KAISER GEORGE B
Form 4
December 31, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
KAISER GEORGE B

(Last) (First) (Middle)

(Street)

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BOK FINANCIAL CORP ET AL [BOKF]

3. Date of Earliest Transaction (Month/Day/Year)
12/30/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director
_____ Officer (give title below)
__X__ 10% Owner
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/30/2008		G		2,541,200	D	$ 39.12	42,104,369	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KAISER GEORGE B	X	X		

Signatures

Frederic Dorwart	12/31/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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48

Goodwill as of December 31, 2017 and January 1, 2017, as allocated by segment of business, was as follows:

(Dollars in Millions)	Consumer	Pharmaceutical	Medical Devices	Total
Goodwill at January 3, 2016	$ 7,240	2,889	11,500	21,629
Goodwill, related to acquisitions	1,362	—	210	1,572
Goodwill, related to divestitures	(63)	(12)	—	(75)
Currency translation/other	(276)	(37)	(8)	(321)
Goodwill at January 1, 2017	$ 8,263	2,840	11,702	22,805
Goodwill, related to acquisitions	102	6,161	2,200	8,463
Goodwill, related to divestitures	(74)	(1)	(102)	(177)
Currency translation/other	584	109	122	815
Goodwill at December 31, 2017	$ 8,875	9,109	13,922	31,906

The weighted average amortization periods for patents and trademarks and customer relationships and other intangible assets are 12 years and 23 years, respectively. The amortization expense of amortizable assets included in cost of products sold was $3.0 billion, $1.2 billion and $1.2 billion before tax, for the fiscal years ended December 31, 2017, January 1, 2017 and January 3, 2016, respectively. The estimated amortization expense for the five succeeding years approximates $4.4 billion before tax, per year. Intangible asset write-downs are included in Other (income) expense, net.

The primary driver of the increase to intangible assets and goodwill is related to the Actelion acquisition in the fiscal second quarter of 2017, which resulted in the recording of $25.0 billion to intangible assets and $6.2 billion to goodwill. The intangible assets and goodwill amounts related to the Actelion acquisition are based on the preliminary purchase price allocation. Additionally, the Abbott Medical Optics (AMO) acquisition in the fiscal first quarter of 2017, resulted in the recording of $2.3 billion to intangible assets and $1.7 billion to goodwill. The intangible assets and goodwill amounts related to the AMO acquisition are based on the final purchase price allocation.

See Note 20 to the Consolidated Financial Statements for additional details related to acquisitions and divestitures.

6. Fair Value Measurements

The Company uses forward foreign exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany products and third-party purchases of materials denominated in a foreign currency. The Company uses cross currency interest rate swaps to manage currency risk primarily related to borrowings. The Company also uses equity collar contracts to manage exposure to market risk associated with certain equity investments. All three types of derivatives are designated as cash flow hedges.

Additionally, the Company uses interest rate swaps as an instrument to manage interest rate risk related to fixed rate borrowings. These derivatives are designated as fair value hedges. The Company uses forward foreign exchange contracts designated as net investment hedges. Additionally, the Company uses forward foreign exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward foreign 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 Company does not enter into derivative financial instruments for trading or speculative purposes, or that contain credit risk related contingent features. During the fiscal second quarter of 2017, the Company entered into credit support agreements (CSA) with certain derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. As of December 31, 2017, the total amount of collateral paid under the credit support agreements (CSA) amounted to $162 million net. For equity collar contracts, the Company pledged the underlying hedged marketable equity securities to the counter-party as collateral. On an ongoing basis, the Company

monitors counter-party credit ratings. The Company considers credit non-performance risk to be low, because the Company primarily enters into agreements with commercial institutions that have at least an investment grade credit rating. Refer to the table on significant financial assets and liabilities measured at fair value contained in this footnote for receivables and payables with these commercial institutions. As of December 31, 2017, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps of $34.5 billion, $2.3 billion, and $1.1 billion respectively. As of January 1, 2017, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps, interest rate swaps and equity collar contracts of $36.0 billion, $2.3 billion, $1.8 billion, and $0.3 billion respectively.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.
The designation as a cash flow hedge is made at the entrance date of the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Gains and losses associated with interest rate swaps and changes in fair value of hedged debt attributable to changes in interest rates are recorded to interest expense in the period in which they occur. Gains and losses on net investment hedges are accounted for through the currency translation account. On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes 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 in Other (income) expense, net for forward foreign exchange contracts, cross currency interest rate swaps, net investment hedges and equity collar contracts. For interest rate swaps designated as fair value hedges, hedge ineffectiveness, if any, is included in current period earnings within interest expense. For the current reporting period, hedge ineffectiveness associated with interest rate swaps was not material.
During the fiscal second quarter of 2016, the Company designated its Euro denominated notes issued in May 2016 with due dates ranging from 2022 to 2035 as a net investment hedge of the Company's investments in certain of its international subsidiaries that use the Euro as their functional currency in order to reduce the volatility caused by changes in exchange rates.
The change in the carrying value due to remeasurement of these Euro notes resulted in a $597 million unrealized pretax loss for the fiscal year ended December 31, 2017, reflected in foreign currency translation adjustment, within the Consolidated Statements of Comprehensive Income. The change in the carrying value due to remeasurement of these Euro notes resulted in a cumulative $222 million unrealized pretax loss from hedge inception through the fiscal year ended December 31, 2017, reflected in foreign currency translation adjustment, within the Consolidated Statements of Comprehensive Income.

As of December 31, 2017, the balance of deferred net gains on derivatives included in accumulated other comprehensive income was $70 million after-tax. For additional information, see the Consolidated Statements of Comprehensive Income and Note 13. The Company expects that substantially all of the amounts related to forward foreign exchange contracts will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months, excluding interest rate contracts, net investment hedges and equity collar contracts. The amount ultimately realized in earnings may differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative.
The following table is a summary of the activity related to derivatives designated as cash flow hedges for the fiscal years ended December 31, 2017 and January 1, 2017:

(Dollars in Millions)	Gain/(Loss) Recognized In Accumulated OCI[1]		Gain/(Loss) Reclassified From Accumulated OCI Into Income[1]		Gain/(Loss) Recognized In Other Income/Expense[2]	
Cash Flow Hedges by Income Statement Caption	2017	2016	2017	2016	2017	2016
Sales to customers [3]	$ 49	(65)	(31)	(47)	(1)	(1)
Cost of products sold [3]	96	(212)	(159)	(3)	(10)	(15)
Research and development expense [3]	(199)	(76)	(165)	(90)	5	—
Interest (income)/Interest expense, net [4]	110	66	83	37	—	—

Other (income) expense, net [3] [5]	(60)	(72)	(87)	(7)	—	2
Total	$ (4)	(359)	(359)	(110)	(6)	(14)

All amounts shown in the table above are net of tax.

[1] Effective portion

[2] Ineffective portion

[3] Forward foreign exchange contracts

[4] Cross currency interest rate swaps

[5] Includes equity collar contracts

For the fiscal years ended December 31, 2017 and January 1, 2017, a loss of $5 million and $56 million, respectively, was recognized in Other (income) expense, net, relating to forward foreign exchange contracts not designated as hedging instruments.

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement determined using assumptions that market participants would use in pricing an asset or liability. The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described below with Level 1 having the highest priority and Level 3 having the lowest.

The fair value of a derivative financial instrument (i.e., forward foreign exchange contracts, interest rate contracts) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. Dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position. The Company also holds equity investments which are classified as Level 1 and debt securities which are classified as Level 2. The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

The following three levels of inputs are used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets and liabilities.

Level 2 — Significant other observable inputs.

Level 3 — Significant unobservable inputs.

The Company's significant financial assets and liabilities measured at fair value as of December 31, 2017 and January 1, 2017 were as follows:

(Dollars in Millions)	2017 Level 1	Level 2	Level 3	Total	2016 Total [1]
Derivatives designated as hedging instruments:					
Assets:					
Forward foreign exchange contracts [7]	$—	342	—	342	747
Interest rate contracts [2][4][7]	—	7	—	7	31
Total	—	349	—	349	778
Liabilities:					
Forward foreign exchange contracts [7]	—	314	—	314	723
Interest rate contracts [3][4][7]	—	15	—	15	382
Equity collar contracts	—	—	—	—	57
Total	—	329	—	329	1,162
Derivatives not designated as hedging instruments:					
Assets:					
Forward foreign exchange contracts [7]	—	38	—	38	34
Liabilities:					
Forward foreign exchange contracts [7]	—	38	—	38	57
Available For Sale Other Investments:					
Equity investments[5]	751	—	—	751	1,209
Debt securities[6]	$—	5,310	—	5,310	12,087

(1) 2016 assets and liabilities are all classified as Level 2 with the exception of equity investments of $1,209 million, which are classified as Level 1.

(2) Includes $7 million and $23 million of non-current assets for the fiscal years ending December 31, 2017 and January 1, 2017, respectively.

(3) Includes $9 million and $382 million of non-current liabilities for the fiscal years ending December 31, 2017 and January 1, 2017, respectively.

(4) Includes cross currency interest rate swaps and interest rate swaps.

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(5) Classified as non-current other assets. The carrying amount of the equity investments were $394 million and $520 million as of December 31, 2017 and January 1, 2017, respectively. The unrealized gains were $367 million and $757 million as of December 31, 2017 and January 1, 2017, respectively. The unrealized losses were $10 million and $68 million as of December 31, 2017 and January 1, 2017, respectively.

(6) Classified as cash equivalents and current marketable securities.

(7) Includes collateral exchanged on the credit support agreements on derivatives.

See Notes 2 and 7 for financial assets and liabilities held at carrying amount on the Consolidated Balance Sheet.

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7. Borrowings

The components of long-term debt are as follows:

(Dollars in Millions)	2017	Effective Rate %	2016	Effective Rate %
5.55% Debentures due 2017	$ —	—	1,000	5.55
1.125% Notes due 2017	—	—	699	1.15
5.15% Debentures due 2018	900	5.18	899	5.18
1.65% Notes due 2018	597	1.70	600	1.70
4.75% Notes due 2019 (1B Euro 1.1947)[2]/(1B Euro 1.0449)[3]	1,192[2]	5.83	1,041[3]	5.83
1.875% Notes due 2019	496	1.93	499	1.93
0.89% Notes due 2019	300	1.75	299	1.20
1.125% Notes due 2019	699	1.13	699	1.13
3% Zero Coupon Convertible Subordinated Debentures due 2020	60	3.00	84	3.00
2.95% Debentures due 2020	547	3.15	546	3.15
1.950% Notes due 2020	499	1.99	—	—
3.55% Notes due 2021	448	3.67	447	3.67
2.45% Notes due 2021	349	2.48	348	2.48
1.65% Notes due 2021	998	1.65	997	1.65
0.250% Notes due 2022 (1B Euro 1.1947)[2]/(1B Euro 1.0449)[3]	1,191[2]	0.26	1,041[3]	0.26
2.25% Notes due 2022	995	2.31	—	—
6.73% Debentures due 2023	250	6.73	249	6.73
3.375% Notes due 2023	806	3.17	807	3.17
2.05% Notes due 2023	498	2.09	497	2.09
0.650% Notes due 2024 (750MM Euro 1.1947)[2]/(750MM Euro 1.0449)[3]	891 [2]	0.68	779 [3]	0.68
5.50% Notes due 2024 (500MM GBP 1.3444)[2]/(500MM GBP 1.2237)[3]	666 [2]	6.75	605 [3]	6.75
2.625% Notes due 2025	747	2.63	—	—
2.45% Notes due 2026	1,990	2.47	1,989	2.47
2.95% Notes due 2027	995	2.96	—	—
1.150% Notes due 2028 (750MM Euro 1.1947)[2]/(750MM Euro 1.0449)[3]	887 [2]	1.21	775 [3]	1.21
2.900% Notes due 2028	1,492	2.91	—	—
6.95% Notes due 2029	296	7.14	296	7.14
4.95% Debentures due 2033	498	4.95	497	4.95
4.375% Notes due 2033	856	4.24	857	4.24
1.650% Notes due 2035 (1.5B Euro 1.1947)[2]/(1.5B Euro 1.0449)[3]	1,774[2]	1.68	1,549[3]	1.68
3.55% Notes due 2036	987	3.59	987	3.59
5.95% Notes due 2037	991	5.99	990	5.99
3.625% Notes due 2037	1,486	3.64	—	—
5.85% Debentures due 2038	696	5.85	695	5.85
3.400% Notes due 2038	990	3.42	—	—
4.50% Debentures due 2040	538	4.63	537	4.63
4.85% Notes due 2041	296	4.89	296	4.89
4.50% Notes due 2043	495	4.52	495	4.52

3.70% Notes due 2046	1,971	3.74	1,970	3.74
3.75% Notes due 2047	990	3.76	—	—
3.500% Notes due 2048	742	3.52	—	—
Other	75	—	77	—
Subtotal	32,174 [4]	3.19% [1]	24,146 [4]	3.33 [1]
Less current portion	1,499		1,704	
Total long-term debt	$30,675		22,442	

[1] Weighted average effective rate.
[2] Translation rate at December 31, 2017.
[3] Translation rate at January 1, 2017.
[4] The excess of the fair value over the carrying value of debt was $2.0 billion in 2017 and $1.6 billion in 2016.

Fair value of the long-term debt was estimated using market prices, which were corroborated by quoted broker prices and significant other observable inputs.
The Company has access to substantial sources of funds at numerous banks worldwide. In September 2017, the Company secured a new 364-day Credit Facility. Total credit available to the Company approximates $10 billion, which expires on September 13, 2018. Interest charged on borrowings under the credit line agreements is based on either bids provided by banks, the prime rate or London Interbank Offered Rates (LIBOR), plus applicable margins. Commitment fees under the agreements are not material.
Throughout 2017, the Company continued to have access to liquidity through the commercial paper market. Short-term borrowings and the current portion of long-term debt amounted to approximately $3.9 billion at the end of 2017, of which $2.3 billion was borrowed under the Commercial Paper Program, $1.5 billion is the current portion of the long term debt, and the remainder principally represents local borrowing by international subsidiaries.
Throughout 2016, the Company continued to have access to liquidity through the commercial paper market. Short-term borrowings and the current portion of long-term debt amounted to approximately $4.7 billion at the end of 2016, of which $2.7 billion was borrowed under the Commercial Paper Program, $1.7 billion is the current portion of the long term debt, and the remainder principally represents local borrowing by international subsidiaries.

Aggregate maturities of long-term obligations commencing in 2018 are:

(Dollars in Millions)					
2018	2019	2020	2021	2022	After 2022
$1,499	2,752	1,105	1,797	2,189	22,832

8. Income Taxes
Tax Cuts and Jobs Act (TCJA) and SEC Staff Accounting Bulletin 118 (SAB 118)
On December 22, 2017, the United States enacted into law new U.S. tax legislation, referred to as the TCJA. This law includes provisions for a comprehensive overhaul of the corporate income tax code, including a reduction of the statutory corporate tax rate from 35% to 21%, effective on January 1, 2018. This new legislation also eliminated or reduced certain corporate income tax deductions as well as introduced new provisions that taxed certain foreign income not previously taxed by the United States. The TCJA also includes a provision for a tax on all previously undistributed earnings of U.S. companies located in foreign jurisdictions. Undistributed earnings in the form of cash and cash equivalents is taxed at a rate of 15.5% and all other earnings are taxed at a rate of 8.0%. This tax is payable over 8 years and will not accrue interest.
In December 2017, the SEC provided regulatory guidance for accounting of the impacts of the TCJA, referred to as SAB 118. Under the guidance in SAB 118, the income tax effects, which the accounting under ASC 740 is incomplete, are reported as a provisional amount based on a reasonable estimate. The reasonable estimate is subject to adjustment during a "measurement period", not to exceed one year, until the accounting is complete. The estimate is

also subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provision of the TCJA, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries and the filing of tax returns.

As a result of the enactment of the TCJA, the Company recorded a provisional tax cost of $13.0 billion in the fourth quarter of 2017. This provisional charge was assessed as of January 18, 2018 and consisted of:

- a $10.1 billion charge on previously undistributed foreign earnings as of December 31, 2017
- a $4.5 billion deferred tax liability for foreign local and withholding taxes, offset by a $1.1 billion deferred tax asset for U.S. foreign tax credits, for repatriation of substantially all those earnings

- a $0.6 billion tax benefit relating to the remeasurement of U.S. deferred tax assets and liabilities and the impact of the TCJA on tax reserves, and
- a $0.1 billion charge for U.S. state and local taxes on the repatriation of these foreign earnings.

In determining this charge, the Company utilized the most recent information and guidance available related to the calculation of the tax liability and the impact to its deferred tax assets and liabilities, including those recorded for foreign local and withholding taxes that the Company assessed as of January 18, 2018. The provisional charge may require further adjustments and changes to the Company's estimates as new guidance is made available. Revisions to the provisional charge may be material to the Company's financial results.

The TCJA also includes provisions for a tax on global intangible low-taxed income (GILTI). GILTI is described as the excess of a U.S. shareholder's total net foreign income over a deemed return on tangible assets, as provided by the TCJA. In January 2018, in response to inquiries by companies, the FASB issued guidance that allows companies to elect as an accounting policy whether to treat the GILTI tax as a period cost or to recognize deferred tax assets and liabilities when basis differences exist that are expected to affect the amount of GILTI inclusion upon reversal. The Company has provisionally elected to treat GILTI as a period expense pending further analysis of this new tax provision.

The provision for taxes on income consists of:

(Dollars in Millions)	2017	2016	2015
Currently payable:			
U.S. taxes	$11,969	1,896	2,748
International taxes	1,998	1,708	1,309
Total currently payable	13,967	3,604	4,057
Deferred:			
U.S. taxes	(1,956)	294	37
International taxes	4,362	(635)	(307)
Total deferred	2,406	(341)	(270)
Provision for taxes on income	$16,373	3,263	3,787

A comparison of income tax expense at the U.S. statutory rate of 35% in 2017, 2016 and 2015, to the Company's effective tax rate is as follows:

(Dollars in Millions)	2017	2016	2015
U.S.	$4,865	7,457	8,179
International	12,808	12,346	11,017
Earnings before taxes on income:	$17,673	19,803	19,196
Tax rates:			
U.S. statutory rate	35.0 %	35.0	35.0
International operations [1]	(12.8)	(17.2)	(15.4)
Research and orphan drug tax credits	(0.4)	(0.4)	(0.2)
U.S. state and local	0.6	(0.1)	0.4
U.S. manufacturing deduction	(0.8)	(0.6)	(0.6)
U.S. tax on international income	0.7	1.3	0.2
Tax benefits on share based compensation	(2.1)	(1.8)	—
U.S. tax benefit on asset/business disposals	(0.8)	—	—
All other	(0.1)	0.3	0.3
TCJA impact	73.3 [2]	—	—
Effective Rate	92.6 %	16.5 %	19.7 %

(1) For all periods presented the Company has subsidiaries operating in Puerto Rico under various tax incentives. In 2017, International operations reflects the impacts of operations in jurisdictions with statutory tax rates different than the United States, particularly Ireland, Switzerland and Puerto Rico, which is a

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favorable impact on the effective tax rate as compared with the 35.0% U.S. statutory rate. The 2017 amount also includes tax cost related to the revaluation of deferred tax balances related to the change in the Belgian statutory tax rate increasing the tax provision by approximately 3.4%.
(2) Includes U.S. state and local taxes provisionally recorded as part TCJA provisional charge which was approximately 0.6% of the total effective tax rate

The 2017 effective tax rate increased by 76.1% as compared to 2016, primarily driven by the enactment of the TCJA in the United States in December 2017. The enactment of the TCJA resulted in a provisional tax charge in the fourth quarter of 2017, of approximately $13.0 billion or approximately 73.3 percentage point increase to the effective tax rate.
The remainder of the increase in the tax rate for 2017 was related to the remeasurement of the Company's deferred tax assets in Belgium, as a result of changes in the Belgian statutory corporate tax rate enacted in December 2017, offset by a tax benefit for the closure of the Company's Animas insulin pump business.
The decrease in the 2016 effective tax rate, as compared to 2015 was primarily attributable to the Company adopting a new accounting standard for the reporting of additional tax benefits on share-based compensation that vested or were exercised during the fiscal year. The remainder of the change in the effective tax rate was primarily related to the lower earnings before taxes in the United States and the settlement of several uncertain tax positions in 2016 versus 2015.
The decrease in the 2015 effective tax rate, as compared to 2014 was primarily attributable to the increases in taxable income in lower tax jurisdictions relative to higher tax jurisdictions and a tax benefit resulting from a restructuring of international affiliates.
The items noted above reflect the key drivers of the rate reconciliation.
Temporary differences and carryforwards for 2017 and 2016 were as follows:

	2017 Deferred Tax		2016 Deferred Tax	
(Dollars in Millions)	Asset	Liability	Asset	Liability
Employee related obligations	$2,259		2,958	
Stock based compensation	507		749	
Depreciation		(9)		(219)
Non-deductible intangibles		(6,506)		(6,672)
International R&D capitalized for tax	1,307		1,264	
Reserves & liabilities	1,718		1,857	
Income reported for tax purposes	1,316		1,309	
Net operating loss carryforward international	762		717	
Undistributed foreign earnings	1,101	(4,457)		
Miscellaneous international	755	(194)	1,135	(15)
Miscellaneous U.S.	177		155	
Total deferred income taxes	$9,902	(11,166)	10,144	(6,906)

The Company has wholly-owned international subsidiaries that have cumulative net losses. The Company believes that it is more likely than not that these subsidiaries will realize future taxable income sufficient to utilize these deferred tax assets.
The following table summarizes the activity related to unrecognized tax benefits:

(Dollars in Millions)	2017	2016	2015
Beginning of year	$3,041	3,080	2,465
Increases related to current year tax positions	332	348	570
Increases related to prior period tax positions	232	11	182
Decreases related to prior period tax positions	(416)(1)	(338)	(79)
Settlements	(2)	(37)	(4)

Lapse of statute of limitations	(36)	(23)	(54)
End of year	$3,151	3,041	3,080

(1) $347 million of this decrease is related to the TCJA

The unrecognized tax benefits of $3.2 billion at December 31, 2017, if recognized, would affect the Company's annual effective tax rate. The Company conducts business and files tax returns in numerous countries and currently has tax audits in progress with a number of tax authorities. The IRS has completed its audit for the tax years through 2009 and is currently auditing the tax years 2010-2012. In other major jurisdictions where the Company conducts business, the years remain open generally back to the year 2004. The Company believes it is possible that audits may be completed by tax authorities in some

jurisdictions over the next twelve months. However, the Company is not able to provide a reasonably reliable estimate of the timing of any other future tax payments relating to uncertain tax positions.

The Company classifies liabilities for unrecognized tax benefits and related interest and penalties as long-term liabilities. Interest expense and penalties related to unrecognized tax benefits are classified as income tax expense. The Company recognized after tax interest expense of $60 million, $7 million and $44 million in 2017, 2016 and 2015, respectively. The total amount of accrued interest was $436 million and $344 million in 2017 and 2016, respectively.

9. Employee Related Obligations

At the end of 2017 and 2016, employee related obligations recorded on the Consolidated Balance Sheets were:

(Dollars in Millions)	2017	2016
Pension benefits	$5,343	4,710
Postretirement benefits	2,331	2,733
Postemployment benefits	2,250	2,050
Deferred compensation	475	534
Total employee obligations	10,399	10,027
Less current benefits payable	325	412
Employee related obligations — non-current	$10,074	9,615

Prepaid employee related obligations of $526 million and $227 million for 2017 and 2016, respectively, are included in Other assets on the Consolidated Balance Sheets.

10. Pensions and Other Benefit Plans

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

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

Retirement plan benefits for employees are primarily based on the employee's compensation during the last three to five years before retirement and the number of years of service. Due to an amendment of the formula used to calculate benefits of the U.S. Defined Benefit Plan that occurred in 2014, benefits for employees hired on or after January 1, 2015, are primarily calculated using employee compensation over total years of service.

International subsidiaries have plans under which funds are deposited with trustees, annuities are purchased under group contracts, or reserves are provided.

The Company does not typically fund retiree health care benefits in advance, but may do so at its discretion. The Company also has the right to modify these plans in the future.

In 2017 and 2016 the Company used December 31, 2017 and December 31, 2016, respectively, as the measurement date for all U.S. and international retirement and other benefit plans.

Net periodic benefit costs for the Company's defined benefit retirement plans and other benefit plans for 2017, 2016 and 2015 include the following components:

	Retirement Plans			Other Benefit Plans		
(Dollars in Millions)	2017	2016	2015	2017	2016	2015
Service cost	$1,080	949	1,037	247	224	257
Interest cost	927	927	988	159	158	186
Expected return on plan assets	(2,041)	(1,962)	(1,809)	(6)	(6)	(7)
Amortization of prior service cost (credit)	2	1	2	(30)	(34)	(33)
Recognized actuarial losses	609	496	745	138	135	201
Curtailments and settlements	17	11	8	—	—	—
Net periodic benefit cost	$594	422	971	508	477	604

57

Explanation of Responses: 19

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

(Dollars in Millions)	
Amortization of net transition obligation	$ —
Amortization of net actuarial losses	931
Amortization of prior service credit	30

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

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

The following table represents the weighted-average actuarial assumptions:

	Retirement Plans			Other Benefit Plans		
Worldwide Benefit Plans	2017	2016	2015	2017	2016	2015
Net Periodic Benefit Cost						
Service cost discount rate	3.59%	3.98	3.78	4.63	4.77	4.31
Interest cost discount rate	3.98%	4.24	3.78	3.94	4.10	4.31
Rate of increase in compensation levels	4.01%	4.02	4.05	4.31	4.32	4.11
Expected long-term rate of return on plan assets	8.43%	8.55	8.53			
Benefit Obligation						
Discount rate	3.30%	3.78	4.11	3.78	4.42	4.63
Rate of increase in compensation levels	3.99%	4.02	4.01	4.30	4.29	4.28

The Company's discount rates are determined by considering current yield curves representing high quality, long-term fixed income instruments. The resulting discount rates are consistent with the duration of plan liabilities. For the fiscal year 2016, the Company changed its methodology in determining service and interest cost from the single weighted average discount rate approach to duration specific spot rates along that yield curve to the plans' liability cash flows, which management has concluded is a more precise estimate. Prior to this change in methodology, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. The Company has accounted for this change as a change in accounting estimate and, accordingly, has accounted for it on a prospective basis. This change does not impact the benefit obligation and did not have a material impact to the 2016 full year results.

The expected rates of return on plan asset assumptions represent the Company's assessment of long-term returns on diversified investment portfolios globally. The assessment is determined using projections from external financial sources, long-term historical averages, actual returns by asset class and the various asset class allocations by market.

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

Health Care Plans	2017	2016
Health care cost trend rate assumed for next year	6.33 %	6.32 %
Rate to which the cost trend rate is assumed to decline (ultimate trend)	4.55 %	4.50 %
Year the rate reaches the ultimate trend rate	2038	2038

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

(Dollars in Millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Health Care Plans		
Total interest and service cost	$ 29	(23)
Post-retirement benefit obligation	$ 355	(291)

The following table sets forth information related to the benefit obligation and the fair value of plan assets at year-end 2017 and 2016 for the Company's defined benefit retirement plans and other post-retirement plans:

	Retirement Plans		Other Benefit Plans	
(Dollars in Millions)	2017	2016	2017	2016
Change in Benefit Obligation				
Projected benefit obligation — beginning of year	$28,116	25,855	4,605	4,669
Service cost	1,080	949	247	224
Interest cost	927	927	159	158
Plan participant contributions	60	54	—	—
Amendments	(7)	(48)	(17)	—
Actuarial (gains) losses	2,996	2,302	(166)	(73)
Divestitures & acquisitions	201	(24)	88	—
Curtailments, settlements & restructuring	(35)	(25)	2	—
Benefits paid from plan*	(1,050)	(1,210)	(351)	(378)
Effect of exchange rates	933	(664)	15	5
Projected benefit obligation — end of year	$33,221	28,116	4,582	4,605
Change in Plan Assets				
Plan assets at fair value — beginning of year	$23,633	22,254	75	74
Actual return on plan assets	4,274	2,286	12	7
Company contributions	664	838	545	372
Plan participant contributions	60	54	—	—
Settlements	(32)	(25)	—	—
Divestitures & acquisitions	173	(24)	—	—
Benefits paid from plan assets*	(1,050)	(1,210)	(351)	(378)
Effect of exchange rates	682	(540)	—	—
Plan assets at fair value — end of year	$28,404	23,633	281	75
Funded status — end of year	$(4,817)	(4,483)	(4,301)	(4,530)
Amounts Recognized in the Company's Balance Sheet consist of the following:				
Non-current assets	$526	227	—	—
Current liabilities	(92)	(86)	(228)	(315)
Non-current liabilities	(5,251)	(4,624)	(4,073)	(4,215)
Total recognized in the consolidated balance sheet — end of year	$(4,817)	(4,483)	(4,301)	(4,530)
Amounts Recognized in Accumulated Other Comprehensive Income consist of the following:				
Net actuarial loss	$8,140	7,749	1,500	1,804
Prior service cost (credit)	(25)	(12)	(137)	(150)
Unrecognized net transition obligation	—	—	—	—
Total before tax effects	$8,115	7,737	1,363	1,654
Accumulated Benefit Obligations — end of year	$29,793	25,319		

*In 2016, the Company offered a voluntary lump-sum payment option below a pre-determined threshold for certain eligible former employees who are vested participants of the U.S. Qualified Defined Benefit Pension Plan. The distribution of the lump-sums was completed by the end of fiscal 2017. The amounts distributed in 2017 and 2016 were approximately $127 million and $420 million, respectively. These distributions from the plan did not have a material impact on the Company's financial position.

60

Explanation of Responses: 23

	Retirement Plans		Other Benefit Plans	
(Dollars in Millions)	2017	2016	2017	2016
Amounts Recognized in Net Periodic Benefit Cost and Other Comprehensive Income				
Net periodic benefit cost	$594	422	508	477
Net actuarial (gain) loss	740	1,965	(169)	(72)
Amortization of net actuarial loss	(609)	(496)	(138)	(135)
Prior service cost (credit)	(7)	(48)	(17)	—
Amortization of prior service (cost) credit	(2)	(1)	30	34
Effect of exchange rates	256	(218)	3	(1)
Total loss/(income) recognized in other comprehensive income, before tax	$378	1,202	(291)	(174)
Total recognized in net periodic benefit cost and other comprehensive income	$972	1,624	217	303

The Company plans to continue to fund its U.S. Qualified Plans to comply with the Pension Protection Act of 2006. International Plans are funded in accordance with local regulations. Additional discretionary contributions are made when deemed appropriate to meet the long-term obligations of the plans. For certain plans, funding is not a common practice, as funding provides no economic benefit. Consequently, the Company has several pension plans that are not funded.

In 2017, the Company contributed $72 million and $592 million to its U.S. and international pension plans, respectively.

The following table displays the funded status of the Company's U.S. Qualified & Non-Qualified pension plans and international funded and unfunded pension plans at December 31, 2017 and December 31, 2016, respectively:

	U.S. Plans				International Plans			
	Qualified Plans		Non-Qualified Plans		Funded Plans		Unfunded Plans	
(Dollars in Millions)	2017	2016	2017	2016	2017	2016	2017	2016
Plan Assets	$18,681	16,057	—	—	9,723	7,576	—	—
Projected Benefit Obligation	19,652	16,336	2,257	1,905	10,863	9,502	449	373
Accumulated Benefit Obligation	17,654	14,759	1,849	1,568	9,893	8,663	397	329
Over (Under) Funded Status								
Projected Benefit Obligation	$(971)	(279)	(2,257)	(1,905)	(1,140)	(1,926)	(449)	(373)
Accumulated Benefit Obligation	1,027	1,298	(1,849)	(1,568)	(170)	(1,087)	(397)	(329)

Plans with accumulated benefit obligations in excess of plan assets have an accumulated benefit obligation, projected benefit obligation and plan assets of $3.8 billion, $4.6 billion and $0.7 billion, respectively, at the end of 2017, and $8.8 billion, $9.9 billion and $5.6 billion, respectively, at the end of 2016.

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

(Dollars in Millions)	2018	2019	2020	2021	2022	2023-2027
Projected future benefit payments						
Retirement plans	$970	1,007	1,057	1,131	1,190	7,062
Other benefit plans	$322	312	306	301	297	1,395

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

(Dollars in Millions)	2018	2019	2020	2021	2022	2023-2027
Projected future contributions	$ 88	89	94	100	108	651

Explanation of Responses:

61

Explanation of Responses: 25

Each pension plan is overseen by a local committee or board that is responsible for the overall administration and investment of the pension plans. In determining investment policies, strategies and goals, each committee or board considers factors including, local pension rules and regulations; local tax regulations; availability of investment vehicles (separate accounts, commingled accounts, insurance funds, etc.); funded status of the plans; ratio of actives to retirees; duration of liabilities; and other relevant factors including: diversification, liquidity of local markets and liquidity of base currency. A majority of the Company's pension funds are open to new entrants and are expected to be on-going plans. Permitted investments are primarily liquid and/or listed, with little reliance on illiquid and non-traditional investments such as hedge funds.

The Company's retirement plan asset allocation at the end of 2017 and 2016 and target allocations for 2018 are as follows:

	Percent of Plan Assets		Target Allocation
	2017	2016	2018
Worldwide Retirement Plans			
Equity securities	76%	75%	73%
Debt securities	24	25	27
Total plan assets	100%	100%	100%

Determination of Fair Value of Plan Assets

The Plan has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon models that primarily use, as inputs, market-based or independently sourced market parameters, including yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves.

While the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy

The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described in the table below with Level 1 having the highest priority and Level 3 having the lowest.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for the investments measured at fair value.

- Short-term investment funds — Cash and quoted short-term instruments are valued at the closing price or the amount held on deposit by the custodian bank. Other investments are through investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in a market that is not active and classified as Level 2.
- Government and agency securities — A limited number of these investments are valued at the closing price reported on the major market on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. When quoted market prices for a security are not available in an active market, they are classified as Level 2.
- Debt instruments — A limited number of these investments are valued at the closing price reported on the major market on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified as Level 1. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified as Level 2. Level 3 debt instruments are priced based on unobservable inputs.
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Equity securities — Equity securities are valued at the closing price reported on the major market on which the individual securities are traded. Substantially all common stock is classified within Level 1 of the valuation hierarchy.

- Commingled funds — These investment vehicles are valued using the NAV provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Assets in the Level 2 category have a quoted market price.

- Insurance contracts — The instruments are issued by insurance companies. The fair value is based on negotiated value and the underlying investments held in separate account portfolios as well as considering the credit worthiness of the issuer. The underlying investments are government, asset-backed and fixed income securities. In general, insurance contracts are classified as Level 3 as there are no quoted prices nor other observable inputs for pricing.
- Other assets — Other assets are represented primarily by limited partnerships and real estate investments, as well as commercial loans and commercial mortgages that are not classified as corporate debt. Other assets that are exchange listed and actively traded are classified as Level 1, while inactively traded assets are classified as Level 2.

The following table sets forth the Retirement Plans' investments measured at fair value as of December 31, 2017 and December 31, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs[a] (Level 3)		Investments Measured at Net Asset Value		Total Assets	
(Dollars in Millions)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Short-term investment funds	$429	145	427	652	—	—	—	—	856	797
Government and agency securities	—	—	3,094	2,655	—	—	—	—	3,094	2,655
Debt instruments	—	—	2,013	1,237	—	—	—	—	2,013	1,237
Equity securities	13,848	11,433	—	12	—	—	—	—	13,848	11,445
Commingled funds	—	—	1,780	1,316	57	—	6,158	5,767	7,995	7,083
Insurance contracts	—	—	—	—	199	24	—	—	199	24
Other assets	—	—	121	—	—	—	278	392	399	392
Investments at fair value	$14,277	11,578	7,435	5,872	256	24	6,436	6,159	28,404	23,633

[a] The activity for the Level 3 assets is not significant for all years presented.

The Company's Other Benefit Plans are unfunded except for U.S. commingled funds (Level 2) of $81 million and $75 million and U.S. short-term investment funds (Level 2) of $200 million and $0 at December 31, 2017 and December 31, 2016, respectively.

The fair value of Johnson & Johnson Common Stock directly held in plan assets was $938 million (3.3% of total plan assets) at December 31, 2017 and $847 million (3.6% of total plan assets) at December 31, 2016.

11. Savings Plan

The Company has voluntary 401(k) savings plans designed to enhance the existing retirement programs covering eligible employees. The Company matches a percentage of each employee’s contributions consistent with the provisions of the plan for which he/she is eligible. Total Company matching contributions to the plans were $214 million, $191 million and $187 million in 2017, 2016 and 2015, respectively.

12. Capital and Treasury Stock

Changes in treasury stock were:

(Amounts in Millions Except Treasury Stock Shares in Thousands)	Treasury Stock Shares	Amount
Balance at December 28, 2014	336,620	$19,891
Employee compensation and stock option plans	(24,413)	(2,497)
Repurchase of common stock	52,474	5,290
Balance at January 3, 2016	364,681	22,684
Employee compensation and stock option plans	(30,839)	(3,311)
Repurchase of common stock	79,490	8,979
Balance at January 1, 2017	413,332	28,352
Employee compensation and stock option plans	(25,508)	(3,156)
Repurchase of common stock	49,494	6,358
Balance at December 31, 2017	437,318	$31,554

Aggregate shares of common stock issued were approximately 3,119,843,000 shares at the end of 2017, 2016 and 2015.

Cash dividends paid were $3.32 per share in 2017, compared with dividends of $3.15 per share in 2016, and $2.95 per share in 2015.

On October 13, 2015, the Company announced that its Board of Directors approved a share repurchase program, authorizing the Company to purchase up to $10.0 billion of the Company's shares of common stock. This share repurchase program was completed as of July 2, 2017.

On July 21, 2014, the Company announced that its Board of Directors approved a share repurchase program, authorizing the Company to purchase up to $5.0 billion of the Company's shares of common stock. This share repurchase program was completed on April 28, 2015.

13. Accumulated Other Comprehensive Income (Loss)

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

(Dollars in Millions)	Foreign Currency Translation	Gain/(Loss) On Securities	Employee Benefit Plans	Gain/ (Loss) On Derivatives & Hedges	Total Accumulated Other Comprehensive Income (Loss)
December 28, 2014	$ (4,803)	257	(6,317)	141	(10,722)
Net 2015 changes	(3,632)	347	1,019	(177)	(2,443)
January 3, 2016	(8,435)	604	(5,298)	(36)	(13,165)
Net 2016 changes	(612)	(193)	(682)	(249)	(1,736)
January 1, 2017	(9,047)	411	(5,980)	(285)	(14,901)
Net 2017 changes	1,696	(179)	(170)	355	1,702
December 31, 2017	$ (7,351)	232	(6,150)	70	(13,199)

Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation is not adjusted for income taxes where it relates to permanent investments in international subsidiaries. For additional details on comprehensive income see the Consolidated Statements of Comprehensive Income.

Details on reclassifications out of Accumulated Other Comprehensive Income:

Gain/(Loss) On Securities - reclassifications released to Other (income) expense, net.
Employee Benefit Plans - reclassifications are included in net periodic benefit cost. See Note 10 for additional details.
Gain/(Loss) On Derivatives & Hedges - reclassifications to earnings are recorded in the same account as the hedged transaction. See Note 6 for additional details.

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14. International Currency Translation

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

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

A rollforward of the changes during 2017, 2016 and 2015 for foreign currency translation adjustments is included in Note 13.

Net currency transaction gains and losses included in Other (income) expense were losses of $216 million, $289 million and $104 million in 2017, 2016 and 2015, respectively.

15. Earnings Per Share

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal years ended December 31, 2017, January 1, 2017 and January 3, 2016:

(In Millions Except Per Share Amounts)	2017	2016	2015
Basic net earnings per share	$ 0.48	6.04	5.56
Average shares outstanding — basic	2,692.0	2,737.3	2,771.8
Potential shares exercisable under stock option plans	139.7	142.4	141.5
Less: shares repurchased under treasury stock method	(87.3)	(92.1)	(102.6)
Convertible debt shares	0.9	1.3	2.2
Adjusted average shares outstanding — diluted	2,745.3	2,788.9	2,812.9
Diluted net earnings per share	$ 0.47	5.93	5.48

The diluted net earnings per share calculation included the dilutive effect of convertible debt that is offset by the related reduction in interest expense of $1 million after-tax for year 2017, $2 million for year 2016 and $3 million for year 2015.

The diluted net earnings per share calculation for 2017, 2016 and 2015 included all shares related to stock options, as the exercise price of all options was less than the average market value of the Company's stock.

16. Rental Expense and Lease Commitments

Rentals of space, vehicles, manufacturing equipment and office and data processing equipment under operating leases were approximately $372 million, $330 million and $316 million in 2017, 2016 and 2015, respectively.

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2017 are:

(Dollars in Millions)

2018	2019	2020	2021	2022	After 2022	Total
$227	184	143	106	76	103	839

Commitments under capital leases are not significant.

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

At December 31, 2017, the Company had 2 stock-based compensation plans. The shares outstanding are for contracts under the Company's 2005 Long-Term Incentive Plan and the 2012 Long-Term Incentive Plan. The 2005 Long-Term Incentive Plan expired April 26, 2012. All options and restricted shares granted subsequent to that date were under the 2012 Long-Term Incentive Plan. Under the 2012 Long-Term Incentive Plan, the Company may issue up to 650

million shares of common stock, plus any shares canceled, expired, forfeited, or not issued from the 2005 Long-Term Incentive Plan subsequent to April 26, 2012. Shares available for future grants under the 2012 Long-Term Incentive Plan were 389 million at the end of 2017.

The compensation cost that has been charged against income for these plans was $962 million, $878 million and $874 million for 2017, 2016 and 2015, respectively. The total income tax benefit recognized in the income statement for share-based compensation costs was $275 million, $256 million and $253 million for 2017, 2016 and 2015, respectively. An additional tax

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benefit of $353 million was recognized in 2016 due to the adoption of a new accounting standard for the reporting of additional tax benefits on share-based compensation. The total unrecognized compensation cost was $798 million, $749 million and $744 million for 2017, 2016 and 2015, respectively. The weighted average period for this cost to be recognized was 1.76 years, 1.09 years and 0.98 years for 2017, 2016, and 2015, respectively. Share-based compensation costs capitalized as part of inventory were insignificant in all periods.

The Company settles employee benefit equity issuances with treasury shares. Treasury shares are replenished throughout the year for the number of shares used to settle employee benefit equity issuances.

Stock Options

Stock options expire 10 years from the date of grant and vest over service periods that range from 6 months to 4 years. All options are granted at the average of the high and low prices of the Company's Common Stock on the New York Stock Exchange on the date of grant.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. For 2017, 2016 and 2015 grants, expected volatility represents a blended rate of 10-year weekly historical overall volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. For all grants, historical data is used to determine the expected life of the option. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

The average fair value of options granted was $13.38, $10.01 and $10.68, in 2017, 2016 and 2015, respectively. The fair value was estimated based on the weighted average assumptions of:

	2017	2016	2015
Risk-free rate	2.25 %	1.51 %	1.77 %
Expected volatility	15.30%	15.76%	15.48%
Expected life (in years)	7.0	7.0	7.0
Expected dividend yield	2.90 %	3.10 %	2.90 %

A summary of option activity under the Plan as of December 31, 2017, January 1, 2017 and January 3, 2016, and changes during the years ending on those dates is presented below:

(Shares in Thousands)	Outstanding Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (Dollars in Millions)
Shares at December 28, 2014	115,712	$ 70.37	$ 4,014
Options granted	20,484	100.06	
Options exercised	(16,683)	62.53	
Options canceled/forfeited	(2,996)	82.22	
Shares at January 3, 2016	116,517	76.41	3,065
Options granted	22,491	101.87	
Options exercised	(22,547)	65.66	
Options canceled/forfeited	(3,006)	92.83	
Shares at January 1, 2017	113,455	83.16	3,636
Options granted	19,287	115.67	
Options exercised	(18,975)	70.87	
Options canceled/forfeited	(2,461)	101.40	
Shares at December 31, 2017	111,306	$ 90.48	$ 5,480

The total intrinsic value of options exercised was $1,060 million, $980 million and $644 million in 2017, 2016 and 2015, respectively.

The following table summarizes stock options outstanding and exercisable at December 31, 2017:

(Shares in Thousands)	Outstanding			Exercisable	
Exercise Price Range	Options	Average Life[1]	Average Exercise Price	Options	Average Exercise Price
$52.13-$62.20	12,148	1.7	$60.37	12,148	$60.37
$62.62-$65.62	9,548	3.0	$63.91	9,547	$63.91
$66.07-$72.54	14,816	5.0	$72.53	14,816	$72.53
$90.44-$100.48	35,035	6.6	$95.48	15,843	$90.49
$101.87-$115.67	39,759	8.6	$108.35	67	$105.91
	111,306	6.3	$90.48	52,421	$73.61

[1] Average contractual life remaining in years.

Stock options outstanding at January 1, 2017 and January 3, 2016 were 113,455 and an average life of 6.2 years and 116,517 and an average life of 5.9 years, respectively. Stock options exercisable at January 1, 2017 and January 3, 2016 were 50,414 at an average price of $65.77 and 48,345 at an average price of $62.26, respectively.

Restricted Share Units and Performance Share Units

The Company grants restricted share units which vest over service periods that range from 6 months to 3 years. The Company also grants performance share units, which are paid in shares of Johnson & Johnson Common Stock after the end of a three-year performance period. Whether any performance share units vest, and the amount that does vest, is tied to the completion of service periods that range from 6 months to 3 years and the achievement, over a three-year period, of three equally-weighted goals that directly align with or help drive long-term total shareholder return: operational sales, adjusted operational earnings per share, and relative total shareholder return. The number of shares actually earned at the end of the three-year period will vary, based only on actual performance, from 0% to 200% of the target number of performance share units granted. In the fourth quarter of 2017, the Company modified the restricted share units that are scheduled to vest between January 1, 2018 and March 15, 2018. This modification guaranteed a minimum aggregate value, below the market value of the total expected payout amount, for all awards expected to vest during this period. The amount that was committed was not material to the Company’s overall financial position.

A summary of the restricted share units and performance share units activity under the Plans as of December 31, 2017 is presented below:

(Shares in Thousands)	Outstanding Restricted Share Units	Outstanding Performance Share Units
Shares at January 1, 2017	21,061	2,415
Granted	7,248	1,276
Issued	(7,205)	(1,361)
Canceled/forfeited/adjusted	(943)	295
Shares at December 31, 2017	20,161	2,625

The average fair value of the restricted share units granted was $107.69, $92.45 and $91.65 in 2017, 2016 and 2015, respectively, using the fair market value at the date of grant. The fair value of restricted share units was discounted for dividends, which are not paid on the restricted share units during the vesting period. The fair value of restricted share units issued was $596.5 million, $587.7 million and $597.6 million in 2017, 2016 and 2015, respectively.

The weighted average fair value of the performance share units granted was $114.13, $105.30 and $93.54 in 2017, 2016 and 2015, calculated using the weighted average fair market value for each of the three component goals at the date of grant.

The fair values for the sales and earnings per share goals of each performance share unit were estimated on the date of grant using the fair market value of the shares at the time of the award discounted for dividends, which are not paid on the performance share units during the vesting period. The fair value for the relative total shareholder return goal of each performance share unit was estimated on the date of grant using the Monte Carlo valuation model. The fair value of performance share units issued was $132.5 million, $127.7 million and $16.7 million in 2017, 2016 and 2015, respectively.

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18. Segments of Business and Geographic Areas

	Sales to Customers		
(Dollars in Millions)	2017	2016	2015
Consumer —			
United States	$5,565	5,420	5,222
International	8,037	7,887	8,285
Total	13,602	13,307	13,507
Pharmaceutical —			
United States	21,474	20,125	18,333
International	14,782	13,339	13,097
Total	36,256	33,464	31,430
Medical Devices —			
United States	12,824	12,266	12,132
International	13,768	12,853	13,005
Total	26,592	25,119	25,137
Worldwide total	$76,450	71,890	70,074

	Income Before Tax			Identifiable Assets	
(Dollars in Millions)	2017 [3]	2016 [4]	2015 [5]	2017	2016
Consumer	$2,524	2,441	1,787	$25,030	23,971
Pharmaceutical	11,083	12,827	11,734	59,450	27,477
Medical Devices	5,392	5,578	6,826	45,413	39,773
Total	18,999	20,846	20,347	129,893	91,221
Less: Expense not allocated to segments [1]	1,326	1,043	1,151		
General corporate [2]				27,410	49,987
Worldwide total	$17,673	19,803	19,196	$157,303	141,208

	Additions to Property, Plant & Equipment			Depreciation and Amortization		
(Dollars in Millions)	2017	2016	2015	2017	2016	2015
Consumer	$485	486	544	$674	608	559
Pharmaceutical	936	927	1,063	2,416	886	929
Medical Devices	1,566	1,472	1,631	2,216	1,928	1,945
Segments total	2,987	2,885	3,238	5,306	3,422	3,433
General corporate	292	341	225	336	332	313
Worldwide total	$3,279	3,226	3,463	$5,642	3,754	3,746

	Sales to Customers			Long-Lived Assets [6]	
(Dollars in Millions)	2017	2016	2015	2017	2016
United States	$39,863	37,811	35,687	$38,556	36,934
Europe	17,126	15,770	15,995	56,677	21,996
Western Hemisphere excluding U.S.	6,041	5,734	6,045	2,990	2,961
Asia-Pacific, Africa	13,420	12,575	12,347	2,773	2,512
Segments total	76,450	71,890	70,074	100,996	64,403
General corporate				1,143	1,190
Other non long-lived assets				55,164	75,615
Worldwide total	$76,450	71,890	70,074	$157,303	141,208

Explanation of Responses:

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68

Explanation of Responses: 38

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

Export sales are not significant. In 2017, the Company had two wholesalers distributing products for all three segments that represented approximately 14.0% and 10.0% of the total consolidated revenues. In 2016, the Company had two wholesalers distributing products for all three segments that represented approximately 13.5% and 10.7% of the total consolidated revenues. In 2015, the Company had one wholesaler distributing products for all three segments that represented approximately 12.5% of the total consolidated revenues.

(1) Amounts not allocated to segments include interest (income) expense and general corporate (income) expense.

(2) General corporate includes cash, cash equivalents and marketable securities.

(3) The Pharmaceutical segment includes $797 million for Actelion acquisition related costs, an in-process research and development expense of $396 million and net litigation expense of $117 million. The Medical Devices segment includes net litigation expense of $1,139 million, a restructuring related charge of $760 million, an asset impairment of $215 million primarily related to the insulin pump business and $140 million for AMO acquisition related costs. The Medical Devices segment includes a gain of $0.7 billion from the divestiture of Codman Neurosurgery. The Consumer segment includes a gain of $0.5 billion from the divestiture of COMPEED®.

(4) Includes net litigation expense of $806 million and a restructuring related charge of $685 million in the Medical Devices segment. The Pharmaceutical segment includes a positive adjustment of $0.5 billion to previous reserve estimates, an in-process research and development expense of $29 million, and gains from the divestitures of the controlled substance raw material and active pharmaceutical ingredient (API) business and certain anesthetic products in Europe.

(5) The Medical Devices segment includes a restructuring related charge of $590 million, an intangible asset write-down of $346 million related to Acclarent, Synthes integration costs of $196 million and $148 million expense for the cost associated with the DePuy ASR™ Hip program. Includes $224 million of in-process research and development expense, comprised of $214 million and $10 million in the Pharmaceutical and Medical Devices segments, respectively. Includes net litigation expense of $141 million comprised of $136 million in the Pharmaceutical segment and $5 million in the Medical Devices segment, which included the gain from the litigation settlement agreement with Guidant for $600 million. The Medical Devices Segment includes a gain of $1.3 billion from the divestiture of the Cordis business. The Pharmaceutical segment includes a gain of $981 million from the U.S. divestiture of NUCYNTA® and a positive adjustment of $0.5 billion to previous reserve estimates, including Managed Medicaid rebates. The Consumer segment includes a gain of $229 million from the divestiture of SPLENDA® brand.

(6) Long-lived assets include property, plant and equipment, net for 2017, and 2016 of $17,005 and $15,912, respectively, and intangible assets and goodwill, net for 2017 and 2016 of $85,134 and $49,681, respectively.

19. Selected Quarterly Financial Data (unaudited)

Selected unaudited quarterly financial data for the years 2017 and 2016 are summarized below:

	2017				2016			
(Dollars in Millions Except Per Share Data)	First Quarter (1)	Second Quarter (2)	Third Quarter (3)	Fourth Quarter (4)	First Quarter (5)	Second Quarter (6)	Third Quarter (7)	Fourth Quarter (8)
Segment sales to customers								
Consumer	$3,228	3,478	3,356	3,540	3,195	3,419	3,261	3,432
Pharmaceutical	8,245	8,635	9,695	9,681	8,178	8,654	8,400	8,232
Medical Devices	6,293	6,726	6,599	6,974	6,109	6,409	6,159	6,442
Total sales	17,766	18,839	19,650	20,195	17,482	18,482	17,820	18,106
Gross profit	12,380	13,016	12,748	12,952	12,153	13,146	12,334	12,572
Earnings before provision for taxes on income	5,575	4,748	4,790	2,560	5,294	4,904	5,281	4,324
Net earnings (loss)	4,422	3,827	3,764	(10,713)	4,457	3,997	4,272	3,814
Basic net earnings (loss) per share	$1.63	1.42	1.40	(3.99)	1.62	1.46	1.56	1.41
Diluted net earnings (loss) per share	$1.61	1.40	1.37	(3.99)	1.59	1.43	1.53	1.38

(1) The first quarter of 2017 includes a restructuring charge of $121 million after-tax ($161 million before-tax) and an AMO acquisition related cost of $251 million after-tax ($38 million before-tax).

(2) The second quarter of 2017 includes a net litigation expense of $352 million after-tax ($493 million before-tax), Actelion acquisition related costs of $199 million after-tax ($213 million before-tax) a restructuring charge of $101 million after-tax ($128 million before-tax) and an asset impairment charge of $125 million after-tax ($182 million before-tax).

(3) The third quarter of 2017 includes a net litigation expense of $97 million after-tax ($118 million before-tax), Actelion acquisition related costs of $255 million after-tax ($367 million before-tax) and a restructuring charge of $136 million after-tax ($187 million before-tax).

(4) The fourth quarter of 2017 includes a net litigation expense of $506 million after-tax ($645 million before-tax), Actelion acquisition related costs of $313 million after-tax ($217 million before-tax), a restructuring charge of $237 million after-tax ($284 million before-tax), an in-process research and development expense of $266 million after-tax ($408 million before-tax) and an after-tax benefit of $116 million related to the insulin pump business. Additionally, the fourth quarter of 2017 includes a provisional charge of $13.6 billion for recently enacted tax legislation.

(5) The first quarter of 2016 includes a restructuring charge of $120 million after-tax ($137 million before-tax) and net litigation expense of $56 million after-tax ($66 million before-tax).

(6) The second quarter of 2016 includes a restructuring charge of $97 million after-tax ($141 million before-tax) and net litigation expense of $493 million after-tax ($600 million before-tax).

(7) The third quarter of 2016 includes a restructuring charge of $76 million after-tax ($109 million before-tax) and net litigation expense of $46 million after-tax ($55 million before-tax).

(8) The fourth quarter of 2016 includes a restructuring charge of $251 million after-tax ($298 million before-tax) and net litigation expense of $80 million after-tax ($96 million before-tax).

20. Business Combinations and Divestitures

Certain businesses were acquired for $35,151 million in cash and $1,786 million of liabilities assumed during 2017. These acquisitions were accounted for using the acquisition method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2017 acquisitions primarily included: Actelion Ltd an established leading franchise of differentiated, innovative products for pulmonary arterial hypertension (PAH); Abbott Medical Optics (AMO), a wholly-owned subsidiary of Abbott Laboratories, which included ophthalmic products related to: cataract surgery, laser refractive surgery and consumer eye health; Neuravi Limited, a privately-held medical device company that develops and markets medical devices for neurointerventional therapy; TearScience Inc., a manufacturer of products dedicated to treating meibomian gland dysfunction; Sightbox, Inc., a privately-held company that developed a subscription vision care service that connects consumers with eye care professionals and a supply of contact lenses; Torax Medical, Inc., a privately-held medical device company that manufactures and markets the LINX™ Reflux Management System for the surgical treatment of gastroesophageal reflux disease and Megadyne Medical Products, Inc., a privately-held medical device company that develops, manufactures and markets electrosurgical tools.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $34,379 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $1,139 million has been identified as the value of IPR&D primarily associated with the acquisition of Actelion Ltd. The value of the IPR&D was calculated using cash flow projections discounted for the inherent risk in the projects.

During 2017, the Company completed the acquisition of Actelion Ltd through an all cash tender offer in Switzerland for $280 per share, amounting to $29.6 billion, net of cash acquired. As part of the transaction, immediately prior to the completion of the acquisition, Actelion spun out its drug discovery operations and early-stage clinical development assets into a newly created Swiss biopharmaceutical company, Idorsia Ltd. The shares of Idorsia are listed on the SIX Swiss Exchange (SIX). The Company currently holds 9.9% of the shares of Idorsia and has rights to an additional 22.1% of Idorsia equity through a convertible loan with a principal amount of approximately $0.5 billion. The convertible loan may be converted into Idorsia shares as follows: (i) up to an aggregate shareholding of 16% of Idorsia shares as a result of certain shareholders holding more than 20% of the issued Idorsia shares, and (ii) up to the balance of the remaining amount within 20 business days of the maturity date of the convertible loan, which has a 10 year term, or if Idorsia undergoes a change of control transaction. The investment in Idorsia was recorded as a cost method investment in Other assets in the Company's consolidated Balance Sheet. The Company also exercised the option acquired on ACT-132577, a product within Idorsia being developed for resistant hypertension currently in phase 2 of clinical development. The Company has also entered into an agreement to provide Idorsia with a Swiss franc denominated credit facility of approximately $250 million. As of December 31, 2017, Idorsia has not made any draw-downs under the credit facility. Actelion has entered into a transitional services agreement with Idorsia. Actelion has established a leading franchise of differentiated, innovative products for pulmonary arterial hypertension (PAH) that are highly complementary to the existing portfolio of the Company. The addition of Actelion’s specialty in-market medicines and late-stage products is consistent with the Company's efforts to grow in attractive and complementary therapeutic areas and serve patients with serious illnesses and significant unmet medical need.

The Company is still finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. The allocation of the purchase price included in the current period balance sheet is based on the best estimate of management and is preliminary and subject to change. To assist management in the allocation, the Company engaged valuation specialists to prepare appraisals. The Company will finalize the amounts recognized as the information necessary to complete the analysis is obtained. The Company expects to finalize these amounts as soon as possible but no later than one year from the acquisition date.

The following table presents the preliminary amounts recognized for assets acquired and liabilities assumed for Actelion as of the acquisition date as well as the adjustments made up to December 31, 2017:

(Dollars in Millions)	June 16, 2017	December 31, 2017
Cash & Cash equivalents	$469	469
Inventory[(1)]	759	759
Accounts Receivable	485	485
Other current assets	93	93
Property, plant and equipment	104	104
Goodwill	5,986	6,161
Intangible assets	25,010	25,010
Deferred Taxes	3	99
Other non-current assets	19	19
Total Assets Acquired	32,928	33,199
Current liabilities	531	956
Deferred Taxes	1,960	1,776
Other non-current liabilities	383	413
Total Liabilities Assumed	2,874	3,145
Net Assets Acquired	$30,054	30,054

[(1)] Includes adjustment of $642 million to write-up the acquired inventory to its estimated fair value.

Subsequent to the date of acquisition there was an adjustment of $0.2 billion to the deferred taxes and $0.4 billion to the current liabilities with the offset to goodwill.

The assets acquired are recorded in the Pharmaceutical segment. The acquisition of Actelion resulted in approximately $6.2 billion of goodwill. The goodwill is primarily attributable to synergies expected to arise from the acquisition. The goodwill is not expected to be deductible for tax purposes.

The purchase price allocation to the identifiable intangible assets is as follows:

(Dollars in Millions)	
Intangible assets with definite lives:	
Patents and trademarks	$24,230
Total amortizable intangibles	24,230
In-process research and development	780
Total intangible assets	$25,010

The patents and trademarks acquired are comprised of developed technology with a weighted average life of 9 years and was primarily based on the patent life of the marketed products. The intangible assets with definite lives were assigned asset lives ranging from 4 to 10 years. The in-process research and development intangible assets were valued for technology programs for unapproved products.

The value of the IPR&D was calculated using probability adjusted cash flow projections discounted for the risk inherent in such projects. The discount rate applied was 9%.

The acquisition was accounted for using the acquisition method and, accordingly, the results of operations of Actelion were reported in the Company's financial statements beginning on June 16, 2017, the date of acquisition. For the year ended December 31, 2017 total sales and a net loss for Actelion from the date of acquisition were $1.4 billion and $1.4 billion, respectively.

The following table provides pro forma results of operations for the fiscal year ended December 31, 2017 and January 1, 2017, as if Actelion had been acquired as of January 4, 2016. The pro forma results include the effect of certain purchase accounting adjustments such as the estimated changes in depreciation and amortization expense on the acquired tangible and intangible assets. However, pro forma results do not include any anticipated cost savings or other effects of the planned

integration of Actelion. Accordingly, such amounts are not necessarily indicative of the results if the acquisition had occurred on the dates indicated or which may occur in the future.

	Unaudited Pro forma Consolidated Results	
(Dollars in Millions Except Per Share Data)	2017	2016
Net Sales	77,681	74,339
Net Earnings	1,509	13,916
Diluted Net Earnings per Common Share	0.55	4.99

In 2017, the Company recorded Actelion acquisition related costs before tax of approximately $0.8 billion, which was recorded in Other (income)/expense and Cost of products sold.

During 2017, the Company acquired Abbott Medical Optics (AMO), a wholly-owned subsidiary of Abbott Laboratories, for $4.3 billion, net of cash acquired. The acquisition included ophthalmic products related to: cataract surgery, laser refractive surgery and consumer eye health. The net purchase price was primarily recorded as amortizable intangible assets for $2.3 billion and goodwill for $1.7 billion. The weighted average life of total amortizable intangibles, the majority being customer relationships, is approximately 14.4 years. The goodwill is primarily attributable to synergies expected to arise from the business acquisition and is not deductible for tax purposes. The intangible assets and goodwill amounts are based on the final purchase price allocation. The assets acquired were recorded in the Medical Devices segment.

Certain businesses were acquired for $4,509 million in cash and $77 million of liabilities assumed during 2016. These acquisitions were accounted for using the acquisition method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2016 acquisitions primarily included: Vogue International LLC, a privately-held company focused on the marketing, development and distribution of salon-influenced and nature inspired hair care and other personal products; NeuWave Medical, Inc., a privately-held medical device company that manufactures and markets minimally invasive soft tissue microwave ablation systems; NeoStrata Company, Inc., a global leader in dermocosmetics, and the global rights for the commercialization of RHINOCORT® allergy spray outside the United States.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $4,077 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill.

The net purchase price for Vogue International LLC of $3.3 billion was primarily recorded as amortizable intangible assets for $2.3 billion and goodwill for $1.1 billion. The weighted average life for the $2.3 billion of total amortizable intangibles is approximately 22 years. The trademark asset values were determined to have definite lives ranging from 10 to 22 years, with the majority being 22 years. The goodwill is primarily attributable to synergies expected to arise from the business acquisition and is expected to be deductible for tax purposes. The assets acquired were recorded in the Consumer segment.

Certain businesses were acquired for $954 million in cash and $220 million of liabilities assumed during 2015. The assumed liabilities primarily represent the fair value of the contingent consideration of $210 million. These acquisitions were accounted for using the acquisition method and, accordingly, results of operations have been included in the financial statements from their respective dates of acquisition.

The 2015 acquisitions primarily included: XO1 Limited, a privately-held biopharmaceutical company developing an anti-thrombin antibody and Novira Therapeutics, Inc., a privately held clinical-stage biopharmaceutical company developing innovative therapies for curative treatment of chronic hepatitis B virus infection.

The excess of purchase price over the estimated fair value of tangible assets acquired amounted to $1,173 million and has been assigned to identifiable intangible assets, with any residual recorded to goodwill. Of this amount, approximately $839 million has been identified as the value of IPR&D primarily associated with the acquisitions of XO1 Limited and Novira Therapeutics, Inc. The value of the IPR&D was calculated using cash flow projections

discounted for the inherent risk in the projects.

The IPR&D related to the acquisition of XO1 Limited of $360 million is associated with a recombinant human antibody developed to mimic the activity of a human antibody which appears to produce an anticoagulated state without predisposition to bleeding. A probability of success factor of 36.0% was used to reflect inherent clinical and regulatory risk. The discount rate applied was 11.75%.

The IPR&D related to the acquisition of Novira Therapeutics, Inc. of $396 million is associated with its lead candidate NVR 3-778 which is an investigational small molecule, direct-acting antiviral, for oral administration in patients with HBV that inhibits the HBV core or capsid protein. A probability of success factor of 51.0% was used to reflect inherent clinical and regulatory risk. The discount rate applied was 16.0%. During 2017, the Company recorded a charge for the impairment of the IPR&D related to the acquisition of Novira Therapeutics, Inc. The impairment was the result of the cancellation of product development due to safety concerns.

In 2012, the Company completed the acquisition of Synthes, Inc. for a purchase price of $20.2 billion in cash and stock. In connection with the acquisition of Synthes, Inc. the Company entered into two accelerated share repurchase (ASR) agreements. In 2013, the Company settled the remaining liabilities under the ASR agreements. While the Company believes that the transactions under each ASR agreement and a series of related internal transactions were consummated in a tax efficient manner in accordance with applicable law, it is possible that the Internal Revenue Service could assert one or more contrary positions to challenge the transactions from a tax perspective. If challenged, an amount up to the total purchase price for the Synthes shares could be treated as subject to applicable U.S. tax at approximately the statutory rate to the Company, plus interest.

With the exception of the Actelion Ltd acquisition, supplemental pro forma information for 2017, 2016 and 2015 in accordance with U.S. GAAP standards related to business combinations, and goodwill and other intangible assets, is not provided, as the impact of the aforementioned acquisitions did not have a material effect on the Company's results of operations, cash flows or financial position.

During the fiscal first quarter of 2017, the Company announced it is engaging in a process to evaluate potential strategic options for the Johnson & Johnson Diabetes Care Companies, specifically LifeScan, Inc., Animas Corporation, and Calibra Medical, Inc. Strategic options may include the formation of operating partnerships, joint ventures or strategic alliances, a sale of the businesses, or other alternatives either separately or together. During the fiscal second quarter of 2017, the Company recorded an impairment charge of $0.2 billion, primarily related to the insulin pump business. During the fiscal fourth quarter of 2017, the Company announced its decision to exit the Animas insulin pump business. The Company is continuing to evaluate potential strategic options for LifeScan, Inc. and determine the best opportunity to drive future growth and maximize shareholder value. There were no assets held for sale as of December 31, 2017 related to the announcement.

During 2017, the Company divestitures primarily included: the Codman Neurosurgery business, to Integra LifeSciences Holdings Corporation and the divestiture of COMPEED® to HRA Pharma. In 2017, the pre-tax gains on the divestitures were approximately $1.3 billion.

During 2016, the Company divestitures included: the controlled substance raw material and active pharmaceutical ingredient (API) business; certain anesthetic products in Europe; and certain non-strategic Consumer brands. In 2016, the pre-tax gains on the divestitures were approximately $0.6 billion.

During 2015, the Company divestitures included: the Cordis business to Cardinal Health; the SPLENDA® brand to Heartland Food Products Group; and the U.S. license rights to NUCYNTA® (tapentadol), NUCYNTA®ER (tapentadol extended-release tablets), and NUCYNTA® (tapentadol) oral solution. In 2015, the pre-tax gains on the divestitures were approximately $2.6 billion.

21. Legal Proceedings

Johnson & Johnson and certain of its subsidiaries are involved in various lawsuits and claims regarding product liability, intellectual property, commercial and other matters; governmental investigations; and other legal proceedings that arise from time to time in the ordinary course of their business.

The Company records accruals for loss contingencies associated with these legal matters when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. As of December 31, 2017, the Company has determined that the liabilities associated with certain litigation matters are probable and can be reasonably estimated. The Company has accrued for these matters and will continue to monitor each related legal issue and adjust accruals as might be warranted based on new information and further developments in accordance with ASC 450-20-25. For these and other litigation and regulatory matters discussed below for which a loss is probable or reasonably possible, the Company is unable to estimate the possible loss or range of loss beyond the amounts already accrued. Amounts accrued for legal contingencies often result from a complex series of judgments about future events and uncertainties that rely heavily on estimates and assumptions. The ability to make such estimates and judgments can be affected by various factors, including whether damages sought in the proceedings are unsubstantiated or indeterminate; scientific and legal discovery has not commenced or is not complete; proceedings are in early stages; matters present legal uncertainties; there are significant facts in dispute; or there are numerous

parties involved.

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

PRODUCT LIABILITY

Johnson & Johnson and certain of its subsidiaries are involved in numerous product liability claims and lawsuits involving multiple products. Claimants in these cases seek substantial compensatory and, where available, punitive damages. While the Company believes it has substantial defenses, it is not feasible to predict the ultimate outcome of litigation. The Company has

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established accruals for product liability claims and lawsuits in compliance with ASC 450-20 based on currently available information, which in some cases may be limited. The Company accrues an estimate of the legal defense costs needed to defend each matter when those costs are probable and can be reasonably estimated. For certain of these matters, the Company has accrued additional amounts such as estimated costs associated with settlements, damages and other losses. To the extent adverse verdicts have been rendered against the Company, the Company does not record an accrual until a loss is determined to be probable and can be reasonably estimated. Product liability accruals can represent projected product liability for thousands of claims around the world, each in different litigation environments and with different fact patterns. Changes to the accruals may be required in the future as additional information becomes available.

The most significant of these cases include: the DePuy ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System; the PINNACLE® Acetabular Cup System; pelvic meshes; RISPERDAL®; XARELTO® ; body powders containing talc, primarily JOHNSONS® Baby Powder; and INVOKANA®. As of December 31, 2017, in the U.S. there were approximately 2,000 plaintiffs with direct claims in pending lawsuits regarding injuries allegedly due to the DePuy ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System, 10,000 with respect to the PINNACLE® Acetabular Cup System, 53,600 with respect to pelvic meshes, 13,700 with respect to RISPERDAL®, 22,900 with respect to XARELTO®, 6,610 with respect to body powders containing talc; and 1,100 with respect to INVOKANA®.

In August 2010, DePuy Orthopaedics, Inc. (DePuy) announced a worldwide voluntary recall of its ASR™ XL Acetabular System and DePuy ASR™ Hip Resurfacing System used in hip replacement surgery. Claims for personal injury have been made against DePuy and Johnson & Johnson. The number of pending lawsuits is expected to fluctuate as certain lawsuits are settled or dismissed and additional lawsuits are filed. Cases filed in federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Northern District of Ohio. Litigation has also been filed in countries outside of the United States, primarily in the United Kingdom, Canada, Australia, Ireland, Germany and Italy. In November 2013, DePuy reached an agreement with a Court-appointed committee of lawyers representing ASR Hip System plaintiffs to establish a program to settle claims with eligible ASR Hip patients in the United States who had surgery to replace their ASR Hips, known as revision surgery, as of August 31, 2013. DePuy reached additional agreements in February 2015 and March 2017, which further extended the settlement program to include ASR Hip patients who had revision surgeries after August 31, 2013 and prior to February 15, 2017. This settlement program has resolved more than 10,000 claims, with more expected from the recent extension, therefore bringing to resolution significant ASR Hip litigation activity in the United States. However, lawsuits in the United States remain, and the settlement program does not address litigation outside of the United States. In Australia, a class action settlement was reached that resolved the claims of the majority of ASR Hip patients in that country. The Company continues to receive information with respect to potential additional costs associated with this recall on a worldwide basis. The Company has established accruals for the costs associated with the United States settlement program and DePuy ASR™ Hip-related product liability litigation.

Claims for personal injury have also been made against DePuy Orthopaedics, Inc. and Johnson & Johnson relating to the PINNACLE® Acetabular Cup System used in hip replacement surgery. The number of pending product liability lawsuits continues to increase, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. Cases filed in federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Northern District of Texas. Litigation has also been filed in some state courts and in countries outside of the United States, primarily in the United Kingdom. In the United Kingdom, a trial is ongoing regarding common issues of liability and a decision is expected in the first half of 2018. The Company has established an accrual for defense costs in connection with product liability litigation associated with the PINNACLE® Acetabular Cup System.

Claims for personal injury have been made against Ethicon, Inc. (Ethicon) and Johnson & Johnson arising out of Ethicon's pelvic mesh devices used to treat stress urinary incontinence and pelvic organ prolapse. The Company continues to receive information with respect to potential costs and additional cases. Cases filed in federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Southern District of West Virginia. The Company has settled or otherwise resolved a majority of the United States cases and the costs associated with these settlements are reflected in the Company's accruals. In addition, class actions and individual personal injury cases or claims have been commenced in various countries outside of the United States, including claims and cases in the United Kingdom, the Netherlands and Belgium, and class actions in Israel, Australia and Canada, seeking damages for alleged injury resulting from Ethicon's pelvic mesh devices. In Australia, a trial of class action issues is ongoing and a decision is expected in 2018. The Company has established accruals with respect to product liability litigation associated with Ethicon's pelvic mesh products.

Claims for personal injury have been made against Janssen Pharmaceuticals, Inc. and Johnson & Johnson arising out of the use of RISPERDAL®, indicated for the treatment of schizophrenia, acute manic or mixed episodes associated with bipolar I disorder and irritability associated with autism, and related compounds. Lawsuits have been primarily filed in state courts in Pennsylvania, California, and Missouri. Other actions are pending in various courts in the United States and Canada. Product

liability lawsuits continue to be filed, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. The Company has established an accrual with respect to product liability litigation associated with RISPERDAL®.

Claims for personal injury arising out of the use of XARELTO®, an oral anticoagulant, have been made against Janssen Pharmaceuticals, Inc. (JPI); Johnson & Johnson; and JPI's collaboration partner for XARELTO® Bayer AG and certain of its affiliates. The number of pending product liability lawsuits continues to increase, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. Cases filed in federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the Eastern District of Louisiana. In addition, cases have been filed in state courts across the United States. Many of these cases have been consolidated into a state mass tort litigation in Philadelphia, Pennsylvania; and there are coordinated proceedings in Delaware, California and Missouri. Class action lawsuits also have been filed in Canada. The Company has established an accrual for defense costs in connection with product liability litigation associated with XARELTO®.

Claims for personal injury have been made against Johnson & Johnson Consumer Inc. and Johnson & Johnson arising out of the use of body powders containing talc, primarily JOHNSONS® Baby Powder. The number of pending product liability lawsuits continues to increase, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. Lawsuits have been primarily filed in state courts in Missouri, New Jersey and California. Cases filed in federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the District of New Jersey. The Company has established an accrual for defense costs in connection with product liability litigation associated with body powders containing talc.

Claims for personal injury have been made against a number of Johnson & Johnson companies, including Janssen Pharmaceuticals, Inc. and Johnson & Johnson, arising out of the use of INVOKANA®, a prescription medication indicated to improve glycemic control in adults with Type 2 diabetes. The number of pending product liability lawsuits continues to increase, and the Company continues to receive information with respect to potential costs and the anticipated number of cases. Cases filed in federal courts in the United States have been organized as a multi-district litigation in the United States District Court for the District of New Jersey. Cases have also been filed in state courts in Pennsylvania, California and New Jersey. Class action lawsuits have been filed in Canada. The Company has established an accrual with respect to product liability litigation associated with INVOKANA®.

INTELLECTUAL PROPERTY
Certain subsidiaries of Johnson & Johnson are subject, from time to time, to legal proceedings and claims related to patent, trademark and other intellectual property matters arising out of their businesses. Many of these matters involve challenges to the coverage and/or validity of the patents on various products and allegations that certain of the Company’s products infringe the patents of third parties. Although these subsidiaries believe that they have substantial defenses to these challenges and allegations with respect to all significant patents, there can be no assurance as to the outcome of these matters. A loss in any of these cases could adversely affect the ability of these subsidiaries to sell their products, result in loss of sales due to loss of market exclusivity, require the payment of past damages and future royalties, and may result in a non-cash impairment charge for any associated intangible asset. The most significant of these matters are described below.

Medical Devices
In June 2009, Rembrandt Vision Technologies, L.P. (Rembrandt) filed a patent infringement lawsuit against Johnson & Johnson Vision Care, Inc. (JJVCI) in the United States District Court for the Eastern District of Texas alleging that JJVCI's manufacture and sale of its ACUVUE® ADVANCE and ACUVUE OASYS® Hydrogel Contact Lenses infringed Rembrandt’s United States Patent No. 5,712,327 and seeking monetary relief. The case was transferred to the United States District Court for the Middle District of Florida, where a trial in May 2012 resulted in a verdict of

non-infringement that was subsequently upheld on appeal. In July 2014, Rembrandt sought a new trial based on alleged new evidence, which the District Court denied. In April 2016, the Court of Appeals overturned that ruling and remanded the case to the District Court for a new trial. A new trial was held in August 2017, and the jury returned a verdict of non-infringement in favor of JJVCI. Rembrandt has appealed the verdict to the United States Court of Appeals for the Federal Circuit.

In March 2013, Medinol Ltd. (Medinol) filed a patent infringement lawsuit against Cordis Corporation (Cordis) and Johnson & Johnson in the United States District Court for the Southern District of New York alleging that Cordis's sales of the CYPHER™ and CYPHER SELECT™ stents made in the United States since 2005 willfully infringed four of Medinol's patents directed to the geometry of articulated stents. Medinol is seeking damages and attorneys' fees. After trial in January 2014, the District Court dismissed the case, finding Medinol unreasonably delayed bringing its claims (the laches defense). In September 2014,

the District Court denied a motion by Medinol to vacate the judgment and grant it a new trial. Medinol appealed the decision to the United States Court of Appeals for the Federal Circuit, then dismissed the appeal in order to file a petition for review with the United States Supreme Court. In March 2017, the United States Supreme Court held that the laches defense is not available in patent cases and remanded this case to the United States Court of Appeals for the Federal Circuit to consider Medinol's appeal of whether Medinol is entitled to seek a new trial. Cordis was divested in 2015, and the Company retained any liability that may result from this case.

In November 2016, MedIdea, L.L.C. (MedIdea) filed a patent infringement lawsuit against DePuy Orthopaedics, Inc. in the United States District Court for the Northern District of Illinois alleging infringement by the ATTUNE® Knee System. MedIdea alleges infringement of United States Patent Nos. 6,558,426 (’426); 8,273,132; 8,721,730 and 9,492,280 relating to posterior stabilized knee systems. Specifically, MedIdea alleges that the SOFCAM™ Contact feature of the ATTUNE® posterior stabilized knee products infringes the patents-in-suit. MedIdea is seeking monetary damages and injunctive relief. In June 2017, the case was transferred to the United States District Court for the District of Massachusetts. In December 2017, DePuy Synthes Products, Inc. filed a Petition for Inter Partes Review with the United States Patent and Trademark Office, seeking to invalidate the ’426 patent.

In December 2016, Ethicon Endo-Surgery, Inc. and Ethicon Endo-Surgery, LLC (now known as Ethicon LLC) sued Covidien, Inc. in the United States District Court for the District of Massachusetts seeking a declaration that United States Patent Nos. 6,585,735 (the ’735 patent); 7,118,587; 7,473,253; 8,070,748 and 8,241,284 (the ’284 patent), are either invalid or not infringed by Ethicon’s ENSEAL® X1 Large Jaw Tissue Sealer product. In April 2017, Covidien LP, Covidien Sales LLC, and Covidien AG (collectively, Covidien) answered and counterclaimed, denying the allegations, asserting willful infringement of the ’735 patent, the ’284 patent and United States Patent Nos. 8,323,310; 9,084,608; 9,241,759 and 9,113,882, and seeking damages and an injunction. Covidien filed a motion for preliminary injunction, which was denied in October 2017. Trial is scheduled for September, 2019.

In November 2017, Board of Regents, The University of Texas System and Tissuegen, Inc. filed a lawsuit in the United States District Court for the Western District of Texas against Ethicon, Inc. and Ethicon US, LLC alleging the manufacture and sale of VICRYL® Plus Antibacterial Sutures and MONOCRYL® Plus Antibacterial Sutures infringe plaintiffs’ United States Patent Nos. 6,596,296 and 7,033,603 directed to implantable polymer drug releasing biodegradable fibers containing a therapeutic agent.

Pharmaceutical
In April 2016, MorphoSys AG, a German biotech company, filed a patent infringement lawsuit against Janssen Biotech, Inc. (JBI), Genmab U.S. Inc. and Genmab A/S (collectively, Genmab) in the United States District Court for the District of Delaware. MorphoSys alleges that JBI’s manufacture and sale of DARZALEX® (daratumumab) willfully infringes MorphoSys’ United States Patent Nos. 8,263,746, 9,200,061 and 9,785,590. MorphoSys is seeking money damages. JBI licenses patents and the commercial rights to DARZALEX® from Genmab. Trial in the case is scheduled to commence in February 2019.

In August 2016, Sandoz Ltd and Hexal AG (collectively, Sandoz) filed a lawsuit in the English High Court against G.D. Searle LLC (a Pfizer company) and Janssen Sciences Ireland UC (JSI) alleging that Searle’s supplementary protection certificate SPC/GB07/038 (SPC), which is exclusively licensed to JSI, is invalid and should be revoked. Janssen-Cilag Limited sells PREZISTA® (darunavir) in the United Kingdom pursuant to this license. In October 2016, Searle and JSI counterclaimed against Sandoz for threatened infringement of the SPC based on statements of its plans to launch generic darunavir in the United Kingdom. Sandoz admitted that its generic darunavir product would infringe the SPC if it is found valid. Searle and JSI are seeking an order enjoining Sandoz from marketing its generic darunavir before the expiration of the SPC. Following a trial in April 2017, the Court entered a decision holding that the SPC is valid and granting a final injunction. Sandoz has appealed the Court’s decision and the injunction will be stayed pending the appeal. In January 2018, the Court referred the issue on appeal to the Court of Justice for the European

Union (CJEU) and stayed the proceedings pending the CJEU's ruling on the issue.

REMICADE® Related Cases

United States Proceedings
In September 2013, Janssen Biotech, Inc. (JBI) and NYU Langone Medical Center (NYU) received an Office Action from the United States Patent and Trademark Office (USPTO) rejecting the claims in United States Patent No. 6,284,471 relating to REMICADE® (infliximab) (the '471 patent) in a reexamination proceeding instituted by a third party. The '471 patent expires in September 2018 and is co-owned by JBI and NYU, with NYU having granted JBI an exclusive license to NYU's rights under the patent. Following several office actions by the patent examiner, including two further rejections, and responses by

JBI, the USPTO issued a further action maintaining its rejection of the ’471 patent. JBI filed a notice of appeal to the USPTO’s Patent Trial and Appeal Board (the Board), which issued a decision in November 2016 upholding the examiner's rejection. In January 2018, the United States Court of Appeals for the Federal Circuit affirmed the Board's decision.

In August 2014, Celltrion Healthcare Co. Ltd. and Celltrion Inc. (collectively, Celltrion) filed an application with the United States Food and Drug Administration (FDA) for approval to make and sell its own infliximab biosimilar. In March 2015, JBI filed a lawsuit in the United States District Court for the District of Massachusetts against Celltrion and Hospira Healthcare Corporation (Hospira), which has exclusive marketing rights for Celltrion's infliximab biosimilar in the United States, seeking, among other things, a declaratory judgment that their biosimilar product infringes or potentially infringes several JBI patents, including the ’471 patent and United States Patent No. 7,598,083 (the ’083 patent). In August 2016, the District Court granted both Celltrion's and Hospira's motions for summary judgment of invalidity of the ’471 patent. JBI appealed those decisions to the United States Court of Appeals for the Federal Circuit. In January 2018, the Federal Circuit dismissed the appeal as moot based on its affirmance of the Board’s reexamination decision.

In June 2016, JBI filed two additional patent infringement lawsuits asserting the ’083 patent, one against Celltrion and Hospira in the United States District Court for the District of Massachusetts and the other against HyClone Laboratories, Inc., the manufacturer of the cell culture media that Celltrion uses to make its biosimilar product, in the United States District Court for the District of Utah. Although the ’083 patent is already asserted in the existing lawsuit against Celltrion, the additional lawsuit expands the claims to include the sale in the United States of Celltrion's biosimilar product manufactured with cell culture media made in the United States. This additional lawsuit against Celltrion has been consolidated with the existing lawsuit discussed above. Hospira has moved to dismiss all counts of the lawsuit related to the ’083 patent as to it. Celltrion's motion to dismiss all counts of the lawsuit related to the ’083 patent for failure to join all the co-owners of the '083 patent as plaintiffs was denied in October 2017. Trial is scheduled to begin in July 2018. The litigation against HyClone in Utah is stayed pending the outcome of the Massachusetts actions.

The FDA approved Celltrion’s infliximab biosimilar for sale in the United States in April 2016. Hospira's parent company, Pfizer Inc., launched Celltrion's infliximab biosimilar in the United States in late 2016.

In April 2017, JBI received notice that the FDA approved a marketing application submitted by Samsung Bioepis Co. Ltd. (Samsung) for the sale of its infliximab biosimilar in the United States. In May 2017, JBI filed a patent infringement lawsuit against Samsung in the United States District Court for the District of New Jersey alleging that the sale of its biosimilar product may infringe three of JBI’s patents. In July 2017, Samsung launched its biosimilar product (commercialized by Merck) in the United States. In November 2017, JBI voluntarily dismissed this lawsuit.

Litigation Against Filers of Abbreviated New Drug Applications (ANDAs)
The following summarizes lawsuits pending against generic companies that have filed Abbreviated New Drug Applications (ANDAs) with the FDA, or undertaken similar regulatory processes outside of the United States, seeking to market generic forms of products sold by various subsidiaries of Johnson & Johnson prior to expiration of the applicable patents covering those products. These ANDAs typically include allegations of non-infringement, invalidity and unenforceability of the applicable patents. In the event the subsidiaries are not successful in these actions, or the statutory 30-month stays of the ANDAs expire before the United States District Court rulings are obtained, the third-party companies involved will have the ability, upon approval of the FDA, to introduce generic versions of the products at issue to the market, resulting in the potential for substantial market share and revenue losses for those products, and which may result in a non-cash impairment charge in any associated intangible asset. In addition, from time to time, subsidiaries may settle these actions and such settlements can involve the introduction of generic versions of the products at issue to the market prior to the expiration of the relevant patents. The inter partes

review (IPR) process with the United States Patent and Trademark Office (USPTO), created under the 2011 America Invents Act, is also being used by generic companies in conjunction with these ANDAs and lawsuits to challenge patents held by the Company's subsidiaries.

ZYTIGA®

In July 2015, Janssen Biotech, Inc., Janssen Oncology, Inc. and Janssen Research & Development, LLC (collectively, Janssen) and BTG International Ltd. (BTG) initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against a number of generic companies (and certain of their affiliates and/or suppliers) who filed ANDAs seeking approval to market a generic version of ZYTIGA® 250mg before the expiration of United States Patent No. 8,822,438 (the '438 patent). The generic companies currently include Amneal Pharmaceuticals, LLC and Amneal Pharmaceuticals of New York, LLC (collectively, Amneal); Apotex Inc. and Apotex Corp. (collectively, Apotex); Citron Pharma LLC (Citron); Dr. Reddy's Laboratories, Ltd. and Dr. Reddy's Laboratories, Inc. (collectively, Dr. Reddy's); Mylan Pharmaceuticals Inc. and Mylan Inc.

(collectively, Mylan); Par Pharmaceuticals, Inc. and Par Pharmaceutical Companies, Inc. (collectively, Par); Sun Pharmaceutical Industries Ltd. and Sun Pharmaceuticals Industries, Inc. (collectively, Sun); Teva Pharmaceuticals USA, Inc. (Teva); Wockhardt Bio A.G.; Wockhardt USA LLC and Wockhardt Ltd. (collectively, Wockhardt); West-Ward Pharmaceutical Corp. (West-Ward) and Hikma Pharmaceuticals, LLC (Hikma). In February 2018, the court heard oral arguments on a motion for summary judgment of non-infringement filed by certain defendants. The parties await a decision. If the decision is unfavorable, the stay could be lifted and a generic version of ZYTIGA® could enter the market.

Janssen and BTG also initiated patent infringement lawsuits in the United States District Court for the District of New Jersey against Amerigen Pharmaceuticals Limited (Amerigen) in May 2016, and Glenmark Pharmaceuticals, Inc. in June 2016, each of whom filed an ANDA seeking approval to market its generic version of ZYTIGA® before the expiration of the ’438 patent.

In August 2015, Janssen and BTG filed an additional jurisdictional protective lawsuit against the Mylan defendants in the United States District Court for the Northern District of West Virginia, which has been stayed.

In August 2017, Janssen and BTG initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against Teva, who filed an ANDA seeking approval to market a generic version of ZYTIGA® 500mg before the expiration of the ’438 patent.

In January 2018, Janssen dismissed its lawsuit against Sun after it withdrew its ANDA.

In each of the above lawsuits, Janssen is seeking an order enjoining the defendants from marketing their generic versions of ZYTIGA® before the expiration of the ’438 patent.

Several generic companies including Amerigen, Argentum Pharmaceuticals LLC (Argentum), Mylan, Wockhardt, Actavis, Amneal, Dr. Reddy’s, Sun, Teva, West-Ward and Hikma filed Petitions for Inter Partes Review (IPR) with the USPTO, seeking to invalidate the ’438 patent. In January 2018, the USPTO issued decisions invalidating the '438 patent, and Janssen is appealing this decision. The IPR decisions are not binding on the district court in the pending litigation.

In October 2017, Janssen Inc. and Janssen Oncology, Inc. (collectively, Janssen) initiated two Notices of Application under Section 6 of the Patented Medicines (Notice of Compliance) Regulations against Teva Canada Limited (Teva) and the Minister of Health in Canada in response to Teva's filing Abbreviated New Drug Submissions (ANDS) and seeking approval to market generic versions of ZYTIGA® 250mg and ZYTIGA® 500mg before the expiration of Canadian Patent No. 2,661,422.

In November 2017, Janssen initiated a Notice of Application under Section 6 of the Patented Medicines (Notice of Compliance) Regulations against Apotex Inc. (Apotex) and the Minister of Health in Canada in response to Apotex’s filing of an Abbreviated New Drug Submission (ANDS) seeking approval to market a generic version of ZYTIGA® before the expiration of Canadian Patent No. 2,661,422.

In each of these Notices of Application, Janssen is seeking an order prohibiting the Minister of Health from issuing a Notice of Compliance with respect to Teva's and Apotex's ANDS before the expiration of Janssen's patent.

COMPLERA®
In August and September 2015, Janssen Pharmaceutica NV and Janssen Sciences Ireland UC (collectively, Janssen) and Gilead Sciences, Inc. and Gilead Sciences Ireland UC (collectively, Gilead) initiated patent infringement lawsuits in the United States District Courts for the District of Delaware and the District of West Virginia, respectively, against

Mylan, Inc. and Mylan Pharmaceuticals, Inc. (collectively, Mylan), who filed an ANDA seeking approval to market a generic version of COMPLERA® before the expiration of United States Patent Nos. 8,841,310, 7,125,879 and 8,101,629. In July 2017, the West Virginia lawsuit was dismissed without prejudice by stipulation of the parties.

In the Delaware lawsuit, Janssen and Gilead amended their complaint to add claims for patent infringement with respect to United States Patent Nos. 8,080,551; 7,399,856; 7,563,922; 8,101,752 and 8,618,291. In November 2017, the parties entered into a settlement agreement.

XARELTO®
Beginning in October 2015, Janssen Pharmaceuticals, Inc. (JPI) and Bayer Pharma AG and Bayer Intellectual Property GmbH (collectively, Bayer) filed patent infringement lawsuits in the United States District Court for the District of Delaware against a number of generic companies who filed ANDAs seeking approval to market generic versions of XARELTO® before expiration

of Bayer's United States Patent Nos. 7,157,456 , 7,585,860 and 7,592,339 relating to XARELTO®. JPI is the exclusive sublicensee of the asserted patents. The following generic companies are named defendants: Aurobindo Pharma Limited and Aurobindo Pharma USA, Inc. (collectively, Aurobindo); Breckenridge Pharmaceutical, Inc. (Breckenridge); InvaGen Pharmaceuticals Inc. (InvaGen); Micro Labs USA Inc. and Micro Labs Ltd (collectively, Micro); Mylan Pharmaceuticals Inc. (Mylan); Prinston Pharmaceuticals, Inc.; Sigmapharm Laboratories, LLC (Sigmapharm); Torrent Pharmaceuticals, Limited and Torrent Pharma Inc. (collectively, Torrent). All defendants except Mylan and Sigmapharm have agreed to have their cases stayed and to be bound by the outcome of any final judgment rendered against any of the other defendants. Trial is scheduled for March 2018.

Beginning in April 2017, JPI and Bayer Intellectual Property GmbH and Bayer AG (collectively, Bayer AG) filed patent infringement lawsuits in the United States District Court for the District of Delaware against a number of generic companies who filed ANDAs seeking approval to market generic versions of XARELTO® before expiration of Bayer AG's United States Patent No. 9,539,218 ('218) relating to XARELTO®. The following generic companies are named defendants: Alembic Pharmaceuticals Limited, Alembic Global Holding SA and Alembic Pharmaceuticals, Inc.; Aurobindo; Breckenridge; InvaGen; Lupin Limited and Lupin Pharmaceuticals, Inc. (collectively, Lupin); Micro; Mylan; Sigmapharm; Taro Pharmaceutical Industries Ltd. and Taro Pharmaceuticals U.S.A., Inc. (collectively, Taro) and Torrent. Lupin has counterclaimed for a declaratory judgment of noninfringement and invalidity of United States Patent No. 9,415,053, but Lupin dismissed its counterclaims after it was provided a covenant not to sue on that patent. Aurobindo, Taro, Torrent and Micro have agreed to have their cases stayed and to be bound by the outcome of any final judgment rendered against any of the other defendants. The '218 cases have been consolidated for discovery and trial, and are currently set for trial in April 2019.

In each of these lawsuits, JPI is seeking an order enjoining the defendants from marketing their generic versions of XARELTO® before the expiration of the relevant patents.

PREZISTA®

In September 2017, Janssen Sciences Ireland UC and Janssen Products, L.P. (collectively, Janssen) initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against Aurobindo Pharma Ltd. and Aurobindo Pharma USA Inc. (collectively, Aurobindo), who filed an ANDA seeking approval to market a generic version of PREZISTA® before the expiration of United States Patent Nos. 8,518,987; 7,700,645; 7,126,015; and 7,595,408. In January 2018, the parties entered into a settlement agreement.

In November 2017, Janssen Inc. initiated Notices of Application under Section 6 of the Patented Medicines (Notice of Compliance) Regulations against Apotex Inc. (Apotex) and the Minister of Health in Canada in response to Apotex's filing of an Abbreviated New Drug Submission (ANDS) seeking approval to market a generic version of PREZISTA® before the expiration of Canadian Patent Nos. 2,485,834 and 2,336,160, which is owned by the United States and the Board of Trustees of the University of Illinois. Janssen is seeking an order prohibiting the Minister of Health from issuing a Notice of Compliance with respect to Apotex's ANDS before the expiration of the relevant patents.

RISPERDAL CONSTA®

In November 2016, the United States Patent and Trademark Office (USPTO) instituted an Inter Partes Review filed by Luye Pharma Group Ltd., Luye Pharma (USA) Ltd., Sandong Luye Pharmaceutical Co., Ltd. and Nanjing Luye Pharmaceutical Co., Ltd., seeking to invalidate United States Patent No. 6,667,061 relating to RISPERDAL CONSTA®. Janssen Pharmaceuticals, Inc. markets RISPERDAL CONSTA® pursuant to a license from Alkermes Pharma Ireland Ltd. In November 2017, the USPTO issued a decision upholding the validity of the patent.

80

INVOKANA®/INVOKAMET®

Beginning in July 2017, Janssen Pharmaceuticals, Inc., Janssen Research & Development, LLC, Cilag GmbH International and Janssen Pharmaceutica NV (collectively, Janssen) and Mitsubishi Tanabe Pharma Corporation (MTPC) filed patent infringement lawsuits in the United States District Court for the District of New Jersey, the United States District Court for the District of Colorado and the United States District Court for the District of Delaware against a number of generic companies who filed ANDAs seeking approval to market generic versions of INVOKANA® and/or INVOKAMET® before expiration of MTPC's United States Patent Nos. 7,943,582 and/or 8,513,202 relating to INVOKANA® and INVOKAMET®. Janssen is the exclusive licensee of the asserted patents. The following generic companies are named defendants: Apotex Inc. and Apotex Corp. (Apotex); Aurobindo Pharma USA Inc. (Aurobindo); Macleods Pharmaceuticals Ltd. and MacLeods Pharma USA, Inc.; InvaGen Pharmaceuticals, Inc. (InvaGen); Prinston Pharmaceuticals Inc.; Dr. Reddy's Laboratories, Inc. and Dr. Reddy's Laboratories Ltd; Hetero USA, Inc., Hetero Labs Limited Unit-V and Hetero Labs Limited; MSN Laboratories Private Ltd. and MSN Pharmaceuticals, Inc.; Laurus Labs Ltd.; Indoco Remedies Ltd.; Zydus Pharmaceuticals (USA) Inc. (Zydus); Sandoz, Inc. (Sandoz); Teva Pharmaceuticals USA, Inc.; and Lupin Ltd. and Lupin Pharmaceuticals, Inc.

Beginning in July 2017, Janssen and MTPC filed patent infringement lawsuits in the United States District Court for the District of New Jersey and the United States District Court for the District of Colorado against Sandoz and InvaGen, who filed ANDAs seeking approval to market generic versions of INVOKANA® and/or INVOKAMET® before expiration of MTPC's United States Patent No. 7,943,788 (the '788 patent) relating to INVOKANA® and INVOKAMET® and against Zydus, who filed ANDAs seeking approval to market generic versions of INVOKANA® and INVOKAMET® before expiration of the '788 patent, MTPC's United States Patent No. 8,222,219 relating to INVOKANA® and INVOKAMET® and MTPC's United States Patent No. 8,785,403 relating to INVOKAMET®, and against Aurobindo, who filed an ANDA seeking approval to market a generic version of INVOKANA® before expiration of the '788 patent and the '219 patent relating to INVOKANA®. Janssen is the exclusive licensee of the asserted patents. In October 2017, the Colorado lawsuits against Sandoz were dismissed. In December 2017, the Delaware lawsuits against Apotex and Teva were dismissed.

In each of these lawsuits, Janssen and MTPC are seeking an order enjoining the defendants from marketing their generic versions of INVOKANA® and/or INVOKAMET® before the expiration of the relevant patents.

VELETRI®

In July 2017, Actelion Pharmaceuticals Ltd. (Actelion) initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against Sun Pharmaceutical Industries, Inc. and Sun Pharmaceutical Industries Limited (collectively, Sun Pharmaceutical), who filed an ANDA seeking approval to market a generic version of VELETRI® before the expiration of United States Patent No. 8,598,227. Actelion is seeking an order enjoining Sun Pharmaceutical from marketing its generic version of VELETRI® before the expiration of the patent. Trial is scheduled to commence in June 2019.

OPSUMIT®

In January 2018, Actelion Pharmaceuticals Ltd (Actelion) initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against Zydus Pharmaceuticals (USA) Inc. (Zydus) and Amneal Pharmaceuticals LLC (Amneal), who filed an ANDA seeking approval to market a generic version of OPSUMIT® before the expiration of United States Patent No. 7,094,781. In the lawsuit, Actelion is seeking an order enjoining Zydus and Amneal from marketing generic versions of OPSUMIT® before the expiration of the patent.

INVEGA SUSTENNA®

In January 2018, Janssen Pharmaceutica NV and Janssen Pharmaceuticals, Inc. (collectively, Janssen) initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against Teva Pharmaceuticals USA, Inc. (Teva), who filed an ANDA seeking approval to market a generic version of INVEGA SUSTENNA® before the expiration of United States Patent No. 9,439,906. In the lawsuit, Janssen is seeking an order enjoining Teva from marketing a generic version of INVEGA SUSTENNA® before the expiration of the patent.

81

IMBRUVICA®

Beginning in January 2018, Pharmacyclics LLC (Pharmacyclics) and Janssen Biotech, Inc. (Janssen) filed patent infringement lawsuits in the United States District Court for the District of Delaware against a number of generic companies who filed ANDAs seeking approval to market generic versions of IMBRUVICA® before expiration of Pharmacyclics' United States Patent Nos. 8,008,309, 7,514,444, 8,697,711, 8,735,403, 8,957,079, 9,181,257, 8,754,091, 8,497,277, 8,925,015, 8,476,284, 8,754,090, 8,999,999, 9,125,889, 9,801,881, 9,801,883, 9,814,721, 9,795,604, 9,296,753, 9,540,382, 9,713,617 and/or 9,725,455 relating to IMBRUVICA®. Janssen is the exclusive licensee of the asserted patents. The following generic companies are named defendants: Cipla Limited and Cipla USA Inc. (Cipla); Fresenius Kabi USA, LLC, Fresenius Kabi USA, Inc., and Fresenius Kabi Oncology Limited (Fresenius Kabi); Sandoz Inc. and Lek Pharmaceuticals d.d. (Sandoz); Shilpa Medicare Limited (Shilpa); Sun Pharma Global FZE and Sun Pharmaceutical Industries Limited (Sun); Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries Limited (Teva); and Zydus Worldwide DMCC and Cadila Healthcare Limited (Zydus). In each of the lawsuits, Pharmacyclics and Janssen are seeking an order enjoining the defendants from marketing generic versions of IMBRUVICA® before the expiration of the relevant patents.

GOVERNMENT PROCEEDINGS

Like other companies in the pharmaceutical and medical devices industries, Johnson & Johnson and certain of its subsidiaries are subject to extensive regulation by national, state and local government agencies in the United States and other countries in which they operate. As a result, interaction with government agencies is ongoing. The most significant litigation brought by, and investigations conducted by, government agencies are listed below. It is possible that criminal charges and substantial fines and/or civil penalties or damages could result from government investigations or litigation.

Average Wholesale Price (AWP) Litigation

Johnson & Johnson and several of its pharmaceutical subsidiaries (the J&J AWP Defendants), along with numerous other pharmaceutical companies, were named as defendants in a series of lawsuits in state and federal courts involving allegations that the pricing and marketing of certain pharmaceutical products amounted to fraudulent and otherwise actionable conduct because, among other things, the companies allegedly reported an inflated Average Wholesale Price (AWP) for the drugs at issue. Payors alleged that they used those AWPs in calculating provider reimbursement levels. The plaintiffs in these cases included three classes of private persons or entities that paid for any portion of the purchase of the drugs at issue based on AWP, and state government entities that made Medicaid payments for the drugs at issue based on AWP. Many of these cases, both federal actions and state actions removed to federal court, were consolidated for pre-trial purposes in a multi-district litigation in the United States District Court for the District of Massachusetts, where all claims against the J&J AWP Defendants were ultimately dismissed. The J&J AWP Defendants also prevailed in a case brought by the Commonwealth of Pennsylvania. Other AWP cases have been resolved through court order or settlement. Two cases remain pending. In a case brought by Illinois, the parties are awaiting assignment of a trial date. In New Jersey, a putative class action based upon AWP allegations is pending against Centocor, Inc. and Ortho Biotech Inc. (both now Janssen Biotech, Inc.), Johnson & Johnson and ALZA Corporation.

Opioids Litigation

Beginning in 2014 and continuing to the present, Johnson & Johnson and Janssen Pharmaceuticals, Inc. (JPI), along with other pharmaceutical companies, have been named in numerous lawsuits brought by certain state and local governments related to the marketing of opioids, including DURAGESIC®, NUCYNTA® and NUCYNTA® ER. To date, complaints against pharmaceutical companies, including Johnson & Johnson and JPI, have been filed in state court by the state Attorneys General in Louisiana, Mississippi, Missouri, New Mexico, Ohio and Oklahoma. Complaints against the manufacturers also have been filed in state or federal court by city, county and local government agencies in the following states: Arkansas; California; Connecticut; Florida; Georgia; Illinois; Kentucky;

Louisiana; Mississippi; Missouri; Nevada; New Hampshire; New Jersey; New Mexico; New York; Ohio; Oklahoma; Oregon; Pennsylvania; Tennessee; Texas; Washington and West Virginia. These actions allege a variety of claims related to opioids marketing practices, including false advertising, unfair competition, public nuisance, consumer fraud violations, deceptive acts and practices, false claims and unjust enrichment. The suits generally seek penalties and/or injunctive and monetary relief. These cases are in early stages of litigation. In October 2017, Johnson & Johnson and JPI were both served with a motion to consolidate 66 pending matters into a federal Multi District Litigation in the Southern District of Ohio. In December 2017, the MDL was approved in the Northern District of Ohio and there are approximately 190 cases that have been transferred to the MDL.

Johnson & Johnson, JPI and other pharmaceutical companies have also received subpoenas or requests for information related to opioids marketing practices from the following state Attorneys General: Alaska, Indiana, New Hampshire, New Jersey, Tennessee and Washington. In September 2017, Johnson & Johnson and JPI were contacted by the Texas and Colorado Attorney General's Offices on behalf of approximately 38 states regarding a multi-state Attorney General investigation. The multi-state coalition served Johnson & Johnson and JPI with subpoenas as part of the investigation. Johnson & Johnson and JPI have also received requests for information from the ranking minority member of the United States Senate Committee on Homeland Security and Governmental Affairs regarding the sales, marketing, and educational strategies related to the promotion of opioids use.

Other

In August 2012, DePuy Orthopaedics, Inc., DePuy, Inc. (now DePuy Synthes, Inc.), and Johnson & Johnson Services, Inc. received an informal request from the United States Attorney's Office for the District of Massachusetts and the Civil Division of the United States Department of Justice (the United States) for the production of materials relating to the DePuy ASR™ XL Hip device. In July 2014, the United States notified the United States District Court for the District of Massachusetts that it had declined to intervene in a qui tam case filed pursuant to the False Claims Act against the companies. In February 2016, the District Court granted the companies' motion to dismiss with prejudice, unsealed the qui tam complaint, and denied the qui tam relators' request for leave to file a further amended complaint. The qui tam relators appealed the case to the United States Court of Appeals for the First Circuit. In July 2017, the First Circuit affirmed the District Court's dismissal in part, reversed in part, and affirmed the decision to deny the relators' request to file a third amended complaint. The relators' remaining claims are now pending before the District Court.

Since October 2013, a group of State Attorneys General have issued Civil Investigative Demands relating to the development, sales and marketing of several of DePuy Orthopaedics, Inc.'s hip products. The states are seeking monetary and injunctive relief, and DePuy Orthopaedics, Inc. has entered into a tolling agreement with the states. In July 2014, the Oregon Department of Justice, which was investigating these matters independently of the other states, announced a settlement of its ASR™ XL Hip device investigation with the State of Oregon.

In October 2012, Johnson & Johnson was contacted by the California Attorney General's office regarding a multi-state Attorney General investigation of the marketing of surgical mesh products for hernia and urogynecological purposes by Johnson & Johnson's subsidiary, Ethicon, Inc. (Ethicon). Johnson & Johnson and Ethicon have since entered into a series of tolling agreements with the 47 states and the District of Columbia participating in the multi-state investigation and have responded to Civil Investigative Demands served by certain of the participating states. The states are seeking monetary and injunctive relief. In May 2016, California and Washington filed civil complaints against Johnson & Johnson, Ethicon Inc. and Ethicon US, LLC alleging violations of their consumer protection statutes. Similar complaints were filed against the companies by Kentucky in August 2016 and by Mississippi in October 2017. Johnson & Johnson and Ethicon have entered into a new tolling agreement with the remaining 43 states and the District of Columbia.

In December 2012, Therakos, Inc. (Therakos), formerly a subsidiary of Johnson & Johnson and part of the Ortho-Clinical Diagnostics, Inc. (OCD) franchise, received a letter from the civil division of the United States Attorney's Office for the Eastern District of Pennsylvania informing Therakos that the United States Attorney's Office was investigating the sales and marketing of Uvadex® (methoxsalen) and the Uvar Xts® and Cellex® Systems during the period 2000 to the present. The United States Attorney's Office requested that OCD and Johnson & Johnson preserve documents that could relate to the investigation. Therakos was subsequently acquired by an affiliate of Gores Capital Partners III, L.P. in January 2013, and OCD was divested in June 2014. Following the divestiture of OCD, Johnson & Johnson retains OCD's portion of any liability that may result from the investigation for activity that occurred prior to the sale of Therakos. In March 2014 and March 2016, the United States Attorney's Office requested that Johnson & Johnson produce certain documents, and Johnson & Johnson is cooperating with those requests.

In June 2014, the Mississippi Attorney General filed a complaint in Chancery Court of The First Judicial District of Hinds County, Mississippi against Johnson & Johnson and Johnson & Johnson Consumer Companies, Inc. (now Johnson & Johnson Consumer Inc.) (JJCI). The complaint alleges that defendants failed to disclose alleged health

risks associated with female consumers' use of talc contained in JOHNSON'S® Baby Powder and JOHNSON'S® Shower to Shower (a product no longer sold by JJCI) and seeks injunctive and monetary relief. The parties have agreed to adjourn the trial date and currently expect the trial to be re-scheduled to the fall of 2018.

In March 2016, Janssen Pharmaceuticals, Inc. (JPI) received a Civil Investigative Demand from the United States Attorney’s Office for the Southern District of New York related to JPI’s contractual relationships with pharmacy benefit managers over the

period from January 1, 2006 to the present with regard to certain of JPI's pharmaceutical products. The demand was issued in connection with an investigation under the False Claims Act.

In January 2017, Janssen Pharmaceuticals, Inc. (JPI) received a Civil Investigative Demand from the United States Department of Justice relating to allegations concerning the sales and marketing practices of OLYSIO®. In December 2017, Johnson & Johnson and JPI were served with a whistleblower lawsuit filed in the United States District Court for the Central District of California alleging the off-label promotion of OLYSIO® and additional products, including NUCYNTA®, XARELTO®, LEVAQUIN® and REMICADE®. At this time, the federal and state governments have declined to intervene and the lawsuit, which is related to the Civil Investigative Demand, is being prosecuted by a former company employee. JPI filed a motion to dismiss in the United States District Court for the Central District of California in January 2018.

In February 2017, Johnson & Johnson received a subpoena from the United States Attorney's Office for the District of Massachusetts seeking the production of records pertaining to payments to any 501(c)(3) charitable organization that provides financial assistance to Medicare patients. Multiple pharmaceutical companies have publicly reported receipt of subpoenas and ongoing inquiries similar to this one and the one described below.

Actelion Pharmaceuticals US, Inc. (Actelion US), received a subpoena in May 2016, with follow-up requests in June and December 2016, from the United States Attorney's Office for the District of Massachusetts. The subpoena seeks the production of records pertaining to Actelion US' payments to 501(c)(3) charitable organizations that provide financial assistance to Medicare patients.

In March 2017, Janssen Biotech, Inc. received a Civil Investigative Demand from the United States Department of Justice regarding a False Claims Act investigation concerning management and advisory services provided to rheumatology and gastroenterology practices that purchased REMICADE® or SIMPONI ARIA®.

In April and September 2017, Johnson & Johnson received subpoenas from the United States Attorney for the District of Massachusetts seeking documents broadly relating to pharmaceutical copayment support programs for DARZALEX®, OLYSIO®, REMICADE®, SIMPONI®, STELARA® and ZYTIGA®. The subpoenas also seek documents relating to Average Manufacturer Price and Best Price reporting to the Center for Medicare and Medicaid Services related to those products, as well as rebate payments to state Medicaid agencies.

In June 2017, Johnson & Johnson received a subpoena from the United States Attorney's Office for the District of Massachusetts seeking information regarding practices pertaining to the sterilization of DePuy Synthes, Inc. spinal implants at three hospitals in Boston as well as interactions of Company employees with physicians at these hospitals. Johnson & Johnson is producing documents in response to this subpoena.

From time to time, Johnson & Johnson has received requests from a variety of United States Congressional Committees to produce information relevant to ongoing congressional inquiries. It is the policy of Johnson & Johnson to cooperate with these inquiries by producing the requested information.

GENERAL LITIGATION

In June 2009, following the public announcement that Ortho-Clinical Diagnostics, Inc. (OCD) had received a grand jury subpoena from the United States Department of Justice, Antitrust Division, in connection with an investigation that has since been closed, multiple class action complaints were filed against OCD by direct purchasers seeking damages for alleged price fixing. These cases were consolidated for pre-trial purposes in the United States District Court for the Eastern District of Pennsylvania as In re Blood Reagent Antitrust Litigation. Following the appeal and reversal of its initial grant of a motion for class certification, on remand, the District Court in October 2015 again granted a motion by the plaintiffs for class certification. In July 2017, the Court issued an opinion granting in part and denying in part OCD's motion for summary judgment. The Court granted summary judgment concerning allegations

of price fixing in 2005 and 2008, and denied summary judgment concerning allegations of price fixing in 2001. Trial has been set for June 2018. OCD was divested in 2014 and Johnson & Johnson retained any liability that may result from these cases.

In June 2011, DePuy Orthopaedics, Inc. (DePuy) filed suit against Orthopaedic Hospital (OH) in the United States District Court for the Northern District of Indiana seeking a declaratory judgment that DePuy did not owe OH royalties under a 1999 development agreement. In January 2012, OH filed a breach of contract case in California federal court, which was later consolidated with the Indiana case. In February 2014, OH brought suit for patent infringement relating to the same technology, and that action was also consolidated with the Indiana case. In August 2017, the court denied DePuy's motions for summary judgment. A trial date has not been set.

In September 2011, Johnson & Johnson, Johnson & Johnson Inc. and McNeil Consumer Healthcare Division of Johnson & Johnson Inc. received a Notice of Civil Claim filed by Nick Field in the Supreme Court of British Columbia, Canada (the BC Civil Claim). The BC Civil Claim is a putative class action brought on behalf of persons who reside in British Columbia and who purchased during the period between September 20, 2001 and in or about December 2010 one or more various McNeil infants' or children's over-the-counter medicines that were manufactured at the Fort Washington, Pennsylvania facility. The BC Civil Claim alleges that the defendants violated the BC Business Practices and Consumer Protection Act, and other Canadian statutes and common laws, by selling medicines that were allegedly not safe and/or effective or did not comply with Canadian Good Manufacturing Practices. The class certification hearing scheduled for October 2015 was adjourned, and the Court entered a Consent Order of Dismissal in November 2017 concluding this action. In addition, in April 2016, a putative class action was filed against Johnson & Johnson, Johnson & Johnson Sales and Logistics Company, LLC and McNeil PPC, Inc. (now known as Johnson & Johnson Consumer, Inc.) in New Jersey Superior Court, Camden County on behalf of persons who reside in the state of New Jersey who purchased various McNeil over-the-counter products from December 2008 through the present. The complaint alleges violations of the New Jersey Consumer Fraud Act. Following the grant of a motion to dismiss and the filing of an amended complaint, in May 2017, the Court denied a motion to dismiss the amended complaint. Discovery is underway.

In May 2014, two purported class actions were filed in federal court, one in the United States District Court for the Central District of California and one in the United States District Court for the Southern District of Illinois, against Johnson & Johnson and Johnson & Johnson Consumer Companies, Inc. (now Johnson & Johnson Consumer Inc.) (JJCI) alleging violations of state consumer fraud statutes based on nondisclosure of alleged health risks associated with talc contained in JOHNSON'S® Baby Powder and JOHNSON'S® Shower to Shower (a product no longer sold by JJCI). Both cases seek injunctive relief and monetary damages; neither includes a claim for personal injuries. In October 2016, both cases were transferred to the United States District Court for the District Court of New Jersey as part of a newly created federal multi-district litigation. In July 2017, the Court granted Johnson & Johnson's and JJCI’s motion to dismiss one of the cases. The plaintiff has appealed. In September 2017, the plaintiff in the second case voluntarily dismissed their complaint.

In August 2014, United States Customs and Border Protection (US CBP) issued a Penalty Notice against Janssen Ortho LLC (Janssen Ortho), assessing penalties for the alleged improper classification of darunavir ethanolate (the active pharmaceutical ingredient in PREZISTA®) in connection with its importation into the United States. In October 2014, Janssen Ortho submitted a Petition for Relief in response to the Penalty Notice. In May 2015, US CBP issued an Amended Penalty Notice assessing substantial penalties and Janssen Ortho filed a Petition for Relief in July 2015.

In March and April 2015, over 30 putative class action complaints were filed by contact lens patients in a number of courts around the United States against Johnson & Johnson Vision Care, Inc. (JJVCI) and other contact lens manufacturers, distributors, and retailers, alleging vertical and horizontal conspiracies to fix the retail prices of contact lenses. The complaints allege that the manufacturers reached agreements with each other and certain distributors and retailers concerning the prices at which some contact lenses could be sold to consumers. The plaintiffs are seeking damages and injunctive relief. All of the class action cases were transferred to the United States District Court for the Middle District of Florida in June 2015. The plaintiffs filed a consolidated class action complaint in November 2015. In June 2016, the Court denied motions to dismiss filed by JJVCI and other defendants. Discovery is ongoing. In March 2017, the plaintiffs filed a motion for class certification.
In August 2015, two third-party payors filed a purported class action in the United States District Court for the Eastern District of Louisiana against Janssen Research & Development, LLC, Janssen Ortho LLC, Janssen Pharmaceuticals, Inc., Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Johnson & Johnson (as well as certain Bayer entities), alleging that the defendants improperly marketed and promoted XARELTO® as safer and more effective than less expensive alternative medications while failing to fully disclose its risks. The complaint seeks damages.

In May 2017, a purported class action was filed in the United States District Court for the Western District of Washington against Lifescan Inc., Johnson & Johnson, other diabetes test strip manufacturers and certain Pharmacy Benefit Managers (PBMs). The complaint alleges that consumers paid inflated prices for glucose monitor test strips as a consequence of undisclosed rebates and other incentives paid by manufacturers to PBMs. The complaint includes RICO, ERISA, and state consumer protection claims. The complaint seeks equitable relief and damages. In November 2017, the case was ordered transferred to United States District Court for the District of New Jersey.

In May 2017, Lonza Sales AG (Lonza) filed a Request for Arbitration with the London Court of International Arbitration against Janssen Research & Development, LLC (Janssen). Lonza alleges that Janssen breached a 2005 agreement between the parties by sublicensing certain Lonza technology used in the manufacture of daratumumab without Lonza’s consent. Lonza seeks monetary damages.

In September 2017, Strategic Products Group, Inc. (SPG) filed an antitrust complaint against Lifescan, Inc. and Lifescan Scotland, Ltd. (collectively, Lifescan) in the United States District Court for the Northern District of Florida (Pensacola Division). SPG, the exclusive distributor of Unistrip blood glucose meter test strips, alleges that Lifescan has monopolized or is attempting to monopolize the market for blood glucose meter test strips compatible with certain Lifescan meters. The complaint seeks damages.
In September 2017, Pfizer, Inc. (Pfizer) filed an antitrust complaint against Johnson & Johnson and Janssen Biotech, Inc. (collectively Janssen) in United States District Court for the Eastern District of Pennsylvania. Pfizer alleges that Janssen has violated federal antitrust laws through its contracting strategies for REMICADE®. The complaint seeks damages and injunctive relief. In November 2017, Janssen moved to dismiss the complaint.

Beginning in September 2017, multiple purported class actions were filed against Johnson & Johnson and Janssen Biotech, Inc. (collectively Janssen) alleging that Janssen's REMICADE® contracting strategies violated federal and state antitrust and consumer laws and seeking damages and injunctive relief. In November 2017, the cases were consolidated for pre-trial purposes in United States District Court for the Eastern District of Pennsylvania as In re Remicade Antitrust Litigation.

In October 2017, certain United States service members and their families brought a complaint against a number of pharmaceutical and medical devices companies, including Johnson & Johnson and certain of its subsidiaries, alleging that the defendants violated the United States Anti-Terrorism Act. The complaint alleges that the defendants provided funding for terrorist organizations through their sales practices pursuant to pharmaceutical and medical device contracts with the Iraqi Ministry of Health.

Andover Healthcare, Inc. filed a Lanham act case against Johnson & Johnson Consumer Inc. in April 2017 in the United Stated District Court for the District of Massachusetts. Andover asserts that the claim "not made with natural rubber latex" on COACH® Sports Wrap, BAND-AID® Brand SECURE-FLEX® Wrap and BAND-AID® Brand HURT-FREE® Wrap is false. Andover seeks actual damages and pre-judgment interest thereon, disgorgement of profits, treble damages, attorney's fees and injunctive relief. The Court denied a motion to dismiss, an answer was filed and discovery is underway.

In February 2018, a securities class action lawsuit was filed against Johnson & Johnson in the United States District Court for the District of New Jersey alleging that Johnson & Johnson violated the federal Securities laws by failing to adequately disclose the alleged asbestos contamination in body powders containing talc, primarily JOHNSONS® Baby Powder. The lawsuit was assigned to the District Court Judge managing the personal injury multi-district litigation.

Johnson & Johnson or its subsidiaries are also parties to a number of proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, and comparable state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.

22. Restructuring

The Company announced restructuring actions in its Medical Devices segment to better serve the needs of patients and customers in today's evolving healthcare marketplace. The Company is undertaking actions to strengthen its go-to-market model, accelerate the pace of innovation, further prioritize key platforms and geographies, and streamline operations while maintaining high quality standards.

The Company estimates that, in connection with its plans, it will record pre-tax restructuring related charges of approximately $2.0 billion to $2.4 billion. In 2017, the Company recorded a pre-tax charge of $760 million, of which $88 million was included in cost of products sold and $363 million was included in other (income) expense. See table below for additional details. Total project costs of $2.0 billion have been recorded since the restructuring has been announced.

Additionally, as part of the plan, the Company expects that the restructuring actions will result in position eliminations of approximately 4 to 6 percent of the Medical Devices segment's global workforce over the next 15 months. Approximately 2,400 positions have been eliminated of which 1,700 received separation payments since the restructuring announcement.

The Company estimates that approximately one-half of the cumulative pre-tax costs will result in cash outlays, including approximately $400 million of employee severance. Approximately one half of the cumulative pre-tax costs are non-cash, relating primarily to facility rationalization, inventory write-offs and intangible asset write-offs.

The following table summarizes the severance charges and the associated spending under this initiative through the fiscal year ended 2017:

(Dollars in Millions)	Severance	Asset Write-offs	Other**	Total
2015 restructuring charge	$ 484	86	20	590
2015 activity		(86)	(3)	(89)
Reserve balance, January 3, 2016	484	—	17	501
2016 activity	(104)	—	(16)	(120)
Reserve balance, January 1, 2017	380	—	1	381
Current year activity:				
Charges		194	656	850
Cash payments	(61)		(619)	(680)
Settled non cash		(194)		(194)
Accrual adjustment	(90)			(90)
Reserve balance, December 31, 2017*	$ 229	—	38	267

*Cash outlays for severance are expected to be substantially paid out over the next 18 months in accordance with the Company's plans and local laws.

**Other includes project expense such as salaries for employees supporting the initiative and consulting expenses.

Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors of Johnson & Johnson

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Johnson & Johnson and its subsidiaries as of December 31, 2017 and January 1, 2017, and the related consolidated statements of earnings, of comprehensive income, of equity, and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and January 1, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for and presents certain elements of share based payments in 2016.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included

performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Abbott Medical Optics and Actelion Ltd. from its assessment of internal control over financial reporting as of December 31, 2017, because they were acquired by the Company in purchase business combinations during 2017. We have also excluded Abbott Medical Optics and Actelion Ltd. from our audit of internal control over financial reporting. Abbott Medical Optics and Actelion Ltd. are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent approximately 1% and 1% of total assets, respectively and approximately 1% and 2% of total revenues, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2017.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey
February 21, 2018

We have served as the Company's auditor since at least 1920. We have not determined the specific year we began serving as auditor of the Company.

Management’s Report on Internal Control Over Financial Reporting

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

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

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

The Company’s management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework (2013).” These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company’s assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal controls over financial reporting.

The Company acquired Abbott Medical Optics (AMO), a wholly-owned subsidiary of Abbott Laboratories and Actelion Ltd. and its consolidated subsidiaries (Actelion) in February and June 2017, respectively. Actelion's total assets, excluding intangible assets and goodwill, and total revenues represented approximately 1% and 2%, respectively, of the related consolidated financial statements as of and for the period ended December 31, 2017. AMO's total assets, excluding intangible assets and goodwill, and total revenues represented approximately 1% and 1%, respectively, of the related consolidated financial statements as of and for the period ended December 31, 2017. As the acquisitions occurred in the fiscal year 2017, the scope of the Company's assessment of the design and effectiveness of internal control over financial reporting for the fiscal year 2017 excluded the above mentioned acquisitions. This exclusion is in accordance with the SEC's general guidance that an assessment of a recently acquired business may be omitted from the scope in the year of acquisition.

Based on the Company’s processes and assessment, as described above, management has concluded that, as of December 31, 2017, the Company’s internal control over financial reporting was effective.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

/s/ Alex Gorsky	/s/ Dominic J. Caruso
Alex Gorsky	Dominic J. Caruso
Chairman, Board of Directors Chief Executive Officer	Executive Vice President, Chief Financial Officer

Shareholder Return Performance Graphs

Set forth below are line graphs comparing the cumulative total shareholder return on the Company's Common Stock for periods of five years and ten years ending December 31, 2017, against the cumulative total return of the Standard & Poor's 500 Stock Index, the Standard & Poor's Pharmaceutical Index and the Standard & Poor's Health Care Equipment Index. The graphs and tables assume that $100 was invested on December 31, 2012 and December 31, 2007 in each of the Company's Common Stock, the Standard & Poor's 500 Stock Index, the Standard & Poor's Pharmaceutical Index and the Standard & Poor's Health Care Equipment Index and that all dividends were reinvested.

5 Year Shareholder Return Performance J&J vs. Indices

	2012	2013	2014	2015	2016	2017
Johnson & Johnson	$100.00	$134.62	$157.95	$159.78	$184.26	$229.23
S&P 500 Index	$100.00	$132.37	$150.48	$152.55	$170.78	$208.05
S&P Pharmaceutical Index	$100.00	$135.23	$165.27	$174.84	$172.10	$193.74
S&P Healthcare Equipment Index	$100.00	$127.69	$161.24	$170.88	$181.96	$238.17

10 Year Shareholder Return Performance J&J vs. Indices

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Johnson & Johnson	$100.00	$92.23	$102.63	$102.03	$112.13	$124.27	$167.28	$196.28	$198.55	$228.97	$284.85
S&P 500 Index	$100.00	$63.00	$79.66	$91.66	$93.59	$108.56	$143.70	$163.36	$165.60	$185.40	$225.85
S&P Pharmaceutical Index	$100.00	$81.80	$97.03	$97.78	$115.15	$131.76	$178.18	$217.77	$230.37	$226.77	$255.27
S&P Healthcare Equipment Index	$100.00	$72.36	$93.19	$90.66	$89.94	$105.47	$134.67	$170.06	$180.22	$191.91	$251.20

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

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. At the end of the period covered by this Report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Alex Gorsky, Chairman and Chief Executive Officer, and Dominic J. Caruso, Executive Vice President, Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Gorsky and Caruso concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures were effective

Reports on Internal Control Over Financial Reporting. The information called for by this item is incorporated herein by reference to "Management's Report on Internal Control Over Financial Reporting", and the attestation regarding internal controls over financial reporting included in the "Report of Independent Registered Public Accounting Firm" included in Item 8 of this Report.

Changes in Internal Control Over Financial Reporting. During the fiscal quarter ended December 31, 2017, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required under Rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is implementing a multi-year, enterprise-wide initiative to integrate, simplify and standardize processes and systems for the human resources, information technology, procurement, supply chain and finance functions. These are enhancements to support the growth of the Company's financial shared service capabilities and standardize financial systems. This initiative is not in response to any identified deficiency or weakness in the Company's internal control over financial reporting. In response to this initiative, the Company has and will continue to align and streamline the design and operation of its financial control environment.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item is incorporated herein by reference to the discussion of the Audit Committee under the caption "Item 1. Election of Directors - Board Committees"; and the material under the captions "Item 1. Election of Directors" and "Stock Ownership and Section 16 Compliance – Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement; and the material under the caption "Executive Officers of the Registrant" in Part I of this Report.

The Company's Code of Business Conduct, which covers all employees (including the Chief Executive Officer, Chief Financial Officer and Controller), meets the requirements of the SEC rules promulgated under Section 406 of the Sarbanes-Oxley Act of 2002. The Code of Business Conduct is available on the Company's website at www.jnj.com/code-of-business-conduct, and copies are available to shareholders without charge upon written request to the Secretary at the Company's principal executive offices. Any substantive amendment to the Code of Business Conduct or any waiver of the Code granted to the Chief Executive Officer, the Chief Financial Officer or the Controller will be posted on the Company's website at www.investor.jnj.com/gov.cfm within five business days (and retained on the website for at least one year).

In addition, the Company has adopted a Code of Business Conduct & Ethics for Members of the Board of Directors and Executive Officers. The Code of Business Conduct & Ethics for Members of the Board of Directors and

Executive Officers is available on the Company's website at www.investor.jnj.com/gov/boardconduct.cfm, and copies are available to shareholders without charge upon written request to the Secretary at the Company's principal executive offices. Any substantive amendment to the Code or any waiver of the Code granted to any member of the Board of Directors or any executive officer will be posted

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on the Company's website at www.investor.jnj.com/gov.cfm within five business days (and retained on the website for at least one year).

Item 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the material under the captions "Item 1. Election of Directors – Director Compensation," "Compensation Committee Report," "Compensation Discussion and Analysis" and "Executive Compensation Tables" in the Proxy Statement.

The material incorporated herein by reference to the material under the caption "Compensation Committee Report" in the Proxy Statement shall be deemed furnished, and not filed, in this Report and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, as a result of this furnishing, except to the extent that the Company specifically incorporates it by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is incorporated herein by reference to the material under the caption "Item 1. Stock Ownership and Section 16 Compliance" in the Proxy Statement; and Note 17 "Common Stock, Stock Option Plans and Stock Compensation Agreements" of the Notes to Consolidated Financial Statements in Item 8 of this Report.

Equity Compensation Plan Information

The following table provides certain information as of December 31, 2017 concerning the shares of the Company's Common Stock that may be issued under existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	Weighted Average Exercise Price of Outstanding Options and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans[2][3]
Equity Compensation Plans Approved by Security Holders[1]	134,091,342	$75.11	389,083,761
Equity Compensation Plans Not Approved by Security Holders	-	-	-
Total	134,091,342	$75.11	389,083,761

(1) Included in this category are the following equity compensation plans which have been approved by the Company's shareholders: 2005 Long-Term Incentive Plan and 2012 Long-Term Incentive Plan.

(2) This column excludes shares reflected under the column "Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights."

(3) The 2005 Long-Term Incentive Plan expired April 26, 2012. All options and restricted shares granted subsequent to that date were under the 2012 Long-Term Incentive Plan.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item is incorporated herein by reference to the material under the captions "Item 1. Election of Directors - Director Independence" and "Related Person Transactions" in the Proxy Statement.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is incorporated herein by reference to the material under the caption "Item 3. Ratification of Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

1. Financial Statements

Consolidated Balance Sheets at end of Fiscal Years 2017 and 2016

Consolidated Statements of Earnings for Fiscal Years 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income for Fiscal Years 2017, 2016 and 2015

Consolidated Statements of Equity for Fiscal Years 2017, 2016 and 2015

Consolidated Statements of Cash Flows for Fiscal Years 2017, 2016 and 2015

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

All schedules are omitted because they are not applicable or the required information is included in the financial statements or notes.

2. 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.

Item 16. FORM 10-K SUMMARY

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Company has elected not to include such summary information.

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: February 21, 2018

JOHNSON & JOHNSON

(Registrant)

By /s/ A. Gorsky

A. Gorsky, 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/ A. Gorsky A. Gorsky	Chairman, Board of Directors Chief Executive Officer (Principal Executive Officer)	February 21, 2018
/s/ D. J. Caruso D. J. Caruso	Chief Financial Officer (Principal Financial Officer)	February 21, 2018
/s/ R. A. Kapusta R. A. Kapusta	Controller and Chief Accounting Officer (Principal Accounting Officer)	February 21, 2018
/s/ M. C. Beckerle M. C. Beckerle	Director	February 21, 2018
/s/ D. S. Davis D. S. Davis	Director	February 21, 2018
/s/ I. E. L. Davis I. E. L. Davis	Director	February 21, 2018

Signature	Title	Date
/s/ M. B. McClellan M. B. McClellan	Director	February 21, 2018
/s/ A. M. Mulcahy A. M. Mulcahy	Director	February 21, 2018
/s/ W. D. Perez W. D. Perez	Director	February 21, 2018
/s/ C. Prince C. Prince	Director	February 21, 2018
/s/ A. E. Washington A. E. Washington	Director	February 21, 2018
/s/ R. A. Williams R. A. Williams	Director	February 21, 2018

EXHIBIT INDEX

Reg. S-K Exhibit Table Item No.	Description of Exhibit
3(i)	Restated Certificate of Incorporation effective February 19, 2016 — Incorporated herein by reference to Exhibit 3(i) of the Registrant's Form 10-K Annual Report for the fiscal year ended January 3, 2016.
3(ii)	By-Laws of the Company, as amended effective January 26, 2016 — Incorporated herein by reference to Exhibit 3.1 the Registrant's Form 8-K Current Report filed January 26, 2016.
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)	2005 Long-Term Incentive Plan — Incorporated herein by reference to Exhibit 4 of the Registrant's S-8 Registration Statement filed with the Commission on May 10, 2005 (file no. 333-124785).*
10(b)	Form of Stock Option Certificate under the 2005 Long-Term Incentive Plan — Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K Current Report filed January 13, 2012.*
10(c)	2012 Long-Term Incentive Plan — Incorporated herein by reference to Appendix A of the Registrant's Proxy Statement filed with the Commission on March 15, 2017 .*
10(d)	Form of Stock Option Certificate, Restricted Share Unit Certificate and Performance Share Unit Certificate under the 2012 Long-Term Incentive Plan — Incorporated herein by reference to Exhibits 10.2, 10.3 and 10.4 of the Registrant's Form 10-Q Quarterly Report filed May 7, 2012.*
10(e)	Johnson & Johnson Executive Incentive Plan (as amended) — Incorporated herein by reference to Exhibit 10(f) of the Registrant's Form 10-K Annual Report for the fiscal year ended December 31, 2000.*
10(f)	Domestic Deferred Compensation (Certificate of Extra Compensation) Plan — Incorporated herein by reference to Exhibit 10(g) of the Registrant's Form 10-K Annual Report for the year ended December 28, 2003.*
10(g)	Amendments to the Certificate of Extra Compensation Plan effective as of January 1, 2009 — Incorporated herein by reference to Exhibit 10(j) of the Registrant's Form 10-K Annual Report for the year ended December 28, 2008.*
10(h)	2009 Certificates of Long-Term Performance Plan — Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report for the quarter ended September 27, 2009.*
10(i)	Amended and Restated Deferred Fee Plan for Directors — Incorporated herein by reference to Exhibit 10(k) of the Registrant's Form 10-K Annual Report for the fiscal year ended January 1, 2012.*
10(j)	The Johnson & Johnson Executive Income Deferral Plan (Amended and Restated) — Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report for the quarter ended September 30, 2012.*
10(k)	Excess Savings Plan — Incorporated herein by reference to Exhibit 10(j) of the Registrant's Form 10-K Annual Report for the fiscal year ended December 29, 1996.*
10(l)	Amendments to the Johnson & Johnson Excess Savings Plan effective as of January 1, 2009 — Incorporated herein by reference to Exhibit 10(p) of the Registrant's Form 10-K Annual Report for the fiscal year ended December 28, 2008.*
10(m)**	Excess Benefit Plan (Supplemental Retirement Plan) — Incorporated herein by reference to Exhibit 10(h) of the Registrant's Form 10-K Annual Report for the fiscal year ended January 3, 1993.*
10(n)	Amendments to the Excess Benefit Plan of Johnson & Johnson and Affiliated Companies effective as of January 1, 2009 — Incorporated herein by reference to Exhibit 10(r) of the Registrant's Form 10-K Annual Report for the fiscal year ended December 28, 2008.*
10(o)	Amendment to the Excess Benefit Plan of Johnson & Johnson and Affiliated Companies, effective as of January 1, 2015 — Incorporated herein by reference to Exhibit 10(q) of the Registrant's Form 10-K Annual Report for the fiscal year ended December 28, 2014.*

10(p)**	Executive Life Plan Agreement — Incorporated herein by reference to Exhibit 10(i) of the Registrant’s Form 10-K Annual Report for the fiscal year ended January 3, 1993.*
10(q)	Executive Life Plan Agreement Closure Letter — Incorporated herein by reference to Exhibit 10.1 of the Registrant’s Form 10-Q Quarterly Report for the quarter ended March 29, 2015.*
10(r)	Employment Agreement for Dr. Paulus Stoffels - Incorporated herein by reference to Exhibit 10.2 of the Registrant’s Form 10-Q Quarterly Report for the quarter ended September 30, 2012.*
10(s)	Summary of Employment Arrangements for Sandra E. Peterson — Incorporated herein by reference to Exhibit 10(t) of the Registrant's Form 10-K Annual Report for the year ended December 30, 2012.*
10(t)	Severance Pay Plan of Johnson & Johnson and U.S. Affiliated Companies, Amended and Restated as of October 1, 2014 — Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report for the quarter ended September 28, 2014.*

Reg. S-K Exhibit Table Item No.	Description of Exhibit
10(u)	First Amendment to the Severance Pay Plan of Johnson & Johnson and U.S. Affiliated Companies (as amended and restated effective October 1, 2014) — Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report for the quarter ended June 28, 2015.*
10(v)	Second Amendment to the Severance Pay Plan of Johnson & Johnson and U.S. Affiliated Companies (as amended and restated effective October 1, 2014) — Incorporated herein by reference to Exhibit 10(x) of the Registrant's Form 10-K Annual Report for the fiscal year ended January 3, 2016.*
12	Statement of Computation of Ratio of Earnings to Fixed Charges — Filed with this document.
21	Subsidiaries - Filed with this document.
23	Consent of Independent Registered Public Accounting Firm — Filed with this document.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act — Filed with this document.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act — Filed with this document.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act — Furnished with this document.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act — Furnished with this document.
101	XBRL (Extensible Business Reporting Language) The following materials from this Report for the fiscal year ended December 31, 2017, formatted in Extensive Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Consolidated Financial Statements.

* Management contract or compensatory plan.

** Paper filing.

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