

MARCH 2016

TO OUR SHAREHOLDERS



ALEX GORSKY

Chairman, Board of Directors
and Chief Executive Officer

This year at Johnson & Johnson, we are proud to celebrate 130 years of helping people everywhere live longer, healthier and happier lives. As I reflect on our heritage and consider our future, I am optimistic and confident in the long-term potential for our business.

We manage our business using a strategic framework that begins with Our Credo. Written over 70 years ago, it unites and inspires the employees of Johnson & Johnson. It reminds us that our first responsibility is to the patients, customers and health care professionals who use our products, and it compels us to deliver on our responsibilities to our employees, communities and shareholders.

Our strategic framework positions us well to continue our leadership in the markets in which we compete through a set of strategic principles: we are broadly based in human health care, our focus is on managing for the long term, we operate under a decentralized management approach, and we do all

this aligned with our values. Our Board of Directors engages in a formal review of our strategic plans, and provides regular guidance to ensure our strategy will continue creating better outcomes for the patients and customers we serve, while also creating long-term value for our shareholders.

**OUR STRATEGIES ARE BASED ON
OUR BROAD AND DEEP KNOWLEDGE
OF THE HEALTH CARE LANDSCAPE
IN WHICH WE OPERATE.**

For 130 years, our company has been driving breakthrough innovation in health care – from revolutionizing wound care in the 1880s to developing cures, vaccines and treatments for some of today's most pressing diseases in the world. We are acutely aware of the need to evaluate our business against the changing health care environment and to challenge ourselves based on the results we deliver. Consider some of the changes we are facing in the future global health care market:

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- Populations of developed nations are aging rapidly – and we know the elderly consume about seven times the health care resources as younger people.
- Middle classes are expanding in many developing nations – and we know that those developing economies cannot grow fast enough to meet the demand of nearly two billion people who want and deserve greater access to quality health care.
- Patients are becoming increasingly involved in their own health care decisions – and we know we must deliver a holistic approach to meet their needs and expectations; integrating wellness solutions, innovative new medicines and advanced technologies.

At Johnson & Johnson, we believe the most important contribution we can make to the dynamic challenges we are facing is innovation – innovation in products, services, solutions and in everything we do. As I think back on how far we've come, the advances in health care are remarkable. The average life expectancy continues to rise; and diseases, such as HIV, that were once considered a death sentence are now treatable. Cures and treatments reaching the market today are not only improving quality of life for many patients, extending life for others, and contributing to the productivity of our society, but they are also helping to reduce caregiver burden, disability, and health care spending in other parts of the system.

In this environment, ensuring access to important medicines and medical procedures remains a key objective for us, and our broad

base gives us a unique perspective. While we are pleased to see that health care is a focus in the dialogue among government officials, politicians, and other stakeholders, we must ensure that the discussion isn't just about cost of care alone. In fact, a disproportionate focus on pharmaceutical pricing, which represents approximately 14%* of total U.S. health spending, puts us at risk of missing the bigger picture.

In this discussion we have to put the patient in the center and reward innovations that drive better outcomes and long-term value. We realize it is the responsibility of all stakeholders to also consider the economic and financial implications of health care, so that we have a high quality, innovative, and sustainable approach in all that we do.

The promise of innovation in health care is great, but it comes with the need for forward-focused investment in R&D, a holistic approach to evolving global health care markets and bold future-facing strategies.

**OUR BROAD BASE STRUCTURE IS A
STRATEGIC CHOICE, NOT JUST OUR
HERITAGE, AND IT IS ONE THAT IS
GROUNDED IN PERFORMANCE.**

Our broad base in human health care extends our reach, capabilities and strategic advantages for patients, providers and consumers around the world, and ultimately benefits our shareholders. We review and discuss our structure with our Board of Directors, and we believe it has a number of inherent advantages given the challenges and opportunities in today's evolving health care marketplace.

Our broad base enables us to:

- Create and access growth opportunities across multiple sectors of the health care market.
- Be a strategic partner of choice for information technology companies and innovative start-ups that can benefit from the deep health care expertise Johnson & Johnson can uniquely provide.
- Work with local governments and public health organizations, where we are collaborating more than ever to address the world's most pressing health challenges.
- Provide our customers with broader offerings of products, solutions and partnership opportunities with us, particularly in large health care systems focused on attracting patients, improving patient outcomes and reducing the cost of care.
- Create product platforms and systems that cross categories and establish new sources of innovation through convergent combination products. We are excited about the promise of convergent technologies in categories like lung cancer, vision care, biosurgery, robotics, obesity and diabetes.
- Realize advantages of scale to achieve enterprise efficiencies and capabilities across all sectors. We are targeting as much as \$1 billion in operational savings by 2018, to support our growth.

Because of its many advantages, our broad base ultimately helps us deliver strong, consistent and sustainable financial performance. And most importantly, it allows us to create better products, more valuable services and improve outcomes for patients, consumers and their families.

OUR FOCUS IS ON MANAGING FOR THE LONG TERM—BUILDING ENDURING EQUITY FOR OUR BRANDS AND BUILDING SHAREHOLDER VALUE OVER TIME.

Johnson & Johnson has a set of clear objectives for creating long-term value. We expect global health care to grow at three to five percent over the next five years, and we have an objective to grow our sales organically at a faster rate than the market. We also intend to grow our earnings faster than sales. When we combine these objectives with our plans to continue creating value through strategic acquisitions and partnerships, as well as our strong dividend yield, we believe the result to be a compelling basis for long-term total shareholder return.

Johnson & Johnson also has a rigorous and disciplined portfolio review program focused on creating long-term shareholder value, and this applies to all our businesses. We regularly review this approach with our Board of Directors, and we have a track record of taking decisive actions, including divestitures and acquisitions, in order to meet changing industry and consumer dynamics.

Additionally, our disciplined capital allocation strategy allows us to capitalize on the right opportunities to create greater long-term value for our shareholders, while also investing in our businesses for the future. Our capital allocation strategy starts with paying dividends to our shareholders. Next, we seek value-creating strategic

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THE SUCCESS OF OUR STRATEGIES IS PREDICATED ON THE STRENGTH OF OUR LEADERS & OUR TALENTED, DIVERSE EMPLOYEES ACROSS THE GLOBE, WITH THEIR BROAD BASE OF EXPERIENCE HELPING TO DRIVE RESULTS.

acquisitions and partnership opportunities. Finally, we consider other prudent ways to return value to shareholders such as share repurchase programs.

During 2015, we increased our dividend for the 53rd consecutive year, we invested nearly \$2.5 billion in licensing, acquisitions and strategic partnerships, and we announced a \$10 billion share repurchase program in October.

Over the past decade, we have supported our organic growth programs and prioritized business needs while also investing about 30 percent of our free cash flows¹ in merger and acquisition opportunities. Approximately 70 percent has been returned to our shareholders in the form of dividends or share repurchases. Historically, about half of our growth has come from mergers and acquisitions, and half from internal development, which we expect to continue in the future. With our strong balance sheet, we have the financial strength and flexibility to execute on all of our capital allocation priorities simultaneously.

OUR DECENTRALIZED MANAGEMENT APPROACH ACKNOWLEDGES THAT THOSE CLOSEST TO PATIENTS AND CUSTOMERS ARE IN THE BEST POSITION TO UNDERSTAND AND ADDRESS THEIR NEEDS.

In order to meet our performance objectives, we have developed a set of near-term priorities for each business segment that will enable our enterprise to achieve the growth we expect in the long term, while also driving success for each segment.

As an enterprise, we continue to focus on delivering on our financial and quality commitments. Consistent with our long-term strategy, we exceeded our 2015 adjusted operational earnings per share growth goal and met our operational sales and free cash flow goals², while executing against our enterprise priorities for long-term value creation.

The success of our strategies is predicated on the strength of our leaders and our talented, diverse employees across the globe, with their broad base of experience helping to drive results. Our goal is to attract and retain the best talent in order to deliver the best outcomes. We've made significant investments, both internally and externally, in global diverse talent who share our vision.

PHARMACEUTICALS

Our Pharmaceuticals business delivered strong financial results and continued to strengthen our industry-leading innovation pipeline in 2015. Our objective is to continue building on our launch excellence and robust pipeline of transformational medicines. Our Pharmaceuticals business has a clear strategy, focused on five therapeutic areas of high unmet medical need, a robust innovation engine and proven commercial capabilities. As we announced at our Pharmaceutical Analyst Day last May, we are investing in our future with 10 new product candidates which we plan to file for regulatory approval by 2019, each with the potential to exceed a billion dollars in annual sales. In 2015, we delivered the first of those breakthrough medicines to the

market, four months ahead of schedule, with the U.S. Food and Drug Administration approval of DARZALEX™ (Daratumumab), the first human monoclonal antibody to be approved anywhere in the world for patients with multiple myeloma. We are confident that our above-industry investment in R&D, demonstrated record of disciplined acquisitions and licensing deals and strong in-market performance, will enable us to successfully navigate through the launches of new competition, biosimilar and generic entrants, and evolving market dynamics. With the combined strength of our in-market portfolio, deep late-stage pipeline and robust early-stage pipeline, our objective is to continue delivering above-industry growth.

CONSUMER

During the year, our Consumer business exceeded operational sales goals, expanding market share in Oral Care and U.S. OTC, and delivering solid operational growth in emerging markets with double-digit growth in Brazil, India and Russia. We expect to continue to return our Consumer business to benchmark performance by recapturing share, growing sales faster than competitors and enhancing our financial metrics. In 2015, our U.S. OTC business did just that, and we are happy to report that nearly all of our OTC products have returned to shelves. We are also proud of the quality system milestones we have completed – including receiving notices of conformity for our McNeil facilities from the U.S. Food and Drug Administration – and the improvements we have put in place. In Consumer, we focus our portfolio in critical geographies and leverage our iconic

mega-brands to address key consumer need states. Our priority for this business in 2016 is to expand our market leadership in key consumer segments in OTC, oral care, baby products and beauty. Our health and wellness-based products are grounded in science and endorsed by professionals, and we are investing in technologies that will help us capitalize on our consumer expertise across our broad base.

MEDICAL DEVICES

Our Medical Devices business did not achieve its revenue ambitions for the year. However, we did demonstrate improved performance in several key business units and key initiatives in 2015, including strong operational sales growth in endcutters, biosurgery and electrophysiology. Our priority in Medical Devices is to better serve the needs of customers and patients in today's evolving health care marketplace. Our 2015 acquisition of Coherex Medical in the area of atrial fibrillation and the surgical robotics collaboration with Verily (formerly Google Lifesciences) are examples of the type of strategic investments we will be focused on in the future. As part of the restructuring we announced in January 2016, we are also undertaking actions to further strengthen our go-to-market model, accelerate the pace of innovation, prioritize key platforms and geographies, and streamline operations while maintaining high quality standards. We will continue to take the bold but appropriate steps to put our Medical Devices business in the best position to deliver more value for customers, for our company and for our shareholders.

OUR GOAL IS TO ATTRACT & RETAIN THE BEST TALENT IN ORDER TO DELIVER THE BEST OUTCOMES.

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TO COME.**

**THE VALUES IN OUR CREDO UNIFY
OUR DIRECTION AND DECISIONS,
HELPING US TOUCH THE LIVES OF MORE
THAN A BILLION PEOPLE EVERY DAY.**

Johnson & Johnson is privileged to play a role in the health and well-being of billions of people throughout the world. In our view, the climate and our environment are also important health care issues. We are proud of the progress we have made in collaboration with our partners to improve our social, environmental and economic impact and influence – including reducing carbon emissions, protecting our environment and conserving our natural resources. And, we are committed to doing more.

Johnson & Johnson has had an energy management program in place for over three decades and since setting our first public goal to reduce greenhouse gas emissions in 2000, we have completed more than 150 energy efficiency and renewable energy projects on our properties around the globe. In 2015, I participated in a roundtable with President Obama ahead of the United Nations Conference on Climate Change (COP21), where I shared our goal to tap 20 percent of our electricity needs from clean or renewable sources by 2020 and our aspiration to use 100 percent renewable power by 2050. We understand the value of advancing these goals and making these investments. In the past 10 years, our energy and CO₂ emissions reduction projects have reduced both our energy costs and carbon footprint by approximately 15 percent. We believe investing in the health of our environment is investing in the health of the communities

in which we live and work, and the world community as well.

We understand the important role Johnson & Johnson plays in the world, and we continue to build on our 130-year legacy of caring through strategic philanthropy with hundreds of partner organizations worldwide. Our corporate philanthropy includes work with Operation Smile® – helping to provide safe surgeries for facial deformities in children; Save the Children® – providing care to tens of millions of children around the world in resource limited and crisis situations, including long-term support for Syrian refugees; and the Elizabeth Glaser Pediatric AIDS Foundation® – eliminating HIV infections in children around the world. We also partner with global health agencies and non-governmental organizations to battle some of the most deadly epidemics of our generation, like our commitment and partnership to rapidly develop a vaccine for Ebola. Through these commitments, we envision a world where everyone has the means to be healthy and can thrive. We are committed to using our capabilities, expertise, resources and partnerships to fulfill our role in making the world a better, healthier place for generations to come.

**JOHNSON & JOHNSON IS
WELL-POSITIONED FOR THE FUTURE**

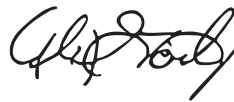
Although Our Credo was written over 70 years ago, I cannot imagine a more forward-looking document to continue guiding our long-term strategy. Our Credo has long embodied a strong sense of responsibility and inspiration. It is a clear measure of accountability for our long-term success.

When we operate according to the principles of Our Credo, our shareholders should realize a fair return. We believe our long-term success is the result of meeting the needs of all the stakeholders outlined in Our Credo.

As the world's largest health care company, we have a unique perspective on the challenges facing global health care. We believe we also have a responsibility to lead in addressing those challenges facing every individual, family, community and country. With the strong oversight of our Board of Directors, the leadership of our management team and the contributions of our more than 127,000 employees around the world, we will continue to move this great company forward.

I trust you share my enthusiasm in looking forward to 2016 and the future of Johnson & Johnson. Our 130-year heritage of leadership and service will continue, and I offer my sincere thanks for your support of our mission. I am excited about the future for Johnson & Johnson and committed to continuing our long-term success.

Sincerely,



Alex Gorsky
Chairman, Board of Directors
and Chief Executive Officer

* Source: 2014 CMS National Health Expenditures Report and Altarum Institute

** Non-GAAP measures – Adjusted operational earnings per share excludes special items, intangible asset amortization expense and the effect of translational currency. See "Reconciliation of Non-GAAP Financial Measures" in this Annual Report. Operational sales excludes the effect of translational currency. Free cash flow is defined as operating cash flow less capital spending.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This letter contains forward-looking statements relating to, among other things, future operating and financial performance, product development, market position and business strategy. The reader is cautioned not to rely on these statements, which are based on current expectations of future events. For important information about these statements, including the risks, uncertainties and other factors that could cause actual results to vary materially from the assumptions, expectations, and projections expressed in any forward-looking statements, the reader should review the enclosed Annual Report on Form 10-K for the fiscal year ended January 3, 2016, including "Cautionary Factors That May Affect Future Results" on page 29 and Exhibit 99 thereto. Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.