $7.8 billion and $1.5 billion, respectively. For the first quarter of 2001, the revenue and net earnings of ALZA included in Johnson & Johnson's financial results were $230 million for revenue and $52 million for net earnings. For 2000 and 1999, the revenue and net earnings of Johnson & Johnson prior to the merger with ALZA were $29.1 billion and $27.5 billion, respectively for revenue and $4.8 billion and $4.2 billion, respectively for net earnings. For 2000 and 1999, the revenue and net earnings of ALZA included in Johnson & Johnson's financial results were $707 million and $536 million, respectively for revenue and $153 million and $106 million, respectively for net earnings. For the year ended December 30, 2001, the Company incurred $147 million pretax ($126 million after tax) costs associated with the ALZA merger. Such costs are included in other (income)/expense, net.

Certain businesses were acquired for $1.7 billion during 2001 ($326 million in cash and debt assumed and approximately 24.5 million shares of the Company's common stock issuable from Treasury valued at $1.4 billion). These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the accompanying consolidated financial statements from their respective dates of acquisition.

The 2001 acquisitions included Inverness Medical Technology, the supplier of LifeScan's electrochemical products for blood glucose monitoring following the spin-off of the non-diabetes businesses; Heartport, a company that develops and manufactures products for less invasive open chest and minimally invasive heart operations, including stopped heart and beating heart procedures; TERAMed Inc., an early-stage medical device company that is developing endovascular stent-graft systems for the minimally invasive treatment of abdominal aortic aneurysms and peripheral occlusive disease; Babycenter.com, an internet content and commerce site devoted to supporting a community of expectant and new mothers; and the VIACTIV product line, a chewable calcium supplement, from the Mead Johnson Nutritionals Division of Bristol-Myers Squibb.

Inverness Medical Technology was acquired to enhance control of a primary supplier of LifeScan blood glucose monitoring products and will allow for the achievement of operational synergies. The acquisition also provides key technology for the development of future products. The preliminary purchase price allocation includes current assets of $45 million, property, plant and equipment of $31 million, current liabilities of $44 million, deferred tax liabilities of $274 million and long term debt of $66 million. The goodwill and intangible assets acquired included $784 million of patents and technology that will be amortized over a period of 20 years or less at an annual amortization of $45 million per year and goodwill of $714 million. In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," this goodwill will not be amortized and is not deductible for tax purposes.

Approximately $105 million has been identified as the value of in-process research and development (IPR&D) associated with the Inverness Medical Technology and TERAMed Inc. acquisitions. The IPR&D charge is primarily related to Inverness projects for minimally invasive testing, continuous monitoring and insulin delivery. 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 25 - 40%. The discount rate used was 12%.

Pro forma information is not provided since the impact of the acquisitions does not have a material effect on the Company's results of operations, cash flows or financial position.

Certain businesses were acquired for $241 million during 2000 ($156 million in cash and debt assumed and approximately 1.8 million shares of the Company's common stock issued from Treasury valued at $77 million). These acquisitions were accounted for by the purchase method and, accordingly, results of operations have been included in the accompanying consolidated financial statements from their respective dates of acquisitions.

The 2000 acquisitions included Crescendo, a company formed by ALZA for the purpose of selecting, developing and commercializing human pharmaceutical products; Innovasive Devices, a company that manufactures and sells devices for sports medicine surgery for soft tissue injuries; Atrionix, Inc., a development stage company whose primary product is a pulmonary ablation catheter for the treatment of atrial fibrillation; Medtrex, a company that develops and manufactures electrosurgical generators and disposable products, and the ST. JOSEPH aspirin business.

The IPR&D writeoff associated with the Atrionix, Inc. and ALZA's Crescendo acquisition was $66 million. The IPR&D charge is primarily related to an Atrionix project for the design of a catheter system to be used in a procedure which blocks electrical impulses originating in pulmonary veins, which can cause atrial fibrillation. The value of the IPR&D was calculated with the assistance of a third party appraiser using a cash flow projection discounted for the risk inherent in such a project. The discount rate used was 26%.

Divestitures in 2001 and 2000 did not have a material effect on the Company's results of operations, cash flows or financial position.

18 LEGAL PROCEEDINGS

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

One group of cases against the Company concerns the Janssen Pharmaceutica product PROPULSID, which was withdrawn from general sale and restricted to limited use in 2000. In the wake of publicity about those events, more than 950 lawsuits, comprising the claims of more than 3,700 named individuals, 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. Approximately 2,700 of these plaintiffs claim to have taken PROPULSID; the rest are derivative plaintiffs, such as spouses. Claims have been filed that 327 of these patients have died from the use of PROPULSID. A significant number of these cases also seek certification as class actions. These actions 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. These actions seek substantial compensatory and punitive damages. In addition, Janssen and the Company have entered into 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 10 plaintiffs in the Rankin case, which comprises the claims of 155 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. Janssen and the Company believe these verdicts are insupportable and will be reduced on post trial motions and reversed on appeal. In the view of Janssen and the Company, the proof at trial demonstrated that none of these plaintiffs was injured by PROPULSID and that no basis for liability existed. 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 judgement, settlement is appropriate. Janssen and the Company believe they have adequate self and commercially available excess insurance with respect to these cases.

The Company's Ortho Biotech subsidiary is party to an arbitration proceeding filed against it in 1995 by Amgen, Ortho Biotech's licensor of U.S. non-dialysis rights to PROCRIT/EPREX, in which Amgen seeks to terminate Ortho Biotech's U.S. license rights and collect substantial damages based on alleged deliberate PROCRIT/EPREX sales by Ortho Biotech during the early 1990's into Amgen's reserved dialysis market. The Company believes no basis exists for terminating Ortho Biotech's U.S. license rights or for obtaining damages and is vigorously contesting Amgen's claims. However, Ortho Biotech's U.S. license rights to PROCRIT/EPREX are material to the Company; thus, an unfavorable outcome on the termination issue could have a material adverse effect on the Company's consolidated results of operations, cash flows and financial position. The arbitration began in January, 2002 and is expected to conclude in April, 2002. The arbitrator's decision will follow the submission of post-hearing briefs by both sides.

The Company and its LifeScan subsidiary were defendants in several class actions filed in federal and state courts in California in 1998 in which it is alleged that purchasers of SURESTEP blood glucose meters and strips suffered economic harm because those products contained undisclosed defects. In late 2000, LifeScan pleaded guilty in federal court to three misdemeanors and paid a total of $60 million in fines and civil costs to resolve an investigation related to those same alleged defects. In December 2001 all these actions were settled and the settlement has been preliminarily approved by the Federal District Court. The settlement has been accounted for by the Company and is not material.

In patent infringement actions tried in Delaware Federal Court in late 2000, Cordis, a Johnson & Johnson company, obtained verdicts of infringement and patent validity, and damage awards, against Boston Scientific Corporation and Medtronic AVE, Inc., based on a number of Cordis coronary 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 are unenforceable owing to alleged inequitable conduct before the patent office. Post trial motions and appeals to the Federal Circuit Court of Appeals will follow and no judgments are likely to be paid, if at all, until those proceedings have run their course. Furthermore, since the amount of damages, if any, which the Company may receive cannot be quantified until the legal process is complete, no gain has been recorded in the financial statements for either of

these awards.

The Company is also involved in a number of patent, trademark and other lawsuits incidental to its business.

The Company believes that the above proceedings, except as noted above, would not have a material adverse effect on its results of operations, cash flows or financial position.

## 19 EARNINGS PER SHARE

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the years ended December 30, 2001, December 31, 2000 and January 2, 2000:

| (Shares in Millions) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Basic earnings per share | $ 1.87 | 1.65 | 1.43 |
| Average shares outstanding -- basic | 3,033.8 | 2,993.5 | 2,978.2 |
| Potential shares exercisable under stock option plans | 166.6 | 119.0 | 141.7 |
| Less: shares repurchased under treasury stock method | (121.8) | (71.7) | (81.2) |
| Convertible debt shares | 20.7 | 58.4 | 61.7 |
| Adjusted average shares outstanding -- diluted | 3,099.3 | 3,099.2 | 3,100.4 |
| Diluted earnings per share | $ 1.84 | 1.61 | 1.39 |

Diluted earnings per share calculation includes the dilution effect of convertible debt: a decrease in interest expense of $25 million, $47 million and $48 million after tax for years 2001, 2000 and 1999, respectively.

Diluted earnings per share excludes 1 million shares, 62 million shares and 24 million shares of options for the year 2001, 2000 and 1999, 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:

| (Dollars in Millions Except Number of Shares in Thousands) | Treasury Stock Shares | Treasury Stock Amount |
|---|---|---|
| Balance at January 3, 1999 | 144,532 | $ 444 |
| Employee compensation and stock option plans | (22,234) | (829) |
| Repurchase of common stock | 17,856 | 840 |
| Business combinations | -- | (2) |
| Balance at January 2, 2000 | 140,154 | 453 |
| Employee compensation and stock option plans | (28,886) | (1,075) |
| Conversion of Subordinated Debentures | (25,676) | -- |
| Repurchase of common stock | 21,402 | 973 |
| Business combinations | (1,776) | (9) |
| Balance at December 31, 2000 | 105,218 | 342 |
| Employee compensation and stock option plans | (30,581) | (1,444) |
| Conversion of Subordinated Debentures | (30,061) | (183) |
| Repurchase of common stock | 51,244 | 2,742 |
| Business combinations | (23,193) | (64) |
| Balance at December 30, 2001 | 72,627 | $ 1,393 |

Shares of common stock authorized and issued were 3,119,842,000 shares at the end of 2001 and 2000, 3,119,832,000 shares at the end of 1999 and 3,119,648,000 shares at the end of 1998.

## 21 SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for the years 2001 and 2000 are summarized below:

| | 2001 | | | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Millions Except Per Share Amounts) | First Quarter | Second Quarter(1) | Third Quarter(2) | Fourth Quarter(3) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter(4) |
| Segment sales to customers | | | | | | | | |
| Consumer | $1,786 | 1,684 | 1,777 | 1,716 | 1,752 | 1,707 | 1,722 | 1,723 |
| Pharmaceutical | 3,489 | 3,864 | 3,677 | 3,820 | 3,163 | 3,383 | 3,168 | 2,947 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Med Devices & Diagnostics | 2,746 | 2,794 | 2,784 | 2,867 | 2,525 | 2,580 | 2,548 | 2,628 |
| Total sales | $8,021 | 8,342 | 8,238 | 8,403 | 7,440 | 7,670 | 7,438 | 7,298 |
| Gross profit | 5,721 | 5,980 | 5,853 | 5,914 | 5,198 | 5,409 | 5,247 | 5,084 |
| Earnings before provision for taxes on income | 2,217 | 2,129 | 2,108 | 1,444 | 1,914 | 1,913 | 1,834 | 1,207 |
| Net earnings | 1,552 | 1,482 | 1,529 | 1,105 | 1,331 | 1,363 | 1,323 | 936 |
| Basic net earnings per share | $ .51 | .49 | .50 | .36 | .45 | .46 | .44 | .31 |
| Diluted net earnings per share | $ .50 | .48 | .49 | .36 | .44 | .44 | .43 | .30 |

(1) The second quarter of 2001 includes an after tax charge of $102 million relating to ALZA merger costs.

(2) The third quarter of 2001 includes an after tax charge of $24 million relating to ALZA merger costs.

(3) The fourth quarter of 2001 includes an after tax charge of $105 million relating to In-Process Research and Development (IPR&D) costs. The fourth quarter also includes an after tax charge of $29 million relating to a LifeScan class action settlement.

(4) The fourth quarter of 2000 includes an after tax charge of $45 million relating to IPR&D costs and restructuring gains. The fourth quarter also includes an after tax charge of $42 million relating to a federal government investigation of LifeScan's SURESTEP Blood Glucose Meter.

## REPORT OF MANAGEMENT

The management of Johnson & Johnson is responsible for the integrity and objectivity of the accompanying financial statements and related information. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management maintains a system of internal accounting controls monitored by a corporate staff of professionally trained internal auditors who travel worldwide. This system is designed to provide reasonable assurance, at reasonable cost, that assets are safeguarded and that transactions and events are recorded properly. While the Company is organized on the principle of decentralized management, appropriate control measures are also evidenced by well-defined organizational responsibilities, management selection, development and evaluation processes, communicative techniques, financial planning and reporting systems and formalized procedures.

It has always been the policy and practice of the Company to conduct its affairs ethically and in a socially responsible manner. This responsibility is characterized and reflected in the Company's Credo and Policy on Business Conduct that are distributed throughout the Company. Management maintains a systematic program to ensure compliance with these policies.

PricewaterhouseCoopers LLP, the Company's independent auditor, is engaged to audit our financial statements. PricewaterhouseCoopers LLP maintains an understanding of our internal controls and conducts such tests and other auditing procedures considered necessary in the circumstances to express their opinion in the report that follows.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent auditor, management and internal auditors to review their work and confirm that they are properly discharging their responsibilities. In addition, the independent auditor, the General Counsel and the Vice President, Internal Audit are free to meet with the Audit Committee without the presence of management to discuss the results of their work and observations on the adequacy of internal financial controls, the quality of financial reporting and other relevant matters.

| | |
|---|---|
| /s/ Ralph S. Larsen | /s/ Robert J. Darretta |
| Ralph S. Larsen<br>Chairman, Board of Directors<br>and Chief Executive Officer | Robert J. Darretta<br>Vice President, Finance<br>and Chief Financial Officer |

## INDEPENDENT AUDITOR'S REPORT

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, consolidated statements of equity and consolidated statements of cash flows present fairly, in all material respects, the financial position of Johnson & Johnson and subsidiaries at December 30, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2001, 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 auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
January 21, 2002

SEGMENTS OF BUSINESS(1) Johnson & Johnson and Subsidiaries

| (Dollars in Millions) | SALES TO CUSTOMERS(2) 2001 | 2000 | 1999 |
|---|---|---|---|
| Consumer -- Domestic | $ 3,789 | 3,760 | 3,670 |
| International | 3,173 | 3,144 | 3,194 |
| Total | 6,962 | 6,904 | 6,864 |
| Pharmaceutical -- Domestic | 10,240 | 8,441 | 6,955 |
| International | 4,611 | 4,220 | 4,275 |
| Total | 14,851 | 12,661 | 11,230 |
| Medical Devices & Diagnostics -- Domestic | 6,175 | 5,506 | 5,296 |
| International | 5,016 | 4,775 | 4,617 |
| Total | 11,191 | 10,281 | 9,913 |
| Worldwide total | $ 33,004 | 29,846 | 28,007 |

| (Dollars in Millions) | OPERATING PROFIT(3) 2001(5) | 2000(6) | 1999 | IDENTIFIABLE ASSETS 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Consumer | $ 1,004 | 867 | 683 | 4,209 | 4,761 | 4,901 |
| Pharmaceutical | 4,928 | 4,394 | 3,735 | 11,568 | 9,209 | 8,797 |
| Medical Devices & Diagnostics | 2,001 | 1,696 | 1,632 | 13,645 | 12,745 | 12,458 |
| Segments total | 7,933 | 6,957 | 6,050 | 29,422 | 26,715 | 26,156 |
| Expenses not allocated to segments(3) | (35) | (89) | (173) | | | |
| General corporate(4) | | | | 9,066 | 7,530 | 4,908 |
| Worldwide total | $ 7,898 | 6,868 | 5,877 | 38,488 | 34,245 | 31,064 |

| (Dollars in Millions) | ADDITIONS TO PROPERTY, PLANT & EQUIPMENT 2001 | 2000 | 1999 | DEPRECIATION AND AMORTIZATION 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Consumer | $ 230 | 336 | 412 | 263 | 275 | 277 |
| Pharmaceutical | 749 | 627 | 760 | 492 | 474 | 407 |
| Medical Devices & Diagnostics | 621 | 665 | 576 | 801 | 801 | 786 |
| Segments total | 1,600 | 1,628 | 1,748 | 1,556 | 1,550 | 1,470 |
| General corporate | 131 | 61 | 74 | 49 | 42 | 40 |
| Worldwide total | $ 1,731 | 1,689 | 1,822 | 1,605 | 1,592 | 1,510 |

GEOGRAPHIC AREAS(2)

| (Dollars in Millions) | SALES TO CUSTOMERS(2) 2001 | 2000 | 1999 | LONG-LIVED ASSETS 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| United States | $ 20,204 | 17,707 | 15,921 | 11,922 | 10,043 | 10,033 |
| Europe | 6,853 | 6,365 | 6,711 | 3,632 | 3,551 | 3,698 |
| Western Hemisphere excluding U.S. | 2,142 | 2,084 | 2,023 | 640 | 653 | 550 |
| Asia-Pacific, Africa | 3,805 | 3,690 | 3,352 | 433 | 427 | 439 |
| Segments total | 33,004 | 29,846 | 28,007 | 16,627 | 14,674 | 14,720 |
| General corporate | | | | 319 | 255 | 282 |
| Other non long-lived assets | | | | 21,542 | 19,316 | 16,062 |
| Worldwide total | $ 33,004 | 29,846 | 28,007 | 38,488 | 34,245 | 31,064 |

(1) See Management's Discussion and Analysis, pages 27 to 29, for a description of the segments in which the Company does business.

(2) Export sales and intersegment sales are not significant. In 2001, sales to three distributors accounted for 10.4%, 10.3% and 10.2% of total revenues. These sales were concentrated in the pharmaceutical segment.

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

(4) General corporate includes primarily cash and marketable securities.

(5) Includes $147 million of ALZA merger costs in the Pharmaceutical segment and $105 million of In-Process Research and Development (IPR&D) and $45 million of class action settlement in the Medical Devices and Diagnostics segment.

(6) Includes restructuring gains of $24 million in the Consumer segment and $8 million and $49 million of restructuring gains net of IPR&D charges in the Pharmaceutical and Medical Devices and Diagnostics segments, respectively.

SUMMARY OF OPERATIONS AND STATISTICAL DATA 1991-2001(3)

Johnson & Johnson and Subsidiaries

| (Dollars in Millions Except Per Share Figures) | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Sales to customers - Domestic | $ 20,204 | 17,707 | 15,921 | 13,251 | 12,183 |
| Sales to customers - International | 12,800 | 12,139 | 12,086 | 11,147 | 10,935 |
| TOTAL SALES | 33,004 | 29,846 | 28,007 | 24,398 | 23,118 |
| Cost of products sold | 9,536 | 8,908 | 8,498 | 7,646(2) | 7,291 |
| Selling, marketing and administrative expenses | 11,992 | 11,218 | 10,756 | 9,166 | 8,840 |
| Research expense | 3,591 | 3,105 | 2,768 | 2,506 | 2,373 |
| Purchased in-process research and development | 105 | 66 | -- | 298 | 108 |
| Interest income | (456) | (429) | (266) | (302) | (263) |
| Interest expense, net of portion capitalized | 153 | 204 | 255 | 186 | 179 |
| Other expense, net | 38 | (61) | 37 | 12 | (10) |
| Special charges | 147 | (33) | 82 | 553 | 258 |
| | 25,106 | 22,978 | 22,130 | 20,065 | 18,776 |
| Earnings before provision for taxes on income | 7,898 | 6,868 | 5,877 | 4,333 | 4,342 |
| Provision for taxes on income | 2,230 | 1,915 | 1,604 | 1,232 | 1,237 |
| Earnings before cumulative effect of accounting changes | 5,668 | 4,953 | 4,273 | 3,101 | 3,105 |
| Cumulative effect of accounting changes (net of tax) | -- | -- | -- | -- | -- |
| NET EARNINGS | $ 5,668 | 4,953 | 4,273 | 3,101 | 3,105 |
| Percent of sales to customers | 17.2 | 16.6 | 15.3 | 12.7(2) | 13.4 |
| Diluted net earnings per share of common stock* | $ 1.84(2) | 1.61(2) | 1.39(2) | 1.02(2) | 1.02(2) |
| Percent return on average shareowners' equity | 25.4 | 26.5 | 27.0 | 22.2(2) | 24.6 |
| PERCENT INCREASE (DECREASE) OVER PREVIOUS YEAR: | | | | | |
| Sales to customers | 10.6 | 6.6 | 14.8 | 5.5 | 5.2 |
| Diluted net earnings per share | 14.3(2) | 15.8(2) | 36.3(2) | --(2) | 4.1(2) |
| SUPPLEMENTARY EXPENSE DATA: | | | | | |
| Cost of materials and services(4) | $ 15,333 | 14,113 | 13,922 | 11,779 | 11,702 |
| Total employment costs | 7,749 | 7,085 | 6,537 | 5,908 | 5,586 |
| Depreciation and amortization | 1,605 | 1,592 | 1,510 | 1,335 | 1,117 |
| Maintenance and repairs(5) | 372 | 327 | 322 | 286 | 270 |
| Total tax expense(6) | 2,995 | 2,619 | 2,271 | 1,881 | 1,824 |
| Total tax expense per share(6)* | .99 | .87 | .76 | .63 | .62 |
| SUPPLEMENTARY BALANCE SHEET DATA: | | | | | |
| Property, plant and equipment, net | $ 7,719 | 7,409 | 7,155 | 6,767 | 6,204 |
| Additions to property, plant and equipment | 1,731 | 1,689 | 1,822 | 1,610 | 1,454 |
| Total assets | 38,488 | 34,245 | 31,064 | 28,966 | 23,615 |
| Long-term debt | 2,217 | 3,163 | 3,429 | 2,652 | 2,084 |
| Operating cash flow | 8,864 | 6,903 | 5,920 | 5,106 | 4,210 |
| COMMON STOCK INFORMATION* | | | | | |
| Dividends paid per share | $ .70 | .62 | .55 | .49 | .425 |
| Shareowners' equity per share | $ 7.95 | 6.77 | 5.70 | 4.93 | 4.51 |
| Market price per share (year-end close) | $ 59.86 | 52.53 | 46.63 | 41.94 | 32.44 |
| Average shares outstanding (millions) - basic | 3,033.8 | 2,993.5 | 2,978.2 | 2,973.6 | 2,951.9 |
| - diluted | 3,099.3 | 3,099.2 | 3,100.4 | 3,082.7 | 3,073.0 |
| EMPLOYEES (THOUSANDS) | 101.8 | 100.9 | 99.8 | 96.1 | 92.6 |

| (Dollars in Millions Except Per Share Figures) | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|---|
| Sales to customers - Domestic | 11,215 | 9,372 | 7,986 | 7,358 | 7,117 | 6,364 |
| Sales to customers - International | 10,769 | 9,696 | 7,930 | 6,944 | 6,868 | 6,207 |
| TOTAL SALES | 21,984 | 19,068 | 15,916 | 14,302 | 13,985 | 12,571 |
| Cost of products sold | 7,130 | 6,303 | 5,350 | 4,869 | 4,748 | 4,248 |
| Selling, marketing and administrative expenses | 8,500 | 7,530 | 6,406 | 5,828 | 5,776 | 5,202 |
| Research expense | 2,109 | 1,788 | 1,416 | 1,296 | 1,282 | 1,092 |
| Purchased in-process research and development | -- | -- | 37 | -- | -- | 171 |
| Interest income | (196) | (151) | (85) | (104) | (122) | (123) |
| Interest expense, net of portion capitalized | 176 | 184 | 182 | 165 | 162 | 156 |
| Other expense, net | 122 | 70 | (5) | (71) | 20 | 24 |
| Special charges | -- | -- | -- | -- | -- | -- |
| | 17,841 | 15,724 | 13,301 | 11,983 | 11,866 | 10,770 |
| Earnings before provision for taxes on income | 4,143 | 3,344 | 2,615 | 2,319 | 2,119 | 1,801 |
| Provision for taxes on income | 1,185 | 926 | 654 | 533 | 547 | 531 |
| Earnings before cumulative effect of accounting changes | 2,958 | 2,418 | 1,961 | 1,786 | 1,572 | 1,270 |
| Cumulative effect of accounting changes (net of tax) | -- | -- | -- | -- | (595) | -- |

| | | | | | | |
|---|---|---|---|---|---|---|
| NET EARNINGS | 2,958 | 2,418 | 1,961 | 1,786 | 977 | 1,270 |
| Percent of sales to customers | 13.5 | 12.7 | 12.3 | 12.5 | 7.0(1) | 10.1 |
| Diluted net earnings per share of common stock* | .98 | .84 | .69 | .63 | .34(1) | .44 |
| Percent return on average shareowners' equity | 27.2 | 27.6 | 28.4 | 30.1 | 16.4(1) | 22.1 |
| PERCENT INCREASE (DECREASE) OVER PREVIOUS YEAR: | | | | | | |
| Sales to customers | 15.3 | 19.8 | 11.3 | 2.3 | 11.2 | 10.6 |
| Diluted net earnings per share | 16.7 | 21.7 | 9.5 | 85.3(1) | (22.7)(1) | 12.8 |
| SUPPLEMENTARY EXPENSE DATA: | | | | | | |
| Cost of materials and services(4) | 11,341 | 9,984 | 8,104 | 7,168 | 7,736 | 6,573 |
| Total employment costs | 5,447 | 4,849 | 4,401 | 4,181 | 4,166 | 3,605 |
| Depreciation and amortization | 1,047 | 886 | 754 | 649 | 576 | 505 |
| Maintenance and repairs(5) | 285 | 257 | 222 | 205 | 213 | 206 |
| Total tax expense(6) | 1,753 | 1,458 | 1,132 | 957 | 975 | 929 |
| Total tax expense per share(6)* | .60 | .52 | .40 | .34 | .34 | .33 |
| SUPPLEMENTARY BALANCE SHEET DATA: | | | | | | |
| Property, plant and equipment, net | 6,025 | 5,544 | 5,230 | 4,717 | 4,443 | 3,962 |
| Additions to property, plant and equipment | 1,427 | 1,307 | 979 | 1,001 | 1,162 | 1,052 |
| Total assets | 22,248 | 19,355 | 17,027 | 13,372 | 13,087 | 11,653 |
| Long-term debt | 2,347 | 2,702 | 2,776 | 1,761 | 1,832 | 1,773 |
| Operating cash flow | 4,001 | 3,436 | 2,984 | 2,202 | 2,136 | 1,558 |
| COMMON STOCK INFORMATION* | | | | | | |
| Dividends paid per share | .368 | .32 | .283 | .253 | .223 | .193 |
| Shareowners' equity per share | 4.07 | 3.46 | 2.76 | 2.16 | 2.03 | 2.17 |
| Market price per share (year-end close) | 25.25 | 21.38 | 13.69 | 11.19 | 12.63 | 14.31 |
| Average shares outstanding (millions) - basic | 2,938.0 | 2,820.1 | 2,796.9 | 2,816.6 | 2,845.8 | 2,847.2 |
| - diluted | 3,046.2 | 2,890.0 | 2,843.2 | 2,840.8 | 2,876.4 | 2,901.2 |
| EMPLOYEES (THOUSANDS) | 91.5 | 84.2 | 83.4 | 83.2 | 86.9 | 84.9 |

* Adjusted to reflect the 2001 two-for-one stock split.

(1) Excluding the cumulative effect of accounting changes of $595 million. - 1992 earnings percent of sales to customers before accounting changes is 11.2%. - - 1992 earnings per share before accounting change is $.55. - 1992 earnings percent return on average shareowners' equity before accounting changes is 25.1%. - 1993 diluted net earnings per share percent increase over prior year before accounting changes is 14.5%; 1992 diluted net earnings per share increase over prior year is 25.0%.

(2) Excluding Special and In-Process Research and Development charges - 1997 diluted net earnings per share before special charges is $1.11. - 1997 diluted net earnings per share increase over prior year before special charges is 13.3%. - - 1998 earnings percent of sales to customers before special charges is 15.6%. - 1998 diluted net earnings per share before special charges is $1.24. - 1998 percent return on average shareowners' equity before special charges is 26.5%. - 1998 diluted net earnings per share increase over prior year before special charges is 11.7%; - 1998 cost of products sold includes $60 million of inventory write-offs for restructuring; - 1999 diluted net earnings per share before special charges is $1.42. 1999 excluding special charges diluted net earnings per share percent increase over prior year is 14.5%; - 2000 diluted net earnings per share before special charges is $1.63. 2000 excluding special charges diluted net earnings per share increase over prior year is 14.8%; - 2001 diluted net earnings per share before special charges is $1.91. - 2001 excluding special charges diluted net earnings per share increase over prior year is 17.2%.

(3) All periods have been adjusted to include the effects of the ALZA merger.

(4) Net of interest and other income.

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

(6) Includes taxes on income, payroll, property and other business taxes; per share data calculated using average basic shares.

EXHIBIT 21

SUBSIDIARIES

Johnson & Johnson, a New Jersey corporation, has the domestic and international subsidiaries shown below. Certain domestic subsidiaries and international subsidiaries are not named because they are not significant in the aggregate. Johnson & Johnson has no parent.

JURISDICTION OF NAME OF SUBSIDIARY ORGANIZATION ---- ---------- ---------- Domestic Subsidiaries: ALZA Corporation..... Delaware ALZA Land Management, Inc. ..... Delaware AngioGuard, Inc. ..... Delaware Biosense Webster, Inc. ..... California Can-Am Care Corporation..... New York Centocor, Inc. ..... Pennsylvania Codman & Shurtleff, Inc. ..... New Jersey Cordis Corporation..... Florida Cordis International Corporation..... Delaware Crescendo Pharmaceuticals Corporation..... Delaware DePuy, Inc. ..... Delaware DePuy AcroMed, Inc. ..... Ohio DePuy AcroMed Sales Limited Partnership..... Massachusetts DePuy Finance LLC..... Delaware DePuy Orthopaedics, Inc. ..... Indiana DePuy Orthopaedic Technology, Inc. ..... Delaware Diabetes Diagnostics, Inc. ..... Delaware Ethicon Endo-Surgery, Inc. ..... Ohio Ethicon Endo-Surgery Services, L.P. ..... Texas Ethicon, Inc. ..... New Jersey Ethicon LLC..... Delaware Heartport, Inc. ..... Delaware Independence Technology, L.L.C. ..... New Jersey Innovasive Devices, Inc. ..... Massachusetts Janssen Finance Company..... Florida Janssen Inc. ..... Delaware Janssen Ortho LLC..... Delaware Janssen Pharmaceutica Inc. ..... Pennsylvania Janssen Pharmaceutica Products, L.P. ..... New Jersey Janssen Products, Inc. ..... Delaware Johnson & Johnson Consumer Companies, Inc. ..... New Jersey Johnson & Johnson Development Corporation..... New Jersey Johnson & Johnson Finance Corporation..... New Jersey Johnson & Johnson Health Care Systems Inc. ..... New Jersey Johnson & Johnson International..... New Jersey Johnson & Johnson Japan Inc. ..... New Jersey Johnson & Johnson - Merck Consumer Pharmaceuticals Co. ... New Jersey Johnson & Johnson (Middle East) Inc. ..... New Jersey Johnson & Johnson Pharmaceutical Research & Development, New Jersey L.L.C. .....

JURISDICTION OF NAME OF SUBSIDIARY ORGANIZATION ---------
--------- --------------- Johnson & Johnson Professional
Co. (P.R.) Inc. ..... Delaware Johnson & Johnson
Services, Inc. ..... New Jersey
Johnson & Johnson Vision Care, Inc.
..... Florida Joint Medical Products
Corporation..... Delaware JJHC, Inc.
..... Delaware
LifeScan, Inc.
..... California
LifeScan
LLC.....
Delaware McNEIL-PPC, Inc.
..... New Jersey NDC
Investment Corporation.....
Delaware Neutrogena
Corporation..... Delaware
Noramco, Inc.
..... Georgia OMJ
Pharmaceuticals, Inc. .....
Delaware Ortho Biologics
LLC..... Delaware Ortho
Biotech Holding Corp. .....
Delaware Ortho Biotech Inc.
..... New Jersey Ortho
Biotech Products, L.P. ..... New
Jersey Ortho-Clinical Diagnostics, Inc.
..... New York Ortho-McNeil Finance
Co. ..... Florida Ortho-
McNeil Pharmaceutical, Inc. .....
Delaware TERAMed
Corporation.....
Delaware The Tylenol
Company..... New Jersey
Therakos, Inc.
..... Florida
Winthorpe & Valentine, Inc.
..... Delaware International
Subsidiaries: Abello Farmacia
SL..... Italy ALZA
Ireland Limited.....
Ireland
Apsis.....
France Centra Medicamenta OTC
SRL..... Italy Cilag
AG.....
Switzerland Cilag AG
International.....
Switzerland Cilag de Mexico, S.A. de C.V.
..... Mexico Cilag Farmaceutica
Ltda. ..... Brazil Cilag
Holding AG.....
Switzerland Cordis Europa N.V.
..... Netherlands
Cordis Medizinische Apparate GmbH
..... Germany Cordis de Mexico, S.A.
de C.V. ..... Mexico Cordis S.A.
..... France
Cordis
S.a.r.l.....
Switzerland DePuy Bioland
S.A..... France DePuy
France S.A.....
France DePuy International
Ltd..... United Kingdom
DePuy Intl. (Holdings)
Ltd..... United Kingdom DePuy
(Ireland) Limited.....
Ireland DePuy Japan K.K.
..... Japan DePuy
Orthopadie GmbH.....
Germany DePuy Orthopedie
S.A..... France Ethicon
Beteiligungs Gesellschaft mbH.....
Germany

JURISDICTION OF NAME OF SUBSIDIARY ORGANIZATION -
---------- ---------- Ethicon Endo-
Surgery (Europe) GmbH .....
Germany Ethicon
GmbH.....
Germany Ethicon Ireland
Limited.....
Ireland Ethicon
Limited.....
Scotland Ethicon
SAS.....
France Ethicon S.p.A.
..... Italy
Ethnor (Proprietary)
Limited..... South
Africa Greiter
AG.....
Switzerland Greiter (International)
AG..... Switzerland
Impulse Dynamics (Ireland)
Limited..... Ireland Inverness
Medical Limited.....
Scotland Janssen Animal Health
BVBA..... Belgium
Janssen-Cilag
A/S.....
Norway Janssen-Cilag
AB.....
Sweden Janssen-Cilag
AG.....
Switzerland Janssen-Cilag
A/S.....
Denmark Janssen-Cilag B.V.
.....
Netherlands Janssen-Cilag Egypt Ltd.
..... Egypt Janssen-
Cilag, C.A.
..... Venezuela
Janssen-Cilag Farmaceutica Ltda.
..... Brazil Janssen-Cilag
Farmaceutica, Ltda. .....
Portugal Janssen-Cilag Farmaceutica, S.A.
..... Argentina Janssen-Cilag
Ltd. .....
United Kingdom Janssen-Cilag N.V.
..... Belgium
Janssen-Cilag
OY.....
Finland Janssen-Cilag Pharmaceutical S.A.C.I.
..... Greece Janssen-Cilag Pharma
GmbH..... Austria
Janssen-Cilag Pty.
Limited..... Australia
Janssen-Cilag S.A.
..... Spain
Janssen-Cilag S.A.
..... France
Janssen-Cilag S.p.A.
..... Italy
Janssen Farmaceutica, S.A. de C.V.
..... Mexico Janssen-Cilag
GmbH.....
Germany Janssen-Cilag International N.V.
..... Belgium Janssen
International C.V.
..... Belgium Janssen
Korea, Ltd.
..... Korea
Janssen Ortho Inc.
..... Canada
Janssen Pharmaceutica
Limited..... Thailand
Janssen Pharmaceutica N.V.
..... Belgium Janssen
Pharmaceutica (Pty)
Limited..... South Africa
Janssen Pharmaceutical K.K.
..... Japan Janssen
Pharmaceutical
Limited..... Ireland J-C
Healthcare Ltd.
..... Israel JHC
Nederland B.V.
.....
Netherlands J&J/MSD Consumer Pharmaceuticals
S.A.S. ..... France Johnson &
Johnson AG.....
Switzerland Johnson & Johnson
A/S..... Denmark

JURISDICTION OF NAME OF SUBSIDIARY ORGANIZATION ------ ------------ --------------- Johnson & Johnson S.A. de C.V. ..... Mexico Johnson & Johnson de Argentina, S.A.C.e I. ..... Argentina Johnson & Johnson (China) Investment Co., Ltd. ..... China Johnson & Johnson (China) Ltd. ..... China Johnson & Johnson Consumer France S.A.S. ..... France Johnson & Johnson Consumer N.V./S.A. ..... Belgium Johnson & Johnson de Colombia S.A. ..... Colombia Johnson & Johnson del Ecuador S.A. ..... Ecuador Johnson & Johnson (Egypt) S.A.E. ..... Egypt Johnson & Johnson Finance Limited..... United Kingdom Johnson & Johnson Financial Services GmbH..... Germany Johnson & Johnson GmbH..... Germany Johnson & Johnson Gesellschaft m.b.H..... Austria Johnson & Johnson Hellas S.A. ..... Greece Johnson & Johnson Holding AB..... Sweden Johnson & Johnson Holding GmbH..... Germany Johnson & Johnson (Hong Kong) Limited..... Hong Kong Johnson & Johnson Inc. ..... Canada Johnson & Johnson Industria e Comercio Ltda..... Brazil Johnson & Johnson International Financial Services Ireland Company..... Johnson & Johnson International S.A. ..... France Johnson & Johnson Investments Limited..... United Kingdom Johnson & Johnson (Ireland) Limited..... Ireland Johnson & Johnson (Kenya) Limited..... Kenya Johnson & Johnson Kft. ..... Hungary Johnson & Johnson K.K. ..... Japan Johnson & Johnson Korea, Ltd. ..... Korea Johnson & Johnson Lda..... Portugal Johnson & Johnson Ltd..... United Kingdom Johnson & Johnson Limited ..... India Johnson & Johnson MSD Consumer Pharmaceuticals, S.A.S..... France Johnson & Johnson Management Ltd..... United Kingdom Johnson & Johnson Medical B.V. ..... Netherlands Johnson & Johnson Medical (China) Ltd. ..... China Johnson & Johnson Medical G.m.b.H. ..... Austria Johnson & Johnson Medical K.K. ..... Japan Johnson & Johnson Medical Korea Limited..... Korea Johnson & Johnson Medical Limited..... United Kingdom Johnson & Johnson Medical Mexico, S.A. de C.V..... Mexico Johnson & Johnson Medical NV/SA..... Belgium Johnson & Johnson Medical Pty. Ltd. ..... Australia Johnson & Johnson Medical S.A. ..... Argentina Johnson & Johnson Morocco S.A. ..... Morocco Johnson & Johnson (New Zealand) Limited..... New Zealand Johnson & Johnson Pacific Pty. Ltd. ..... Australia Johnson & Johnson Pakistan (Private) Limited..... Pakistan Johnson & Johnson (Philippines), Inc. ..... Philippines

JURISDICTION OF NAME OF SUBSIDIARY ORGANIZATION - ---------- ---------- Johnson & Johnson Poland Sp. z o.o. ..... Poland Johnson & Johnson (Private) Limited..... Zimbabwe Johnson & Johnson Products Inc. ..... Canada Johnson & Johnson Produtos Profissionais Ltda..... Brazil Johnson & Johnson Professional Products (Proprietary) South Africa Ltd. ..... Johnson & Johnson (Proprietary) Limited..... South Africa Johnson & Johnson Pte. Ltd. ..... Singapore Johnson & Johnson Pty. Limited..... Australia Johnson & Johnson Research Pty. Limited..... Australia Johnson & Johnson, S.A. de C.V. ..... Mexico Johnson & Johnson S.A. ..... Spain Johnson & Johnson SDN. BHD. ..... Malaysia Johnson & Johnson S.p.A. ..... Italy Johnson & Johnson, Spol.s.r.o. ..... Czech Republic Johnson & Johnson Taiwan Ltd. ..... Taiwan Johnson & Johnson (Thailand) Ltd..... Thailand Johnson & Johnson de Venezuela, S.A. ..... Venezuela Johnson & Johnson Vision Products AB..... Sweden Johnson & Johnson Vision Products (Ireland) Ltd..... Ireland Johnson & Johnson (Zambia) Limited..... Zambia Laboratoires Martin Johnson & Johnson -- MSD S.A.S..... France Laboratoires Polive S.N.C. ..... France Lifescan Canada Ltd. ..... Canada McNeil Consumer Nutritionals Europe..... Switzerland Medos S.A. ..... Switzerland Neutrogena Limited..... England Neutrogena Provence S.A.R.L..... France OMJ Ireland Limited..... Ireland OMJ Manufacturing Ltd..... Ireland Ortho-Clinical Diagnostics European Support Center..... France Ortho-Clinical Diagnostics GmbH..... Germany Ortho-Clinical Diagnostics K.K. ..... Japan Ortho-Clinical Diagnostics..... United Kingdom Ortho-Clinical Diagnostics S.A. ..... Spain Ortho-Clinical Diagnostics N.V. ..... Belgium Ortho-Clinical Diagnostics S.A. ..... France Ortho-Clinical Diagnostics S.p.A. ..... Italy Pharma Argentina S.A. ..... Argentina P.T. Johnson & Johnson Indonesia..... Indonesia Shanghai Johnson & Johnson Pharmaceuticals, Ltd..... China Shanghai Johnson & Johnson Ltd. ..... China Surgikos, S.A. de C.V. ..... Mexico Tasmanian Alkaloids Pty. Ltd. ..... Australia The R.W. Johnson Pharmaceutical Research Institute..... Switzerland Vania Expansion, S.N.C..... France Woelm Pharma GmbH & Co..... Germany Xian-Janssen Pharmaceutical Limited..... China

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements of Johnson & Johnson on Form S-8 (File No. 333-67370, 333-59380, 33-52252, 33-40294, 33-40295, 33-32875, 033-59009, 333-38055, 333-40681, 333-26979, 333-39238 and 333-86611), Form S-3 (File No. 333-67020, 33-55977, 333-91349 and 33-47424) and Form S-4 (File No. 333-67370, 333-59380, 333-59110, 33-57583, 333-00391, 333-38097, 333-30081, 333-86611, 333-94367 and 333-56034) and related Prospectuses, of our report dated January 21, 2002 relating to our audit of the financial statements of Johnson & Johnson and subsidiaries as of December 30, 2001 and December 31, 2000, and for each of the three years in the period ended December 30, 2001, which appears in the Annual Report to Shareowners, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 21, 2002 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS LLP

New York, New York
March 18, 2002

CAUTIONARY STATEMENT PURSUANT TO PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 -- "SAFE HARBOR" FOR FORWARD-LOOKING STATEMENTS

The Company may from time to time make certain forward-looking statements in publicly-released materials, both written and oral. 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 approvals, 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 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. Furthermore, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

Some important factors that could cause the Company's actual results to differ from the Company's expectations in any forward-looking statements are as follows:

Economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;

Competitive factors, including technological advances achieved and patents attained by competitors and challenges by competitors to the Company's patents;

Domestic and foreign health care changes resulting in pricing pressures, including the continued consolidation among health care providers, trends toward managed care and health care cost containment and government laws and regulations relating to sales and promotion, reimbursement and pricing generally;

Government laws and regulations, affecting domestic and foreign operations, including those relating to trade, monetary and fiscal policies, taxes, price controls, regulatory approval of new products, licensing and patent rights;

Competition in research, involving the development and the improvement of new and existing products and processes, is particularly significant and results from time to time in product and process obsolescence. The development of new and improved products is important to the Company's success in all areas of its business;

Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and abroad, gain and maintain market approval of products and the possibility of encountering infringement claims by competitors with respect to patent or other intellectual property rights which can preclude or delay commercialization of a product;

Significant litigation adverse to the Company including product liability claims, patent infringement claims, and antitrust claims, as well as the arbitration proceeding filed by Amgen to terminate U.S. license rights;

Product efficacy or safety concerns resulting in product recalls, regulatory action on the part of the FDA (or foreign counterparts) or declining sales;

The impact of business combinations, including acquisitions and divestitures, both internally for the Company and externally in the pharmaceutical and health care industries; and

Issuance of new or revised accounting standards by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board or the Securities and Exchange Commission.

The foregoing list sets forth many, but not all, of the factors that could impact upon the Company's ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties. The Company has identified the factors on this list as permitted by the Private Securities Litigation Reform Act of 1995.