



## **BOARD REPORT ON OVERSIGHT OF RISK RELATED TO OPIOIDS**

**October 5, 2020**

As the world's largest healthcare company, Johnson & Johnson and its subsidiaries (the "Company") have been bringing lifesaving and life-changing solutions to patients and consumers around the world for more than 130 years. The Company has approximately 132,200 employees worldwide engaged in the research and development, manufacture and sale of a broad range of products in the health care field. The Company conducts business in virtually all countries of the world, focusing on products related to human health and well-being.

We recognize that the opioid crisis is a complex public health challenge and the Company is committed to working collaboratively to help communities and people in need. By building on our legacy in advancing public health, we are working with frontline health care professionals, academic institutions, policymakers, online communities and others to address the unmet needs of those impacted by this crisis. To date, the Company has sponsored education programs for hundreds of thousands of doctors, nurses and pharmacists across America, helping to better equip them to fight substance abuse and addiction. Finding solutions to this crisis requires collaboration among many stakeholders, and we believe that furthering these collaborations are where the Company can have the greatest impact.

On April 23, 2020, the Company's shareholders approved a proposal (the "Proposal") at the Company's Annual Meeting of Shareholders calling upon the Board of Directors (the "Board") to issue a report to shareholders describing the governance measures that the Company has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis, given sales by the Janssen Pharmaceutical Companies of Johnson & Johnson (Janssen) of opioid medications.

In response to the Proposal, the Board has prepared this report ("Report") for dissemination to the Company's shareholders. This Report is divided into the four following sections:

- I. Overview of Our Business
- II. Governance Measures to Monitor Risks
- III. Executive Compensation Metrics
- IV. Mechanisms for Obtaining Input from Stakeholders

**I. Overview of Our Business**

With Our Credo as the foundation, Johnson & Johnson's purpose is to blend heart, science and ingenuity to profoundly change the trajectory of health for humanity. The Company is broadly based in human healthcare, and is committed to creating value by developing accessible, high quality, innovative products and services to improve health for people today and for future generations. United around this common ambition, the Company is committed to fulfilling its purpose and successfully meeting the demands of the rapidly evolving health care needs of patients, providers and consumers.

The Company is organized into three business segments: Consumer Health, Pharmaceutical and Medical Devices. The Consumer Health segment includes a broad range of products used in the baby care, oral care, beauty, over-the-counter pharmaceutical, women's health and wound care markets. These products are marketed to the general public and sold both to retail outlets and distributors throughout the world. The Pharmaceutical segment is focused on six therapeutic areas, including immunology, infectious diseases and vaccines, neuroscience, oncology, pulmonary hypertension, and cardiovascular and metabolic diseases. Products in this segment are distributed directly to retailers, wholesalers, hospitals and health care professionals and dispensed through prescriptions. The Medical Devices segment includes a broad range of products used in the orthopaedic, surgery, interventional solutions (cardiovascular and neurovascular) and eye health fields. These products are distributed to wholesalers, hospitals and retailers, and used principally in the professional fields by physicians, nurses, hospitals, eye care professionals and clinics.

## Role of Prescription Opioids Medicines in the Company's Business

Janssen aspires to transform lives by bringing safe and effective prescription medicines to patients, as well as providing the services and support that contribute to healthy outcomes. Pain is a uniquely personal experience and, left untreated, can have a significant impact on patients' quality of life. Janssen and the global healthcare community agree on the importance of striking a balance between offering legitimate pain relief to those who need it and preventing abuse of these medications. Chronic-pain sufferers have limited treatment options, all of which come with their own risks, side effects, and limitations. The Centers for Disease Control and Prevention (CDC) estimates nearly 50 million Americans suffer from chronic pain.

In an effort to address this patient need, Janssen responsibly provided needed treatment options to physicians for their patients suffering from pain. More specifically, Janssen developed and previously promoted and manufactured two types of Schedule II prescription opioid medicines – a transdermal patch and a crush-resistant tablet – designed to help patients suffering from severe pain. NUCYNTA® and NUCYNTA® ER (tapentadol), CII (an immediate release tablet and an extended-release tablet) and DURAGESIC® (fentanyl transdermal system), CII, are U.S. Food and Drug Administration (FDA)-approved prescription pain medications, which, since launch, have accounted for less than one percent of total opioid prescriptions in the United States. In March 2020, Janssen notified the FDA that it has delisted DURAGESIC® (for which it had ceased active U.S. marketing in April 2008) in the United States. The Company had earlier sold the U.S. marketing rights for NUCYNTA® ER and NUCYNTA® in April 2015.

Janssen also sold and divested its opioid-related active pharmaceutical ingredient (API) supplier businesses in 2016. The divested subsidiaries, Tasmanian Alkaloids Pty, Ltd. and Noramco, Inc., produced medical-grade API for prescription opioid medicines. The former subsidiaries, like multiple other companies, supplied API to third-party pharmaceutical manufacturers, which in turn used them to manufacture prescription opioid medicines. Importantly, as suppliers, these former affiliates played no role in the manufacturing, sale or marketing of the finished products of other U.S. Drug Enforcement Administration (DEA)-regulated manufacturers. Prior to their divestiture, these ingredients were sold only to DEA-licensed and approved manufacturers in amounts authorized in quotas established each year by the DEA.<sup>1</sup>

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<sup>1</sup> Manufacturers Notice of Registration – 2015. Diversion Control Division. <https://www.dea.gov/diversion-control/manufacturers-notice-of-registration-2015>

Although the Company's current prescription opioid-related business activities are immaterial, the Company has proactively taken steps to collaborate with health care professionals, academic institutions, policymakers, online communities and others to find ways to effectively address the opioid epidemic. With oversight by the Board of Directors, the Company has been transparent and updates our shareholders and the public regarding the steps taken to help address the opioid crisis through the Company-created resource, [www.factsaboutourprescriptionopioids.com](http://www.factsaboutourprescriptionopioids.com). In addition, this website provides information about the Company's prior opioid activities, the related litigations and activities directed toward solutions.

## **II. Governance Measures to Monitor Risks**

Effective risk management is an essential element of the Company's current operations and long-term growth. To grow sustainably as an enterprise, the Company must balance opportunity and appropriate risk to innovate and reach more patients and consumers. To effectively identify and mitigate or manage risks, the Company requires strong collaboration between a number of internal groups: management, employees, leaders responsible for operations and functional compliance experts. These internal partners all work together in concert to ensure that the Company grows in an ethical and compliant manner. The Board of Directors also plays a key role in providing effective risk management oversight.

### **The Company's Approach to Enterprise Risk Management**

Responsible business practices serve as the foundation of the Company's success and are imperative to protecting the broader healthcare system and the communities where its employees live and work. The Company nurtures a culture of ethical leadership and integrity in its diverse, skilled workforce, committed to serving all those who count on it to provide high-quality, safe and reliable products.

The Company's approach to risk management begins with the design of its organization. Independent compliance functions, including legal, healthcare compliance, quality, privacy and medical safety, work closely with each of the Company's business segments to identify risks and advise management as they collaborate to develop plans to mitigate or manage these risks. Although employees of each independent compliance function partner closely with management to provide timely, relevant guidance, they are supervised by leadership within their function. This reporting structure enables the compliance functions to ensure that compliance and risk management are prioritized across the enterprise.

Robust compliance practices also require coordination among compliance functions. The Company's Compliance Committee, composed of leaders from our compliance functions and other enterprise functions such as information security, human resources and finance, meet on a quarterly basis to share information on enterprise risks and trends and to develop solutions to manage or mitigate identified risks. Members of the Compliance Committee report to several key Committees of the Board, including the Audit Committee and Regulatory Compliance Committee, to ensure Board oversight of significant risks facing the Company (as discussed further below).

The Company's approach to overseeing risk is further articulated in its Enterprise Risk Management framework (ERM). The ERM is designed to identify risks that may affect the enterprise and manage the related risks and opportunities to ensure the Company will be able to meet its short- and long-term goals. The Company's ERM categorizes risk as: strategic, operational, compliance (including legal and regulatory), financial and reporting, environmental and social, and cybersecurity. Within each category, management seeks to identify and remediate risks, enable improved decision-making and prioritization, and promote monitoring and reporting across compliance functions. Management is responsible for creating, and the day-to-day management of, appropriate risk management procedures. For more information about the Company's ERM, please see [www.jnj.com/about-jnj/enterprise-risk-management-framework](http://www.jnj.com/about-jnj/enterprise-risk-management-framework).

The Company's risk management practices are also supported by its employees around the globe, who are inspired by Our Credo in all that they do. Employees are engaged in risk management through the Company's Code of Business Conduct, which applies to all its employees worldwide. The Code of Business Conduct is designed to inform employees of relevant laws, Company policies and ethical standards for decisions and actions in every market where the Company operates to help identify risks and ensure compliant practices. The Code of Business Conduct also provides guidance on where to turn for help and how to escalate risks and concerns. Management around the globe is reminded annually of the requirements of this policy, and the Company acts swiftly to review any reported violations of the Code of Business Conduct, compliance policies, laws or regulations. All Company employees are required to complete training every other year on the Code of Business Conduct.

In addition to the escalation procedure described in the Code of Business Conduct, the Company's Credo Hotline is an integral component of its strong compliance culture. The Credo Hotline is a mechanism that provides a channel for all employees, contingent workers,

customers, third-party agencies and other partners to report potential violations or whistleblower complaints, as well as file concerns anonymously, where legally permitted. Additionally, employees can report potential violations through other methods (by phone or e-mail, etc.) within their local business unit or to Corporate Internal Audit, Healthcare Compliance, the Law Department, Global Security or the Human Resources organizations.

#### Oversight by the Board of Directors

The Board is responsible for overseeing management's execution of its risk management responsibilities and for assessing the Company's approach to risk management of its business operations, including its former prescription opioid products. The Board's oversight of risk is an integral element of its oversight of the Company and seeks to ensure that management has processes and internal control frameworks in place to appropriately identify and manage risk, including risks related to litigation and reputation. Throughout the year, the Board and its relevant Committees receive updates from management regarding various enterprise risks and work to ensure that management has plans in place to appropriately mitigate these risks and identify future risks. The Board actively engages with management to understand and oversee the Company's most significant risks in a comprehensive way, including as follows:

- The Board reviews and discusses strategic, operational, financial and reporting, reputational and compliance risks, including risks related to opioid products.
- Throughout the year, the Board and the applicable Committees receive updates from management regarding various enterprise risk management issues and risks related to our business segments, including risks related to drug pricing, litigation, product quality and safety, reputation and sustainability.
- The Board consults with external advisors, including outside counsel, consultants and industry experts, to ensure that it is well informed about the risks and opportunities facing the Company.
- Independent Directors hold regularly scheduled Executive Sessions without management present to discuss risks facing the Company and its businesses, as well as its risk management practices. In certain Committees, Independent Directors also meet in private session with management and compliance leaders.
- In addition, the Board has tasked designated Committees of the Board to assist with the oversight of certain categories of risk management, and the Committees report to the full Board on these matters following Committee meetings. Each Committee reviews its

charter on an annual basis to ensure oversight is evolving with the business and business environment.

### Board Committees

The Board has also entrusted its Committees to oversee certain risks that fit within each Committee's area of expertise. The Board has a standing Audit Committee, Compensation & Benefits Committee, Nominating & Corporate Governance Committee, Regulatory Compliance Committee and Science, Technology & Sustainability Committee, each composed entirely of non-employee Directors determined to be "independent" under the listing standards of the NYSE and our Standards of Independence. Under their written charters adopted by the Board, each of these Committees is authorized and assured of appropriate funding to retain and consult with external advisors, consultants, and counsel.

#### *Audit Committee*

The Audit Committee oversees the Company's financial management, accounting and reporting processes and practices, and related risks. Its members appoint, retain and compensate the Company's independent auditor, and oversee the Company's internal audit organization and the results of its audits. The Audit Committee oversees the quality and adequacy of the Company's internal accounting controls and procedures, reviews and monitors financial reporting compliance and practices, and the applicable disclosure controls. This Committee also oversees the processes used by management to assess and manage the Company's exposure to financial risk, including financial risk related to litigation. Its members meet periodically with the Company's independent auditor, management and internal auditors (including in private sessions) to review their work and confirm that they are properly discharging their respective responsibilities and appropriately managing risk.

#### *Compensation & Benefits Committee*

The Compensation & Benefits Committee establishes the Company's executive compensation philosophy and principles are aligned with Our Credo values. This Committee reviews the compensation for the Company's Chief Executive Officer, which upon its recommendation must be approved by the Independent Directors of the Board. The Compensation & Benefits Committee also approves compensation for other executive officers and oversees the design and management of various pension, long-term incentive, savings, health and other benefit plans that apply to all of the Company's employees. For more information on how the

Compensation & Benefits Committee oversees risk, please see the Executive Compensation Metrics section on p. [9] of this report.

#### *Nominating & Corporate Governance Committee*

The Nominating & Corporate Governance Committee oversees matters of the Company's corporate governance, including establishing and regularly assessing the Board's policies, practices and leadership structure. This Committee also oversees performance evaluations for the Board and its Committees to ensure that each Director can share his or her perspectives on Board and Committee performance, and the results of these evaluations are shared with the full Board of Directors. The Committee also oversees compliance with the Code of Business Conduct & Ethics for Members of the Board of Directors and Executive Officers. To ensure that the Board is represented by diverse perspectives, the Nominating & Governance Committee reviews potential candidates to serve on the Board and recommends Director nominees to the Board for approval.

#### *Regulatory Compliance Committee*

The Regulatory Compliance Committee was established by the Board in 2013 to oversee regulatory compliance, healthcare compliance, compliance with anti-corruption laws and regulations related to the manufacture and supply of the Company's products. In 2018, the Regulatory Compliance Committee, in addition to its annual review of its charter and relevant regulatory frameworks, analyzed operational risks facing the Company, and benchmarked the oversight practices of peer companies. As a result of this analysis, in 2019 the Committee adopted a revised Committee charter that prioritizes the Board's oversight of management's efforts to comply with and operate within a specialized regulatory framework, in particular with respect to healthcare compliance, product quality and medical safety.

Under its current charter, the Regulatory Compliance Committee also oversees the Company's compliance with applicable laws and regulations, including the U.S. Foreign Corrupt Practices Act and other anti-corruption laws, as well the Company's risk management programs and policies related to supply chain, environmental regulations, employee health and safety, privacy, cybersecurity and political expenditures. The members of this Committee meet in private session with key compliance leaders, including the Chief Quality Officer, Chief Compliance

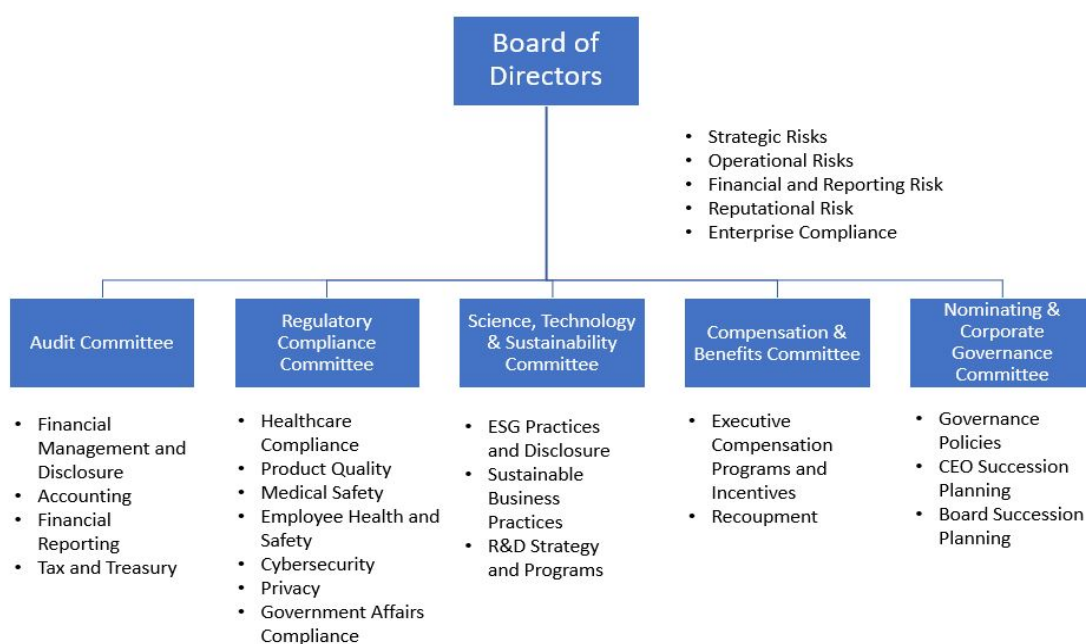


Officer, Chief Medical Officer, and General Counsel to ensure that the Committee has adequate information to oversee the Company’s compliance and risk management practices.

*Science, Technology & Sustainability Committee*

The Science, Technology & Sustainability Committee monitors and reviews the overall strategy, priorities and effectiveness of the Company’s research and development organization and provides oversight of the scientific and technological aspects of medical safety matters. The Science, Technology & Sustainability Committee also assists the Board in identifying significant emerging science and technology policy and public health issues and trends that may impact overall business strategy. The Committee oversees the Company’s environmental, social and governance policies and programs to ensure that they are designed to promote sustainable business practices and mitigate related risks.

The following graphic highlights certain risks overseen by the Committees:



**III. Executive Compensation Metrics**

With the oversight of the Compensation & Benefits Committee, the Company designs its executive compensation programs to achieve its goals of attracting, developing, and retaining global business leaders who can drive financial and strategic growth objectives and build long-term shareholder value.

The Company uses the following guiding principles to design its compensation programs:

- **Pay for Performance:** The Company ties annual bonuses and long-term incentive grants to the performance of the Company, the individual's business unit or function, and the individual.
- **Accountability for Short-Term and Long-Term Performance:** The Company structures performance-based compensation to reward an appropriate balance of short-term and long-term financial and strategic business results, with an emphasis on managing the business for long-term results.
- **Alignment to Shareholders' Interests:** The Company structures performance-based compensation to align the interests of its named executive officers with the long-term interests of its shareholders.
- **Competitiveness:** The Company compares its practices against appropriate peer companies that are of similar size and complexity, so it can continue to attract, retain, and motivate high-performing executives.

The Board believes that a key element of its risk oversight responsibilities is considering whether the Company's executive compensation programs incentivize its leaders to take excessive risks. The Board's Compensation & Benefits Committee reviews the Company's financial performance, as well as other strategic factors, including product quality metrics, talent development metrics and diversity metrics to ensure that leaders are driving long-term growth in a manner aligned with Our Credo values.

Each year, the Compensation & Benefits Committee reviews the performance of the Company's Chief Executive Officer and Executive Committee members using these metrics. It also oversees the design of the Company's executive compensation programs to ensure that the programs do not incentivize its executive officers, either individually or as a group, to make excessively risky business decisions that could maximize short-term results at the expense of long-term value. The Committee are informed of the Company's most significant risks, including litigation, drug pricing and product quality. In consultation with its independent compensation consultant, the Compensation & Benefits Committee ensures that the Company's executive compensation programs are aligned with its long-term strategy and do not incentivize overly risky behavior.

Please see the Compensation Discussion and Analysis beginning on page 45 of Johnson & Johnson's 2020 Proxy Statement for a complete discussion of the Company's compensation programs.

#### **IV. Mechanisms to Obtain Input from Stakeholders**

The Company appreciates that stakeholder expectations and the business environment in which we operate constantly evolve. To identify and strategically address topics that shape our sustainability, governance and reporting strategy, we seek input and feedback from a wide array of stakeholders including, among others, customers, healthcare professionals, government agencies, non-governmental organizations (NGOs) and shareholders.

Our responsibility to our shareholders is one of our core Credo values and we prioritize meaningful engagement that promotes transparency. The Company regularly communicates and engages with our shareholders to better understand their viewpoints and inform the Board's discussions. In early summer, the Company's governance team reviews the voting results from the prior Annual Shareholders' Meeting, the Company's current performance and the external environment, as well as trends in corporate governance and executive compensation, to develop a plan for shareholder engagement during the fall. The Company reviews the plan with its outside advisors to ensure that its program is appropriately inclusive and focused on topics of greatest interest to its shareholders.

We recognize that our shareholders have many different areas of interest, and for each engagement meeting we work to ensure that we have the right personnel available to have an informed and meaningful discussion on the topics that are most important to the participants.

- In 2019, the Company reached out to shareholders representing approximately 45% of its shares outstanding and approximately 64% of its institutional ownership.
- In 2019, the Company met with approximately 115 U.S. and international institutional shareholders representing approximately 35% of its shares outstanding and approximately 50% of our institutional ownership.
- Prior to the 2020 Annual Meeting of Shareholders, the Company reached out to its top 100 shareholders and sought a dialogue and feedback on the items of business and disclosure in our 2020 Proxy Statement.

In addition to our shareholder engagement program, stakeholders may also contact the Board of Directors, the Lead Director and the Audit Committee to report any complaint or concern by writing a letter or through electronic submission available at

<https://www.investor.jnj.com/communication.cfm>.

The Board of Directors and management deeply values insight from the Company's shareholders. The Company leadership continually shares shareholders' and other

stakeholders' perspectives with the Board for its consideration, and the Company strives to continuously improve its disclosure to meet the expectations of shareholders. This report is a product of feedback received from shareholders during the 2020 Proxy season.

### **Note to the Reader**

***The information contained in this report is for informational purposes only and should not be construed as a commitment by the Company to engage in any specific strategy or course of action. This report speaks only as of the date hereof, and the Company undertakes no obligation to update this report as a result of new information or future events.***

The Company's main corporate website address is [www.jnj.com](http://www.jnj.com). This report and all of the Company's SEC filings are available on the Company's website at [www.investor.jnj.com](http://www.investor.jnj.com). All SEC filings are also available at the SEC's website at [www.sec.gov](http://www.sec.gov).

Readers should note that the Company also posts opioid-related developments at [www.factsaboutourprescriptionopioids.com](http://www.factsaboutourprescriptionopioids.com). We use this website to communicate with investors and the public about our prescription opioid products, litigation and other matters. It is possible that the information we post to this website could be deemed to be material information. Therefore, we encourage investors and others interested in the Company to review the information posted to this website in conjunction with [www.jnj.com](http://www.jnj.com), the Company's SEC filings, press releases, public conference calls and webcasts.

Dated: October 5, 2020