A passion for caring

2005 Annual Report

BD

Helping all people live healthy lives

BD is a medical technology company that serves healthcare institutions, life science researchers, clinical laboratories, industry and the general public. BD manufactures and sells a broad range of medical supplies, devices, laboratory equipment and diagnostic products.

Financial highlights

Thousands of dollars, except per-share amounts

	2005	2004	Change
Operating results			
Revenues	**$5,414,681**	$4,934,745	9.7%
Income from continuing operations	**$ 692,283**	$ 582,504	18.8%
Diluted earnings per share, from continuing operations	**2.66**	2.21	20.4%
Dividends per common share	**.72**	.60	20.0%

About the cover: The BD Diabetes Makeover program is helping people with diabetes, such as Carlos Lasiloo, better manage their disease with the right information and tools. Carlos, shown with his nine-year-old daughter Patricia and fourteen-year-old son Carlos, Jr., takes time out from his busy schedule near their home in Zuni, New Mexico.

To our shareholders

I am pleased to report that fiscal 2005 was another very good year for BD. The Company achieved its financial and operating goals and showed solid improvement over 2004. Our strategy is working, and we will continue to implement it. The key elements of the strategy are to drive revenue growth through innovation, and to expand our margins by improving operating effectiveness.

Edward J. Ludwig, Chairman, President and Chief Executive Officer

The growth in revenues and profits that we achieve from this strategy will enable us to make continued progress toward our vision of becoming a "great company"–one that achieves great performance for its customers and shareholders, makes great contributions to society, and is a great place to work. We'll look at these "Three Greats" as we review this year's accomplishments:

Great performance

Company revenues grew nearly 10 percent overall (including about a 3 percent benefit from foreign currency translation) to $5.4 billion, with contributions from all three segments and every region. Our adjusted gross profit margin increased 80 basis points to 51.0 percent, continuing a trend of gross profit improvement over the last several years.*

Overall productivity was powered by continuous improvement activities including Six Sigma, Lean and Process Validation across the Company. Significant productivity improvements and successful category management more than overcame substantial raw material price increases, primarily affecting petroleum-based resins, during the year. Greater forecast accuracy and continued efforts from operations resulted in a 40 percent decrease in backorders, leading to improved customer service. These and other activities are detailed in the Operational Effectiveness sidebar accompanying this letter.

Adjusted operating income increased over 18 percent from adjusted 2004. Adjusted operating margin as a percentage of sales improved from 19 percent to over 20 percent, reflecting gross profit improvement, productivity gains and SSG&A leverage.*

This year, we generated over $1.2 billion in operating cash flow and our inventory turns improved. We repurchased 9.7 million common shares for $550 million and paid dividends of $182 million. We returned 60 percent of our operating cash flow to shareholders. Our balance sheet remains strong and liquid, placing us in a good position for future strategic investments.

BD Medical revenues rose by 10 percent over 2004 (including about a 3 percent benefit from foreign currency translation) to $3.0 billion. Sales of safety-engineered products grew 28 percent internationally and 7 percent in the U.S. We achieved strong sales growth in blood glucose monitoring products, which totaled $76 million for the year. Other key growth drivers included prefilled IV flush syringes, pen needles for insulin injection, and prefillable syringes sold to pharmaceutical companies. The new *BD Nexiva*

* See reconciliation on page 64.

Operational effectiveness

Last year, I used this space to tell you about the importance of operational effectiveness–ongoing efforts to streamline and improve business processes from production planning to order fulfillment, along with information technology, procurement, manufacturing, distribution and customer service–to BD's overall performance. Operational effectiveness fuels the innovation engine, delights customers and rewards shareholders.

I also promised you that we were going to get better in 2005. So this year, I'm pleased to describe the progress we have made in line with one of BD's Core Values–"We Always Seek to Improve."

Notably, savings from operational improvements in 2005 helped us to absorb a significant increase in the prices of raw materials, primarily petroleum-based resins. We received industry recognition this year when Cardinal Health presented its Operational Excellence Award to our BD Diagnostics operations in Maryland. Our distribution centers are making significant progress and becoming world-class performers. Our primary North American distribution group has dramatically improved several performance measurements, including shipment accuracy, to 99 percent, and the costs of distribution-related customer claims were down by more than $8 million in fiscal 2005.

The construction of a new distribution center in Indiana, scheduled to be operational in 2007, will allow for more direct shipments, higher service levels to customers and shorter cycle times. Approximately half of all BD customers in the U.S. will be serviced from this location; 70 percent of customer orders will cycle in one day, versus 40 percent currently. This will also allow us to consolidate a number of distribution center operations for maximum operational and service efficiency.

Operational effectiveness fuels the innovation engine, delights customers and rewards shareholders.

We continue to concentrate on initiatives that eliminate waste in manufacturing and in business processes. These include Genesis (our SAP-based global enterprise resource planning system), Six Sigma, Lean and Process Validation. These tools, along with outstanding program management, are intended to help us design processes and deliver products that have outstanding quality, with virtually no defects, that are delivered on time around the world.

Closed IV Catheter System was launched in the U.S. and Europe. *BD Nexiva* has the potential to improve the way infusion therapy is delivered and to enhance safety for both patients and healthcare workers.

BD Diagnostics revenues rose by 8 percent over 2004 (including about a 2 percent benefit from foreign currency translation) to $1.7 billion. Sales of safety-engineered products rose by 37 percent internationally and 11 percent in the U.S. Safety sales were highlighted by the successful scale-up and launch of the *BD Vacutainer* Push Button Blood Collection Set. The *BD ProbeTec* ET instrument platform was another key growth driver, and the next-generation, highly automated *BD Viper* ER System should roll out in early 2006. The *BD Phoenix* instrument for bacterial identification and antisusceptibility testing was launched in the U.S. and Japan this year, and it continues to show solid sales growth. BD Diagnostics' acquisition of FFE Weber established our entry into the field of proteomics as an enabling first mover in the research market for biomarker discovery, and eventually clinical applications.

BD Biosciences revenues from continuing operations rose by 11 percent over 2004 (including about a 3 percent benefit from foreign currency translation) to $800 million. This growth was driven by the continued success of instrument platforms including the *BD FACSCanto* flow cytometer and special order versions of the *BD* LSRII bench top research analyzer. We also realized strong developing world sales of instruments and reagents used to monitor CD4 levels, an important indicator of the effectiveness of HIV/AIDS therapy. Discovery Labware sales growth was boosted significantly by increased branded and private label business, facilitated by improved operating effectiveness of its production facilities. We were also pleased by the first full-year performance of our cell imaging business, a new market that we entered in 2004 with our acquisition of Atto Bioscience.

Of course, sustaining accelerated revenue growth entails ongoing innovation. We increased our R&D spending (on an adjusted basis) by a rate of about 13 percent this year and we intend to sustain low double-digit growth going forward. We're confident that this step-up in our spending will lead to exciting new innovations in advanced drug delivery, superior diagnostic systems and new bioscience platforms in several years. We are also taking disciplined steps to implement improved world-class product and technology development processes.

Great contributions: a passion for caring

BD products are key ingredients in the mix of business and philanthropic efforts that help us live our corporate purpose of "Helping all people live healthy lives." We make great contributions to society–

The next level of operational effectiveness is a disciplined focus on innovation in products and processes. We initiated three key actions this year:

- A **diagnostic audit** of our innovation and product development processes, revealing ways we can improve our processes and be more disciplined in product development as we move into more demanding, higher-value products.
- The launch of a new **Clinical Development Group** under the leadership of Dr. David Durack, Vice President–Corporate Medical Affairs. The group, including clinical, quality and regulatory experts, will facilitate new product development and will work to reduce the risks, costs and delays inherent in clinical trials.
- The creation of the BD **Operational Effectiveness Task Force**, to focus on creating greater value and seamless integration in our end-to-end processes. Led by John Considine, Executive Vice President and Chief Financial Officer, the members lead five critical global functions: Business Processes, Information Technology, Manufacturing, Quality and Regulatory. The linkage of these functions–each of which is focused on core competencies, execution and value to the customer–will accelerate our continuous improvement efforts and result in enhanced quality and customer satisfaction.

All of our operational effectiveness efforts are designed to increase operating margins, improve customer service and accelerate revenue growth, making more resources available to invest in our future.

–Edward J. Ludwig

The Operational Effectiveness Task Force, pictured from left to right: Holger Rathgeber, Senior HR Business Partner; Johnathan Macy, Vice President, Global Manufacturing Operations; John R. Considine, Executive Vice President and Chief Financial Officer; Patricia B. Shrader, Vice President, Corporate Regulatory and External Affairs; J. Peter Natale, Vice President and Chief Information Officer; James R. Brown, Vice President, Quality Management; David Malpiedi, Vice President, Business Processes.

and to healthcare–by designing and marketing new products that deliver demonstrably higher benefits to patients, healthcare workers and researchers, improving health outcomes. These products are making great contributions in the area of HIV/AIDS, diabetes, measles and other diseases. Beyond our products and services, we are further pursuing our purpose through our many philanthropic efforts and our strong relationships with key nonprofit organizations.

The theme of this report, "A Passion for Caring," truly captures the essence–the DNA–of BD. Our associates are passionate about making better medical solutions available to people all over the world. They're passionate about living our corporate purpose.

Looking back on this year, a year impacted by unprecedented natural disasters around the world, we were able to respond by promptly providing medical products and other needed resources. We do this through collaboration with our "Trusted Partners"–including the American Red Cross, AmeriCares, Direct Relief International, the U.S. Fund for UNICEF and others–which have the people and infrastructure on the ground to ensure that our products quickly reach those in need. Thousands of BD associates also made cash donations and contributed in other ways to help ease the suffering of those impacted by the disasters.

BD announced new relationships with several organizations this year. We joined the March of Dimes to sponsor the 50th Anniversary celebration of the Salk polio vaccine; BD supplied the syringes and needles in 1954 for Dr. Salk's clinical field trials that inoculated nearly one million children. We expanded our agreement with The William J. Clinton Presidential Foundation to increase access to CD4 testing in 50 countries highly burdened with HIV/AIDS, and we announced our support for the efforts of the Global Business Coalition on HIV/AIDS.

BD associates continue to make an impact through volunteer activities in communities around the globe. In May, we launched a BD-supported volunteer program in which ten BD associates traveled to Zambia to work in rural healthcare clinics to assist in the fight against HIV/AIDS. We anticipate that it is just the first of similar programs to come in the future. I invite you to read more about this program, and BD's commitment to global volunteerism, in the special insert following this letter.

Great place to work

BD's strategy to drive innovation and operating effectiveness is driven by the competency and capabilities of our people; therefore, our ability to develop our associates to their full potential, to engage them, and to let them express their passion for the things they're doing, is essential to our success.

Our development program for leaders and associates, BD University (BDU), is making significant contributions to our success. We're adding new product development and business processes programs to the curriculum. Our new Advanced Leadership Development Program has reached 600 key BD leaders, and approximately 550 leaders, including the entire Leadership Team, serve as teachers in BDU. Our unique "leaders as teachers" approach is often cited as a best practice among corporate learning programs.

We continue to strengthen our commitment to providing an inclusive and engaging work environment. Our global Diversity Inclusion Guiding Coalition is leading the creation of a cultural climate that embraces diversity inclusion as an enabler to innovation and achieving business objectives.

Key management and governance developments

It is my pleasure this year to welcome two new members to the BD Leadership Team, both of whom are veteran BD associates. Donna Boles was promoted to Vice President, Human Resources, and Johnathan Macy was promoted to Vice President, Global Manufacturing Operations.

We established a new function of Enterprise Compliance to coordinate effective compliance activities and promote consistency in compliance practices across the Company. Overseen by a new Compliance Committee composed of senior leadership and led by our new Chief Compliance Officer, Susan Murr, this function will help to ensure the continued effectiveness of our overall compliance efforts through program design, prevention against non-compliance, and promotion of an organizational culture of compliance.

In summary

In summary, we've come a long way over the past five years. Our 2005 achievements were the latest affirmation that our strategy to drive innovation and operating effectiveness is working. By continuing on this course, we are confident that 2006 will be another year of progress.

Even now, we are increasing our investments in innovation to address even bigger healthcare challenges in the future. For example, we are working toward:

- Employing microneedles and needle-free technologies to provide safer, more effective and painless drug delivery systems.
- Addressing the problem of healthcare-associated infections with superior devices, diagnostics and know-how.
- Developing rapid and more accurate diagnostic systems that will improve therapy and patient health.
- Helping people with diabetes live healthier lives by developing advanced drug delivery, glucose sensing and information management systems, and making significant contributions to finding a cure for diabetes with our investments in cellular therapeutics.
- Continuing our fight against the spread of infectious diseases, particularly HIV/AIDS, with safer drug delivery systems, advanced immunization practices and real-time, accurate diagnostics.
- Further improving the effectiveness of life science researchers by providing advanced discovery systems, bionutrients and reagents.

We believe we can achieve these exciting breakthroughs by building on our core strengths and investing in new capabilities.

The future holds many opportunities indeed for BD associates around the world to continue our quest for greatness, and to pursue with passion our purpose of "Helping all people live healthy lives!"

Edward J. Ludwig
Chairman, President and
Chief Executive Officer

Trusted partners

Volunteerism: Thriving at BD

BD's 108 years of service to people and communities around the world is summarized in our corporate purpose: "Helping all people live healthy lives." But it is actions, not words, that bring our purpose to life. In that spirit, the voluntary contributions of time, expertise and care–as well as financial support–on the part of BD associates the world over are improving people's lives in ways great and small.

This second annual special section on corporate social responsibility and citizenship focuses on BD volunteers in locations around the world who are engaged in voluntary efforts targeting HIV/AIDS, cancer and diabetes. While we tell just three stories in this report, we recognize and honor the ongoing voluntary contributions of BD associates everywhere.

BD

Helping all people live healthy lives

Going to the front in the battle against HIV/AIDS

BD associates around the world are engaged in a Company-wide effort to combat HIV/AIDS. In May 2005, 10 associates from geographically diverse locations converged on Zambia–where 16 percent of the population is HIV-positive–for two weeks to volunteer their services at five rural healthcare facilities in collaboration with the Catholic Medical Mission Board (CMMB). This is the first of what is anticipated to be many more BD-sponsored volunteer initiatives that address global healthcare issues.

It was a busy and memorable period of time. Albert Scius, a BD associate from Pont de Claix, France, rose early each morning for a full day's work in a lab. "The lab needed help, needed processes and organization, but the lab technician was positive and did his best to improve," he recalled. "It was easy to convince people once they saw you roll up your sleeves and go to work beside them."

Shrita Smith, an associate from Franklin Lakes, New Jersey, worked at St. Luke's Mission Hospital in Mpanshya. Recalling her experience, she said, "Many local people come to the facility for testing, treatment and monitoring of malaria, TB, HIV/AIDS and parasitic infections, as well as prenatal and nutritional counseling. In a country where so much of the population is HIV positive, AIDS is a primary concern in Zambia's healthcare facilities. There is a conscious effort to educate and inform people about HIV/AIDS, the importance of knowing your status, being tested and getting treatment."

Tom Braden, a BD associate from San Diego, said, "This volunteer program brings BD values to associates in a way that is very

personal, as well as extremely rewarding for those fortunate enough to participate. It also shows the world that we don't just talk about BD values, we truly believe in them and support them by giving the most valuable asset we have to offer, our time."

More than 350 BD associates volunteered to make the trip. BD associates around the world supported the program with fundraising. BD provided financial support and also donated products to the five clinics. The organization they teamed with, CMMB, is a leading U.S.-based Catholic charity focusing exclusively on international healthcare, particularly for women and children.

Other volunteers included: Paul Falkenstein and Deirdre Hinds-Gravesande, Franklin Lakes; Yvette Lewandowski, Pont de Claix, France; Susan Saiget, San Diego; Karen Scraba, Ontario, Canada; Daryl Shank, Sparks, Maryland; and Ron Taylor, St. Louis.

Giving children with cancer a place where they can be kids

BD associates have long been active in the fight against cancer. Seeing an unmet need, BD associates in Germany spearheaded an effort to help the disease's most vulnerable victims–children. Though chances for survival are favorable in childhood cancer, the children suffer tremendously. They are also unequipped to deal with the fear, confusion and loss of self-confidence that can accompany cancer diagnosis and treatment. Giving children a renewed sense of self-worth and helping them cope with their illness is the mission of *Die Waldpiraten*, or Forest Pirates, founded

through BD volunteer efforts in conjunction with *Deutsche Kinderkrebsstiftung*, the German Foundation for Children with Cancer.

BD in Germany/Switzerland/Austria (GSA) has been the camp's leading corporate sponsor since 1999–just a year after the idea of a camp for children with cancer was conceived. BD in GSA has contributed more than €500,000 (about $600,000) to the camp, and each year it sponsors two 10-day "Better Days Camps" at *Die Waldpiraten*. BD volunteers, specially trained to work with children suffering from cancer, help staff both Better Days Camps. In addition, BD associates raise additional funds by selling T-shirts and caps, and BD in Germany sends camp Christmas cards as its holiday greeting. Birgit Bergdoll, training and development manager for BD in GSA, says the Company's strong relationship with the camp's staff, financial contributions and volunteer efforts are spurring other companies to become involved with the camp, improve its facilities and, possibly, provide the resources to operate year-round (as opposed to the present April to November calendar).

The camp, located in a forested area near Heidelberg, is the only one of its kind in German-speaking Europe. Annually, an average of 300 children in age groups of 8-12 and 13-16 attend the camp for 10-day sessions.

The camp offers a balance of outdoor recreational activities, such as hiking, swimming and riding, and creative endeavors, including pottery, photography and theater. In addition, individual and team activities offer challenges–for example, climbing to the top of a rock–but always with an emphasis on fun. The ultimate goal is to enable campers to succeed and prove to themselves that they can do things like other children their age.

Battling diabetes on a global scale

In 1924, BD produced the first syringe made specifically for insulin injection. In the eight-plus decades since, the Company has continuously heightened its commitment to battling diabetes–a disease that now affects as many as 150 million people worldwide. Volunteering their own time, talent and resources, BD associates continue to be just as committed–and just as active.

In 1995, the year BD launched operations in Chile, the Company immediately began donating insulin syringes and other devices to help battle diabetes in that country. Among other efforts since that time, BD helped build the Juvenile Diabetes Foundation (FDJ) headquarters in Chile and collaborated with the Ministry of Health on a series of educational books for children. More recently, BD volunteers have been active at Camp Limache, a permanent facility operated by the FDJ that annually helps some 3,000 children with diabetes better manage their health. BD volunteers organize recreational activities for children at the camp, explain the correct procedure for injecting insulin and distribute educational materials. BD in Chile donates syringes and other products.

In Delhi, India, BD associates worked to promote better diabetes awareness among children by sponsoring the Delhi Diabetes Research Centre's one-week public information drive. The campaign was launched in 2004 on November 14, which is World Diabetes Day. Central to this ongoing effort is an important message for children: "Fight Obesity–Prevent Diabetes."

In the U.S., Bob Singley, Vice President Worldwide Insulin Delivery for Diabetes Care, was awarded the Wendell Mayes, Jr. Medal, the American Diabetes Association's (ADA's) highest award for volunteer service. Speaking about Singley–who has been an ADA volunteer and leader since 1988–Joseph M. McManus, ADA executive director, said, "When Bob tells ADA 'whatever I can do to help,' he means every word."

As they have for many years, associates at BD facilities around the world continue to actively raise funds to support organizations that are in the front lines of the battle against diabetes. Examples of annual activities–involving thousands of BD associates–include bake and yard sales, raffles and auctions. At several locations in the U.S., BD associates participate in "diabetes walks" to raise funds in support of the ADA and the Juvenile Diabetes Research Foundation.

Honoring a legacy while recognizing a new generation of volunteers

The BD Henry Becton Community Service Awards program–named for BD Director Emeritus Henry P. Becton, Sr.–recognizes excellence and creativity in community involvement on the part of BD associates and retirees by making a financial contribution in their names to the organization for which they volunteer. In 2005, BD awarded grants to 13 nonprofit organizations around the world.

Henry Becton, the 91-year-old son of BD co-founder Maxwell W. Becton and retired Vice Chairman of the Board, has a demonstrated life-long commitment to community service. The Community Service Awards program honors his contributions while recognizing and encouraging a new generation of BD volunteers. Individually and in teams, BD volunteers are providing essential services to help people cope with social and health problems or working to improve lives through social service, cultural and environmental programs. We applaud both their efforts and the causes to which they are dedicated.

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BD continually strives to take healthcare from where it is today and elevate it to ever-higher levels in the future. While the goal is clear, the challenges to improving health the world over are complex. At BD, deeply embedded traits, including an unwavering focus on patients and customers and a culture of continuous improvement, drive us to make meaningful progress.

There is also a motivating factor that runs even deeper– a passion for what we do. It is captured best in BD's corporate purpose of "Helping all people live healthy lives." Simply put, we have a passion for caring.

BD today continues to focus on a proven strategy: driving growth through innovation, and expanding margins by improving operating effectiveness. Delivering ever more innovative solutions to the global healthcare community drives the top line. A relentless dedication to operational effectiveness delivers on the bottom line. Working together, these two essential elements of our strategy drive our performance.

At BD, a constant focus on the customer–from the individual patient to clinicians, researchers, pharmaceutical companies and government agencies–is the factor creating that synergy. For BD associates, regardless of geography or function, keeping customer needs first and foremost is the means of fulfilling the Company's vision of taking healthcare from where it is in the present and elevating it to higher levels in the future.

Along with a focus on the customer, two additional attributes help BD make higher-value contributions to global health. The first is BD's drive and desire for continuous improvement. BD is a company that will make repeated incremental improvements whose net effect over time adds up to dramatic advances, as evidenced by the many significant innovations in our 108-year history.

The second is the passion that BD associates bring to their work. Says Jim Brown, Vice President, Quality Management: "People are excited about doing new things, and there is a level of energy and passion in the Company today that creates a wonderful atmosphere."

Knowing the customer makes a difference

BD's close working relationship with Dr. Frederic Preffer, profiled here, dates back more than 20 years and brings to life how BD's focus on the customer materially impacts medical science. "The flow cytometers BD is providing at the Center for Regenerative Medicine and Harvard Stem Cell Research Institute put BD in the first row of cutting edge science," Dr. Preffer says, adding, "The Company is an asset to us with its many technical resources and scientific expertise–not only in instrumentation, but also in reagents, which my experience has convinced me are the best available."

BD's customer focus permeates the entire Company. A customer-driven perspective on the part of sales and marketing associates may not be unusual, but a strong customer orientation

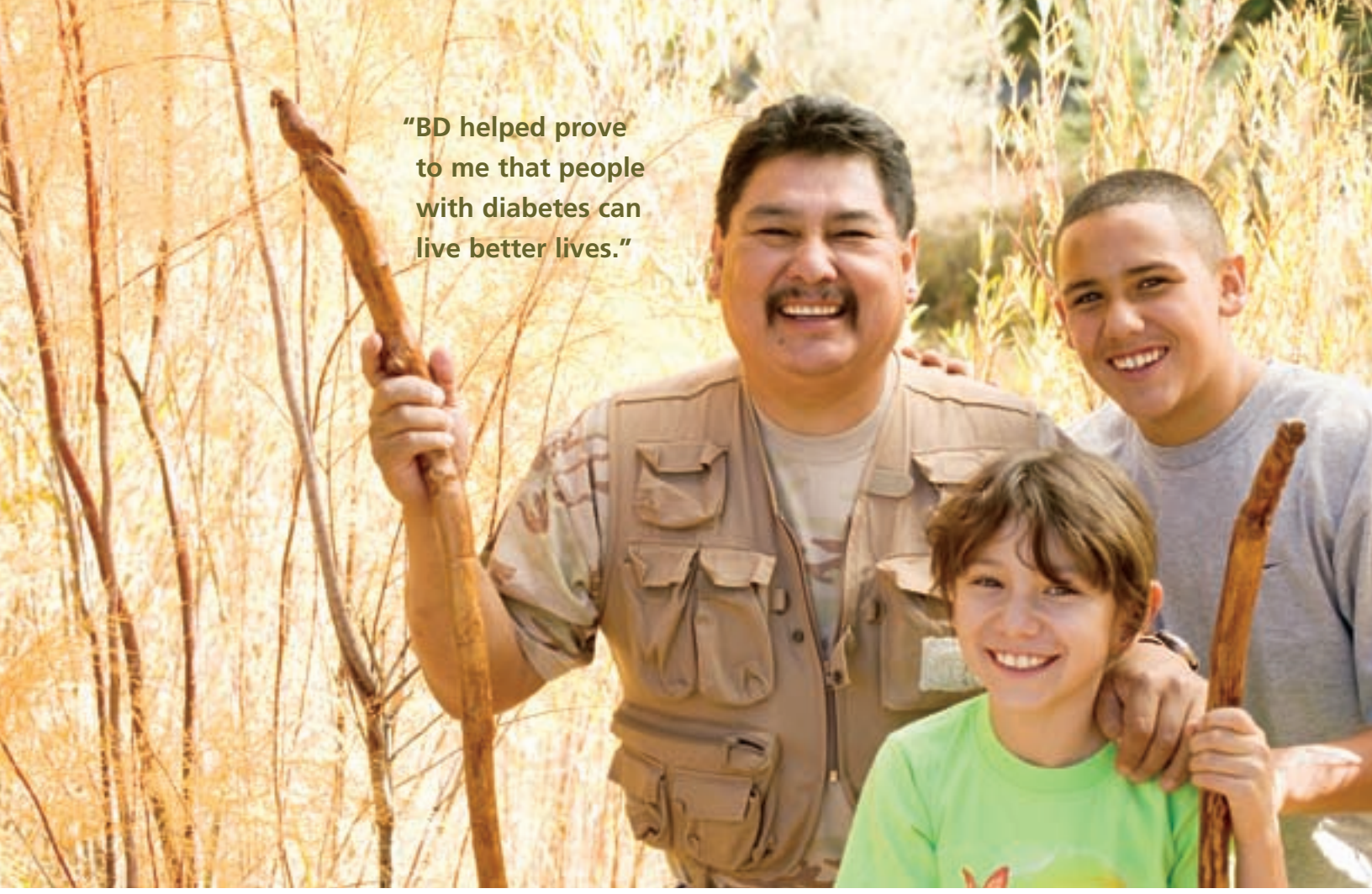
New frontiers

Frederic Preffer, Ph.D., is a rare example of an expert in flow cytometry who is recognized for contributions to both clinical practice and medical research. His Clinical Flow Cytometry Laboratory in the Department of Pathology at Massachusetts General Hospital aids in the diagnosis of leukemia, lymphoma and other serious hematopoietic diseases. At the Center for Regenerative Medicine, closely affiliated with the Harvard Stem Cell Institute, Dr. Preffer researches promising cell-based therapies, but realizes that breakthroughs may take years to develop. In his clinical lab, rewards can come daily. "Our pediatric hemato-oncologists have worked miracles," he says, "in part because our lab delivers incredibly fast, accurate diagnoses." In the research setting, he relies on special order BD flow cytometers. BD Biosciences' Larry Duckett has collaborated with Dr. Preffer on an 18-color, 20-parameter *BD* LSR II Flow Cytometer, noting, "Applying BD's technology to help solve real world medical issues is extremely rewarding." William Rhodes, VP/GM BD Biosciences Cell Analysis, says, "R&D teams designed a sophisticated yet flexible platform that enables further customization for very specific research needs."

The *BD* LSR II Flow Cytometer is an extremely flexible, powerful benchtop analyzer. Its innovative optics and digital electronics create a highly sensitive instrument that yields more information from each sample. Reliability is another plus, as these flow cytometers have minimal downtime without requiring additional support beyond routine maintenance. The flexible architecture also provides an ideal platform for building even more powerful instruments. To meet customers' expanding and increasingly sophisticated needs, BD is extending its special order capabilities to include additional analyzers and cell sorters.

in manufacturing, distribution, information technology, regulatory affairs and similar functions is. Commenting on the BD Operational Effectiveness Task Force (see pages 2-3), David Malpiedi, Vice President, Global Business Processes, says, "Typically, people think of operational effectiveness as an inwardly-focused initiative. Actually, every conversation among Task Force members starts and ends with the customer and ways of continually elevating service and quality levels so that we routinely delight all of our customers."

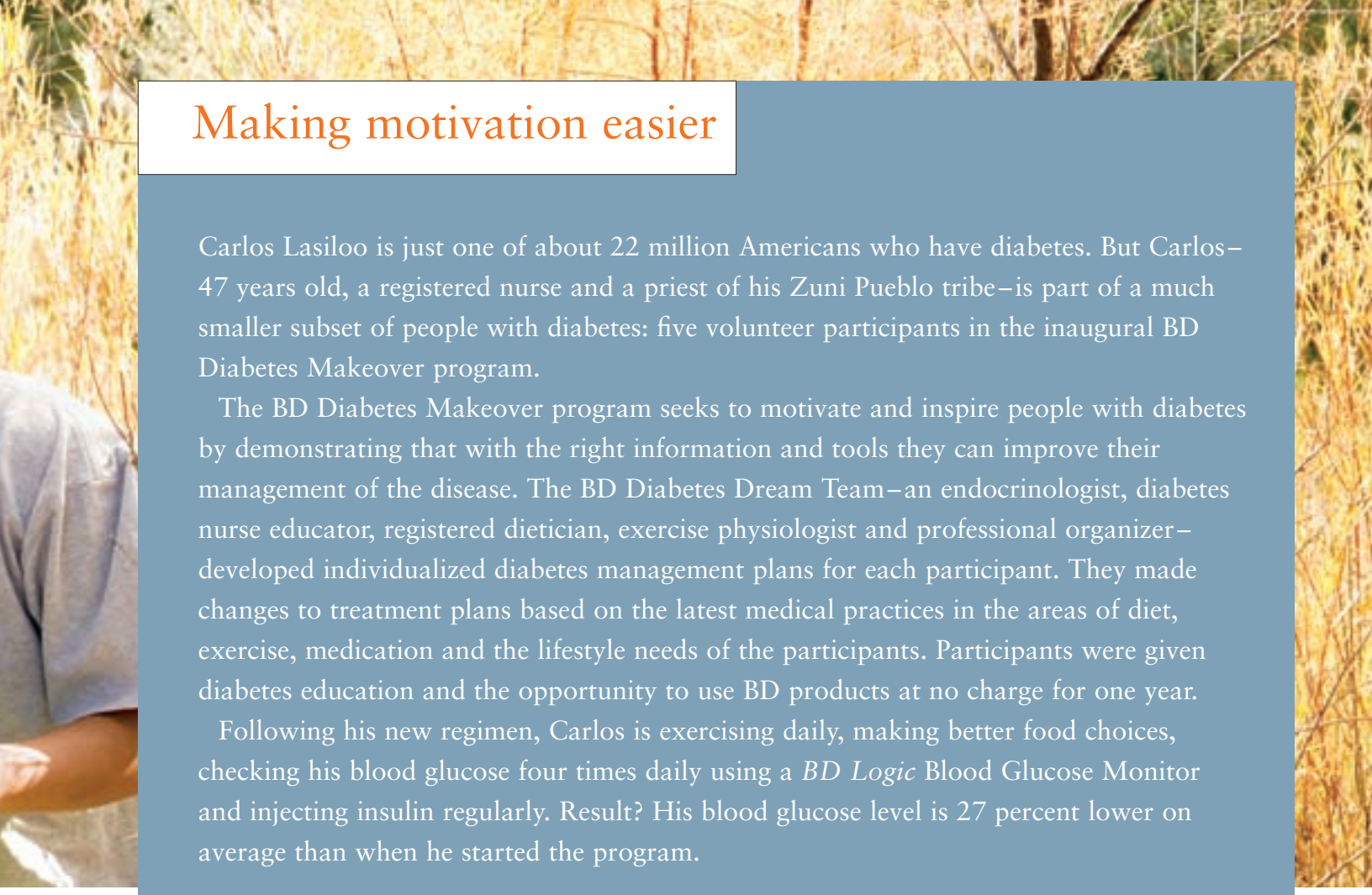
Malpiedi's organization focuses on distribution and customer service processes on a worldwide basis. BD's South Latin America region illustrates just how effectively BD has been able to engineer its supply network for better service. In the past, it would sometimes



take 30 to 40 days to get supplies to hospitals serving more than 2 million people. Gerry Barbosa, President, BD-South Latin America, says that BD associates there undertook a turnaround. Drawing on Genesis, BD's global enterprise resource planning system, they created a Customer Relationship Management system to serve some 300 hospitals and negotiated better contracts with local transportation companies. As a result, they brought those 30 to 40 days down to five to ten. In addition to better service for customers, BD benefits through lower costs and increased inventory turns. BD's operational capabilities allow the Company to respond to efforts by many governments, particularly in developing countries, to expand access to lower cost healthcare, says Laureen Higgins, President, BD-North Latin America. "BD won't compromise quality," she says, "so, we have to manage our total cost to serve. From raw material to delivery of finished products, we look at the entire supply chain. That's where Genesis, Six Sigma, Lean business processes and all of our other tools and systems are improving efficiency and lowering costs. There's not one business process where we aren't doing something to significantly enhance access to lower cost healthcare."

Enhancing widely varying medical practices

Innovative solutions come from knowing customer needs intimately. Ellen Cunniff, President, BD-Asia-Pacific, explains that in Asia, the traditional practice is to draw blood with a needle and syringe instead of an evacuated tube. While nurses feel they are better able to tell when they are in a vein, this technique can affect the chemistry of the blood test. In response, BD's R&D team in Singapore developed the flashback needle and introduced it in China. Practitioners found it was easier to use and gave them the visual feedback they wanted, while patients said it was less painful. The product is now in heavy demand throughout the region–Singapore General converted the entire hospital–and BD in Asia-Pacific is manufacturing it for other regions. While enhancing local and regional medical practices, that kind of insight also plays an important role as BD addresses some of today's most pressing global healthcare issues, including healthcare worker and patient safety, immunization in developing countries, and drug discovery. But perhaps nothing better demonstrates the passion that BD people feel than the fight against two pervasive global diseases: diabetes and HIV/AIDS.



Making motivation easier

Carlos Lasiloo is just one of about 22 million Americans who have diabetes. But Carlos–47 years old, a registered nurse and a priest of his Zuni Pueblo tribe–is part of a much smaller subset of people with diabetes: five volunteer participants in the inaugural BD Diabetes Makeover program.

The BD Diabetes Makeover program seeks to motivate and inspire people with diabetes by demonstrating that with the right information and tools they can improve their management of the disease. The BD Diabetes Dream Team–an endocrinologist, diabetes nurse educator, registered dietician, exercise physiologist and professional organizer–developed individualized diabetes management plans for each participant. They made changes to treatment plans based on the latest medical practices in the areas of diet, exercise, medication and the lifestyle needs of the participants. Participants were given diabetes education and the opportunity to use BD products at no charge for one year.

Following his new regimen, Carlos is exercising daily, making better food choices, checking his blood glucose four times daily using a *BD Logic* Blood Glucose Monitor and injecting insulin regularly. Result? His blood glucose level is 27 percent lower on average than when he started the program.

As a result of his participation in the BD Diabetes Makeover program, Carlos now uses an insulin pen and *BD Ultra-Fine III* Pen Needles–which are about the size of a human eyelash–that let him inject insulin conveniently and virtually painlessly throughout the day. The pen is much easier to use and he does not "forget" to give himself his insulin. The BD Mini, Short and Original pen needles shown here fit all diabetes pens and dosers sold in the U.S., including those by Eli Lilly and Company, sanofi-aventis, Owen Mumford Inc., Amylin Pharmaceuticals, Inc. and Novo Nordisk Pharmaceuticals, Inc.

The story of Carlos Lasiloo, highlighted here, reflects BD's in-depth understanding of diabetes. Already the worldwide leader in insulin injection systems–BD introduced the first syringe specifically for insulin injection in 1924–BD entered the field of blood glucose monitoring in 2002. Over many years, BD also developed educational materials for people with diabetes and healthcare providers. Building on this long-standing involvement with the disease, BD launched the BD Diabetes Makeover program in 2004 to demonstrate that a holistic approach to treatment can have a measurable impact on the lives of people with diabetes. It has for Carlos, who says, "I've learned that you need to exercise daily, eat smaller portions throughout the day and schedule your insulin doses regularly. Not only is my blood glucose level down, I feel much better."

David Durack, M.D., Vice President–Corporate Medical Affairs, sums up the Company's HIV/AIDS efforts when he says, "We are involved in the battle against HIV/AIDS at every level, from high-tech monitoring systems to reuse prevention syringes for developing countries that cost just pennies each." His perspective highlights the fact that BD possesses broad-based expertise that enables it to make contributions across the continuum of HIV/AIDS care. BD works to: *prevent* the spread of the disease through needle reuse prevention and improved healthcare worker safety; *diagnose* infections, such as tuberculosis, which is the number one infectious killer of people with HIV/AIDS; *monitor* the efficacy of antiretroviral treatments with high-quality CD4 counts; provide tools that enable *research* of the disease, and support those who seek to develop a vaccine against it.

The establishment of a coordinated HIV/AIDS strategy two years ago leverages capabilities resident in each of BD's three worldwide business segments, making BD's ongoing efforts more effective and uncovering additional opportunities for the Company to contribute. "Coordinating our strategy has enabled us to articulate all that we can do and, seeing this, BD associates are very pleased that the Company has made such a major commitment," says Krista Thompson, Vice President and General Manager, HIV/AIDS.

BD also works toward better relationships with governments, nongovernmental organizations and nonprofits–and with positive results. Since 1996, for example, BD has collaborated with the Brazilian government to create a monitoring protocol for HIV-positive patients. When the program started, the average life expectancy for an infected patient was 14 months. Today, with regular CD4 testing and the proper drug therapy, the 180,000 patients in the program are experiencing dramatically improved life expectancies.

Relationships lead to progress

BD's long-term relationship with Dr. Robert Rennie, whose work is highlighted here, enables a leading microbiologist (a former president of the Canadian Association for Clinical Microbiology and Infectious Diseases with a worldwide reputation) to make inroads in the battle against bacterial infections, particularly healthcare-associated infections (HAI).

BD's leading-edge capabilities in the diagnosis of these infections are also reflected in work with the National Public Health Service for Wales to create a network to detect incidents of HAI and the emergence of microorganisms resistant to antibiotics, with the goal of

Curing infection

Robert Rennie, Ph.D., one of Canada's senior clinical microbiologists, wanted to equip his laboratory at the University of Alberta Hospital in Edmonton with the most advanced technology for Identification and Antimicrobial Susceptibility Testing (ID/AST). Dr. Rennie compared three competing automated microbiology systems to investigate which system would enable him to provide physicians with the fastest, most reliable diagnoses of patients' bacterial infections and help to direct effective drug therapy. Dr. Rennie concluded that the *BD Phoenix* Automated Microbiology System offered an opportunity for a new technology that would rapidly identify pathogens and give rapid and accurate identification of the most important antimicrobial resistance markers. Dr. Rennie placed a *BD Phoenix* system in his laboratory–the first *BD Phoenix* system to be installed in a North American hospital. Says Dr. Rennie: "I measure ID/AST systems by their ability to accurately identify bacteria causing infections and detect emerging antimicrobial resistance, the time it takes to obtain that information, and then assist in directing optimal antimicrobial treatment. Early institution of appropriate therapy leads to improved patient outcomes."

The *BD Phoenix* Automated Microbiology System detects bacterial resistance rapidly and assists with optimal patient therapy. The *BD Phoenix* system can perform up to 200 simultaneous identification and susceptibility tests, and can deliver accurate results in 4-16 hours–rapid for the microbial world. Among its competitive advantages, the *BD Phoenix* system identifies more than 300 organisms–significantly more than that of the nearest competitor. When certain organisms unique to Canada proved difficult to identify, BD worked with Dr. Rennie to design tests that provided the solution.

preventing serious complications in hospitalized patients. John Hanson, President, BD-Europe, says BD set up a system to analyze individual patients' bacterial infections using *BD Phoenix* systems situated in 12 clinical laboratories across Wales. Then, to enable broad-based monitoring, BD linked the instruments to a *BD EpiCenter* Microbiology Data Management System. The networked system made Wales, a country of just three million people, the first in Europe to have a nationwide monitoring capability and to serve as a model for other countries, including England, Scotland and Germany, that are investigating their own systems.

This case history from Wales, along with those from Brazil and other countries, demonstrates that BD's customer is frequently a government agency. "BD works with governments and regulators in countries the world over," says Patricia Shrader, Vice President, Corporate Regulatory and External Affairs. "We try to bring their attention to issues that we think are important

to public health and, wherever possible, offer solutions that aren't just acceptable, but are world-class solutions to local and regional health challenges."

In Japan, BD is working with the Japanese government to advance just such a world-class solution. Historically, Japan–the world's second largest healthcare market–has been the only country that does not require the use of sterilized tubes to collect blood samples. Rex Valentine, President, BD-Japan, says the government expressed interest in *BD Vacutainer* evacuated tubes, which are sterile and the *de facto* world standard for blood collection. Due to increasing interest in safety and infection control, the Japanese government now requires sterilized blood collection tubes to be used. BD is now working with the government and medical community to establish a new protocol for blood collection that is to be used as a national standard. Meanwhile, the Company's share of the blood collection market in Japan has jumped to an improved position and opinion leaders are talking with BD about other issues, such as healthcare worker safety and infection control.

Continuous improvement is another BD character trait, and if ever dissatisfaction were to be viewed as a positive force, BD is the place for it. In fact, the conviction that BD could design a better IV catheter led to the development of the *BD Nexiva* Closed IV Catheter System (CIVCS) that regional business manager Jan Goldbach, photographed here with her daughter, describes with such enthusiasm.

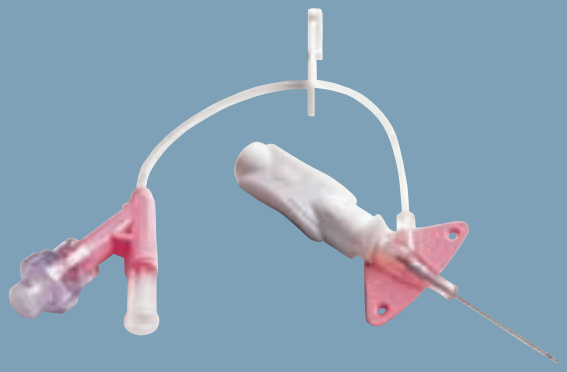
Goldbach is passionate about the breakthrough that the *BD Nexiva* CIVCS represents, and her counterpart in China, Jane Shen, feels equally strongly about the *BD Intima II* Integrated Catheter, which was first launched in China and later, with modifications, as the *BD Nexiva* CIVCS in the U.S. In China today, the product is referred to as "Jinma," or golden horse, for the year in which it was launched. Ellen Cunniff says the *BD Intima II* catheter is BD's fastest growing product in the Asia-Pacific region, even though it is limited to China until production capacity catches up. A nurse herself, Shen has hired a high percentage of nurses as BD sales representatives because of their insights into the clinical environment. Cunniff says, "We could probably sell even more of the product if we went through distributors, but because we're

Two generations of caring

Jan Goldbach, a registered nurse, joined BD because she saw the opportunity to help many more patients by working at a healthcare company. That perspective makes Goldbach–shown here with her daughter Jennifer, a physician's assistant–especially enthusiastic about her assignment as national sales leader for the *BD Nexiva* Closed IV Catheter System (CIVCS).

"For all the technology that you will find in an Intensive Care Unit or Operating Room, vascular access is still one of the most difficult hands-on tasks nurses perform. That makes it very hard for them to change IV catheters," Goldbach explains. But change is easier once they see the *BD Nexiva* CIVCS. "They become internal product champions," she says, adding, "Insights from physicians and nurses drove product design. It incorporates what they told us they wanted."

Goldbach is pleased with *BD Nexiva* CIVCS for yet another reason: It is designed to provide a safer environment for healthcare providers–such as Jennifer.

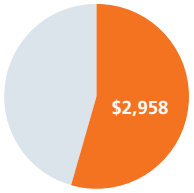


Why the excitement over *BD Nexiva* CIVCS? Because it is a breakthrough on many fronts: This closed system device was designed to improve healthcare worker and patient safety, provide greater ease and efficiency, and enhance patient comfort, as well as to safeguard patients by reducing the risk of contamination entering the fluid path and protect healthcare workers by reducing their exposure to blood. The robust needle-shielding device was also designed to protect healthcare workers from accidental needlestick injuries. Because its components (catheter, extension set and injection sites) are pre-assembled, *BD Nexiva* CIVCS is intended to promote efflciency and ease of use, while BD's needle technology and patented cannula tipping process is designed to reduce the pain of insertion.

close to the customer we deliver better service today and uncover opportunities for tomorrow."

That perspective is echoed throughout the Company. Laureen Higgins captures the thought when she says, "In every area where the Company is involved, we're doing something to move healthcare ahead. We're leaders and, quite frankly, to remain a leader in the long run, you have to move the market, you have to advance the market to something better, to something higher. The fact is, you remain a leader or melt into the crowd. That's not what we see for ourselves at BD."

Rex Valentine expresses it succinctly: "We want to be the best in the world and to have an enduring impact on healthcare practices and the quality of people's lives."



Revenue in millions of dollars

Gary M. Cohen, President, BD Medical

BD Medical

is among the world's leading suppliers of medical devices. BD built the first-ever manufacturing facility in the U.S. to produce syringes and needles in 1906 and has been the leading innovator in injection- and infusion-based drug delivery ever since.

Principal product lines include needles, syringes and intravenous catheters for medication delivery; insulin injection devices and blood glucose monitors for treatment of diabetes; prefillable drug delivery devices provided to pharmaceutical companies and sold to end-users as drug/device combinations; surgical blades and regional anesthesia needles; critical care monitoring devices; ophthalmic surgery devices; sharps disposal containers; and home healthcare products such as *ACE* brand elastic bandages.

BD Medical's business strategy is focused on effectively addressing four global health needs:

Reducing the spread of infection…with an extensive line of safety-engineered devices to reduce the risk of sharps injuries to healthcare workers around the world–a field in which BD is a global leader. BD Medical provides innovative IV flush syringes and closed IV catheter systems that enhance patient safety by reducing the potential for contamination and improve healthcare worker safety by eliminating needles. BD Medical also offers low cost, auto-disable immunization and curative injection devices to prevent disease spread associated with syringe reuse in developing countries.

Enhancing diabetes treatment…with devices for insulin injection and blood glucose monitoring. BD developed the first syringe dedicated to insulin delivery in 1924 and has made continuous advances ever since. Today's insulin injection needles are tiny and virtually pain-free, and insulin injection offers precise dose control leading to tighter control of blood glucose levels. BD Medical's blood glucose monitoring systems offer leading-edge performance, with tiny sample sizes and fast read times, as well as radio frequency interface with the "smart" MiniMed Paradigm® insulin pumps from Medtronic Diabetes.

Advancing drug delivery…The category leader in prefillable devices, BD works with more than 100 pharmaceutical companies. Injectable drugs sold in a prefilled syringe format reduce the potential for medication error and contamination while providing drug companies with a means to differentiate their offering. For future implementation, BD is developing Advanced Drug Delivery platforms that potentially offer important therapeutic advantages versus conventional injection methods.

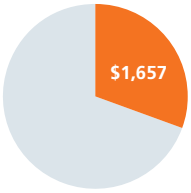
Improving ophthalmic surgery outcomes…through new technologies that dramatically enhance blade sharpness while protecting ophthalmic surgeons and their staffs from occupational injury. BD Medical offers cataract blades and cannulas, as well as ophthalmic accessories. Strategic investments in innovative solutions to other ophthalmic medical needs hold the potential for future growth in this field.

The *BD Hypak* prefilled syringe with *BD Preventis* automatic needle shielding system is the most widely used safety system for prefilled syringes in the U.S.

The new *BD SoloMed* syringe is intended for acute care hospitals in developing countries. A simple push following drug delivery breaks the plunger, preventing reuse. A safety-shielded version helps protect clinicians from needlestick injury.

BD PosiFlush Saline and Heparin Lock Flush Syringes help protect patients and clinicians alike by eliminating needles. These devices are manufactured and filled by BD using an automated process.

The *BD Logic* Blood Glucose Monitor offers the combination of best-in-class features–fast 5-second test results, the smallest blood sample, and less painful testing due to using the thinnest lancets.



Revenue in millions of dollars

William A. Kozy, President, BD Diagnostics

BD Diagnostics

is a leading provider of products for the safe collection and transport of diagnostic specimens and of instrumentation for quick, accurate analysis for a broad range of microbiology and infectious disease testing, including the growing problem of healthcare-associated infections. The segment is composed of two operating units: Preanalytical Systems, the world leader in blood collection devices, and Diagnostic Systems, the world leader in microbiology products.

Principal products and services include integrated systems for evacuated blood collection; an extensive line of safety-engineered specimen collection products and systems; plated media; automated blood culturing; molecular testing systems for sexually transmitted diseases; microorganism identification and drug susceptibility systems; and rapid manual testing products.

BD Diagnostics focuses on improving health outcomes for patients and economic outcomes for laboratories through solutions that elevate quality, reduce costs and accelerate productivity of laboratory systems. Developing products that effectively integrate laboratory work processes, diagnostic testing procedures and effective information management is central to the business. In each of its businesses, BD Diagnostics seeks both to grow its core product platforms and innovate to expand its range of product solutions.

Preanalytical Systems is building on its leadership position in specimen collection and accelerating growth through continued emphasis on safety, offering safety-engineered sharps and plastic evacuated tubes. Innovation, an integral part of this effort, has led to second- and third-generation safety-engineered products offering greater protection and improved functionality. The conversion of emerging markets, including China, India and the Middle East, to evacuated tubes is also a priority.

Looking ahead, Preanalytical Systems is concentrating on emerging technologies–including molecular diagnostics and proteins–and will look to build capabilities in the areas of sample collection, stabilization and processing. The 2005 acquisition of FFE Weber establishes BD Diagnostics as an early mover in the protein separation market for both research and clinical applications.

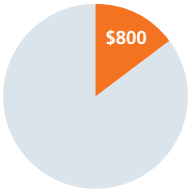
Diagnostic Systems continues to be a leader in traditional microbiology and infectious disease. Its focus on growth media–for both the clinical and industrial market segments–is the foundation of strong customer relationships and is an entry point for instrument platforms. For example, *BD BACTEC* systems are a critical tool for microbiologists seeking rapid, accurate answers for patients with life-threatening bacterial infections. Looking forward, BD will integrate automated diagnostics platforms, linking *BD BACTEC*, *BD ProbeTec* ET and *BD Phoenix* systems through the unique *BD EpiCenter* system, a virtual "microbiology lab of the future."

The *BD Vacutainer* Push Button Blood Collection Set is BD's next-generation safety product in winged collection sets.

The *BD EpiCenter* Microbiology Data Management System interfaces seamlessly with existing laboratory information systems and various BD microbiology systems.

Applications for the *BD ProbeTec* ET system are expanding with U.S. FDA clearance of a diagnostic test for *Legionella pneumophila* and the upcoming launch of three tests for atypical pneumonia in Europe and Asia-Pacific.

The new *BD* Free Flow Electrophoresis System is the only separation system that provides high-resolution fractionation and purification across an amazingly broad range–from peptides and proteins to cellular organelles.



Revenue in millions of dollars

Vincent A. Forlenza, President, BD Biosciences

BD Biosciences

is one of the world's leading businesses focused on bringing innovative research and clinical tools to life scientists and clinicians.

Principal product lines include fluorescence activated cell sorters and analyzers; cell imaging systems; monoclonal antibodies and kits; reagent systems for life sciences research; tools to aid in drug discovery and growth of tissue and cells; and diagnostic assays.

The customers BD Biosciences serves are involved in basic research, drug and vaccine discovery and development, clinical trials, and diagnostic testing and disease management. This diverse customer base includes academic and government institutions, pharmaceutical and biotech companies, and the clinical market.

Cell analysis is the focus of the Immunocytometry Systems and Pharmingen business units, both of which have experienced solid growth, driven by the successful introduction of new platforms and reagents. With the launches of several flow cytometry platforms and associated sample preparation and automation over the past few years, the business is well-positioned in each major market addressed. The 2004 acquisition of Atto Bioscience provided a cell imaging platform, enabling BD Biosciences to cover the continuum from cell analysis to cell sorting to cell imaging. In addition, through its Discovery Labware unit, BD Biosciences provides a broad array of products for the laboratory, including products for tissue culture, fluid handling and cultureware.

In the *research products market*, BD Biosciences maintains a leadership position by offering extremely capable instruments and a broad line of monoclonal antibody-based reagents. In addition to serving the basic research market, BD Biosciences is a key provider to the pharmaceutical industry, where improving the productivity of the drug discovery process is a leading imperative. To achieve that goal, researchers are increasingly using cell-based assays, an area that plays to BD Biosciences' core business capabilities and strategic focus. BD Biosciences' new imaging instruments enable researchers to better understand biological processes through real-time imaging of live cell processes. BD Biosciences' growing line of ADME-Tox assays helps make pharmaceutical companies' drug discovery processes more productive by providing *in vitro* tests that screen out non-viable drug candidates early, thus increasing the ultimate likelihood of clinical trial success.

In the *clinical products market*, BD Biosciences' platforms are considered to be the gold standard for CD4 testing, used for HIV/AIDS therapy monitoring and in leukemia/lymphoma typing. BD Biosciences looks forward to maintaining and growing its leading position in clinical flow cytometry and plans to develop new platforms and assays in response to unmet and growing needs in the clinical market.

The *BD FACSCanto* system adapts high performance *BD FACSAria* cell sorter technology to a "workhorse" analyzer for the clinical and clinical research markets.

BD BioCoat Angiogenesis Systems for Endothelial Cell Invasion, Migration and Tube Formation offer standardized formats that increase quality and reproducibility of compound screening assays.

BD recently enhanced its cytometric bead array (CBA) line with the launch of CBA Flex Sets that allow investigators to custom configure their assays to meet their dynamic research needs.

The *BD Pathway* Bioimager targets the field of high content cell analysis for the pharmaceutical, biotechnology, academic and government research markets.

Financials

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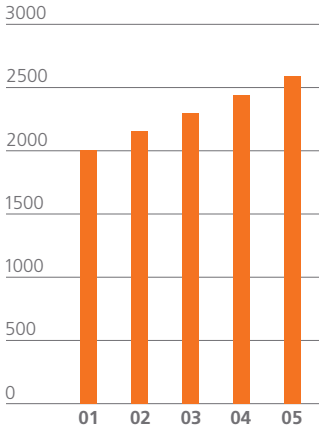
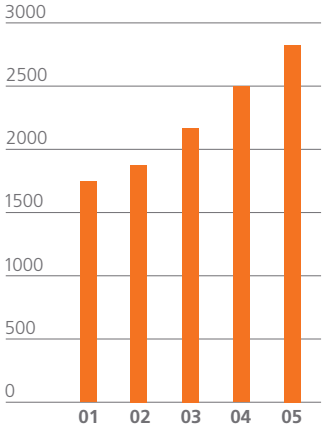
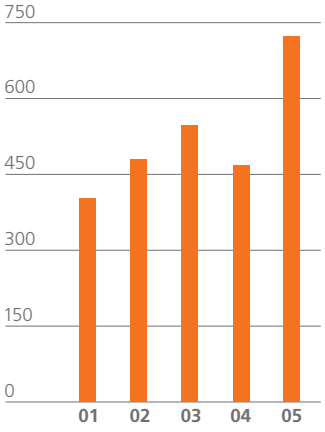
U.S. Revenues
(Millions of Dollars)



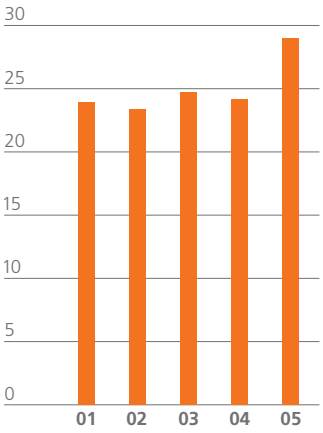
Non-U.S. Revenues
(Millions of Dollars)



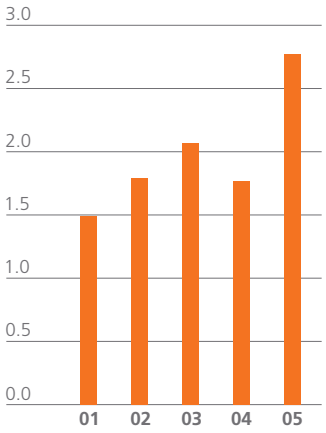
Net Income
(Millions of Dollars)



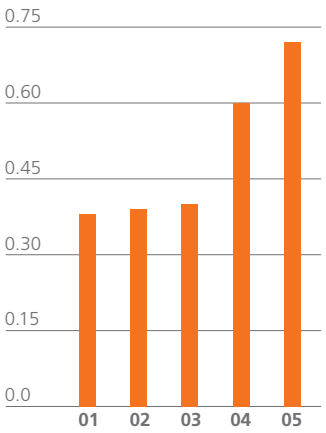
Return on Invested Capital
(Percent)



Earnings Per Share–Diluted
(Dollars)



Dividends Per Common Share
(Dollars)



Summary

Ten-Year Summary of Selected Financial Data

Years Ended September 30
Dollars in millions, except per-share amounts

	2005	2004	2003	2002
Operations				
Revenues	**$5,414.7**	$4,934.7	$4,463.5	$3,960.4
Research and Development Expense	**271.6**	235.6	224.2	207.2
Operating Income	**1,031.2**	787.3	761.2	674.5
Interest Expense, Net	**19.3**	29.6	36.5	33.2
Income From Continuing Operations Before Income Taxes	**1,004.9**	752.9	722.0	627.5
Income Tax Provision	**312.6**	170.4	167.0	148.1
Net Income	**722.3**	467.4	547.1	480.0
Basic Earnings Per Share	**2.87**	1.85	2.14	1.85
Diluted Earnings Per Share	**2.77**	1.77	2.07	1.79
Dividends Per Common Share	**.72**	.60	.40	.39
Financial Position				
Current Assets	**$2,975.3**	$2,641.3	$2,503.5	$2,091.4
Current Liabilities	**1,299.4**	1,050.1	1,059.4	1,271.5
Property, Plant and Equipment, Net	**1,933.7**	1,881.0	1,831.8	1,750.4
Total Assets	**6,072.0**	5,752.6	5,572.3	5,029.0
Long-Term Debt	**1,060.8**	1,171.5	1,184.0	803.0
Shareholders' Equity	**3,284.0**	3,067.9	2,897.0	2,480.9
Book Value Per Common Share	**13.26**	12.30	11.54	9.71
Financial Relationships				
Gross Profit Margin	**50.8%**	49.3%	48.5%	48.3%
Return on Revenues[E]	**12.8%**	11.8%	12.4%	12.1%
Return on Total Assets[B][E]	**17.9%**	14.1%	14.4%	13.6%
Return on Equity[E]	**21.8%**	19.5%	20.6%	20.0%
Debt to Capitalization[D][E]	**27.3%**	28.1%	30.5%	32.7%
Additional Data				
Number of Employees	**25,600**	25,000	24,800	25,200
Number of Shareholders	**9,442**	9,654	9,868	10,050
Average Common and Common Equivalent Shares Outstanding–Assuming Dilution (millions)	**260.7**	263.3	263.6	268.2
Depreciation and Amortization	**$ 387.5**	$ 357.2	$ 335.8	$ 296.6
Capital Expenditures	**317.6**	265.7	259.2	255.7

(A) Includes cumulative effect of accounting change of $36.8 ($.14 per basic and diluted share).

(B) Earnings before interest expense, taxes and cumulative effect of accounting changes as a percent of average total assets.

(C) Excludes the cumulative effect of accounting changes.

(D) Total debt as a percent of the sum of total debt, shareholders' equity and net non-current deferred income tax liabilities.

(E) Excludes discontinued operations in 1999 to 2005.

2001	2000	1999	1998	1997	1996
$3,667.6	$3,544.7	$3,412.6	$3,116.9	$2,810.5	$2,769.8
199.6	212.8	220.7	217.9	180.6	154.2
632.5	507.4	477.3	405.4	450.5	431.2
55.3	74.2	72.0	56.3	39.4	37.4
535.2 [(A)]	512.7	404.8	340.9	422.6	393.7
134.2	122.0	96.9	104.3	122.6	110.2
401.7 [(A)]	392.9	275.7	236.6	300.1	283.4
1.55 [(A)]	1.54	1.09	.95	1.21	1.10
1.49 [(A)]	1.49	1.04	.90	1.15	1.05
.38	.37	.34	.29	.26	.23
$1,930.1	$1,847.6	$1,843.0	$1,542.8	$1,312.6	$1,276.8
1,285.4	1,382.4	1,358.6	1,091.9	678.2	766.1
1,701.3	1,565.5	1,423.9	1,302.7	1,250.7	1,244.1
4,790.8	4,505.1	4,437.0	3,846.0	3,080.3	2,889.8
782.8	778.5	954.0	765.2	665.4	468.2
2,321.7	1,956.0	1,768.7	1,613.8	1,385.4	1,325.2
8.96	7.72	7.05	6.51	5.68	5.36
48.7%	48.6%	49.9%	50.6%	49.7%	48.4%
11.9% [(C)]	11.0%	9.0%	7.6%	10.7%	10.2%
13.6%	13.4%	11.6%	11.7%	15.9%	15.2%
20.3% [(C)]	21.0%	18.2%	15.8%	22.1%	20.8%
34.0%	41.7%	47.6%	41.4%	36.3%	34.3%
24,800	25,000	24,000	21,700	18,900	17,900
10,329	10,822	11,433	9,784	8,944	8,027
268.8	263.2	264.6	262.1	259.6	267.6
$ 293.2	$ 273.7	$ 257.8	$ 228.7	$ 209.8	$ 200.5
364.1	371.0	311.4	181.4	170.3	145.9

Financial Review

Company Overview

Becton, Dickinson and Company ("BD") is a medical technology company engaged principally in the manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by healthcare institutions, life science researchers, clinical laboratories, industry and the general public. Our business consists of three worldwide business segments–BD Medical ("Medical"), BD Diagnostics ("Diagnostics") and BD Biosciences ("Biosciences"). Our products are marketed in the United States and internationally through independent distribution channels, directly to end-users and by independent sales representatives. References to years throughout this discussion relate to our fiscal years, which end on September 30.

BD management operates the business consistent with the following core strategies:

- To increase revenue growth by focusing on products that deliver greater benefits to patients, healthcare workers and researchers;
- To improve operating effectiveness and balance sheet productivity; and,
- To strengthen organizational and associate capabilities in the ever-changing healthcare environment.

In assessing the outcomes of these strategies and BD's financial condition and operating performance, management generally reviews quarterly forecast data, monthly actual results, segment sales and other similar information. We also consider trends related to certain key financial data, including gross profit margin, selling and administrative expense, investment in research and development, and cash flows.

The results of our strategies are reflected in our fiscal 2005 financial and operational performance. Worldwide revenues in 2005 of $5.4 billion increased 10% from the prior year and reflected estimated volume increases of 6%, an estimated increase due to favorable foreign currency translation of 3%, and estimated price increases of less than 1%. U.S. revenues increased 6% to $2.6 billion. International revenues increased 13% to $2.8 billion. For a discussion of the financial impact of exchange rate fluctuations and the ways and extent to which we attempt to mitigate such impact, see "Financial Instrument Market Risk" below.

Consistent with our strategy to provide products that deliver greater benefits to healthcare workers, and recognizing the issues surrounding sharps-related injuries, BD has developed a wide array of safety-engineered devices that are designed to reduce the incidence of needlestick injuries and exposure to bloodborne pathogens. These products are offered through our Medical and Diagnostics segments. Sales in the United States of safety-engineered devices grew 9% to $842 million in 2005, compared with $775 million in 2004. International sales of safety-engineered devices were approximately $273 million in 2005 compared with $203 million in 2004. In 2006, we expect U.S. sales of safety-engineered devices to increase about 8%. We are also anticipating growth of international safety sales of about 20%.

Income from Continuing Operations was $692 million, or $2.66 per diluted share, in 2005 as compared with $583 million, or $2.21 per diluted share, in 2004. Comparisons of Income from Continuing Operations between 2005 and 2004 are affected by the following significant items that are reflected in our financial results:

2005

- We recorded share-based compensation expense of $70 million ($50 million after taxes), or $.19 per diluted share, in connection with the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123 (R)"). Prior periods were not restated.
- We recorded a one-time tax charge of $77 million, or $.30 per diluted share, attributable to the planned repatriation of foreign earnings under the American Jobs Creation Act of 2004.

2004

- We recorded a charge of $100 million ($63 million after taxes), or $.24 per diluted share, related to a litigation settlement.
- We recorded a charge of $45 million ($28 million after taxes), or $.11 per diluted share, related to the voluntary recall and writeoff of certain blood glucose strip inventory and other actions taken with respect to our blood glucose monitoring ("BGM") products.

Our financial position remains strong with net cash provided by continuing operating activities of approximately $1.2 billion for 2005 and our debt-to-capitalization ratio from continuing operations (total debt as a percentage of the sum of shareholders' equity, net non-current deferred income tax liabilities and total debt) having improved to 27.3% at September 30, 2005, from 28.1% at September 30, 2004.

Our ability to sustain our long-term growth will depend on a number of factors, including our ability to expand our core business (including geographical expansion), develop innovative new products with higher gross profit margins across our business segments, and continue to improve operating efficiency and organizational effectiveness. Numerous factors can affect our ability to achieve these goals, including without limitation, U.S. and global economic conditions, increased competition and healthcare cost containment initiatives. We believe that there are several important factors relating to our business that tend to reduce the impact on BD of any potential economic or political events in countries in which we do business, including the effects of possible healthcare system reforms. These include the non-discretionary nature of the demand for many of our core products, which reduces the impact of economic downturns, our international diversification and our ability to meet the needs of the worldwide healthcare industry with cost-effective and innovative products.

In 2005, general inflation did not have a material impact on our overall operations. However, it is possible that general inflation rates will rise in 2006 and beyond, and could have a greater impact on worldwide economies and consequently, on BD. In 2005, we experienced higher resin purchase costs, primarily due to recent increases in world oil prices and shortages of supply. BD currently expends approximately $150 to $170 million per year to purchase supplies of resins, which are oil-based components used in the manufacture of certain BD products. However, we continue to strive to improve our profit margins through increased sales of products with higher margins, cost reduction programs, productivity improvements and, to a lesser extent, periodic price increases and adjustments. For example, in 2006, we expect our gross profit margin to improve by 30 to 40 basis points over 2005.

Our anticipated revenue growth over the next three years is expected to come from the following:

- Core business growth and expansion;
- Expanding the sale of our high-quality products around the globe; and,
- Development in each business segment of new products and services that provide increased benefits to patients, healthcare workers and researchers.

Accounting Change

Effective October 1, 2004, we adopted SFAS No. 123 (R). This statement requires compensation cost relating to share-based payment transactions to be recognized in net income using a fair-value measurement method. In November 2004, equity-based awards were granted to employees under a new long-term incentive program, which consisted of stock options and restricted stock awards. See Note 13 of the Notes Consolidated Financial Statements for a discussion of the valuation methodology used in estimating the fair value of these equity-based awards.

In previous years, we had used stock options as our primary form of incentive compensation and such stock options were accounted for under the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." This method measured share-based compensation expense as the amount by which the market price of the stock on the date of grant exceeded the exercise price. Under APB No. 25, no share-based compensation expense was recognized for stock options since the exercise price equaled the market price of the underlying stock on the date of grant. We elected the modified prospective transition method for adopting SFAS No. 123(R) and therefore, prior periods were not restated. Under this method, the provisions of SFAS No. 123(R) were applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of October 1, 2004. See Note 2 of the Notes to Consolidated Financial Statements for additional discussion.

As a result of the adoption of SFAS No. 123(R) and the granting of restricted stock unit awards in November 2004, we recorded share-based compensation expense in 2005 as follows:

(millions of dollars)	2005
Selling and administrative expense	$54
Cost of products sold	10
Research and development expense	6
Total	$70

Share-based compensation expense was recorded in corporate unallocated expense for segment reporting purposes. For 2006, we estimate share-based compensation expense will reduce diluted earnings per share from continuing operations by about $.23, as compared with $.19 in 2005.

Results of Continuing Operations

Medical Segment

Medical revenues in 2005 of $3.0 billion increased $278 million, or 10%, over 2004, which includes an estimated impact of favorable foreign currency translation of 3%.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2005	2004	Total Change	Foreign Exchange Impact
Medical Surgical Systems	**$1,661**	$1,541	8%	3%
Diabetes Care	**674**	586	15%	2%
Pharmaceutical Systems	**563**	497	13%	4%
Ophthalmic Systems	**60**	56	7%	3%
Total Revenues	**$2,958**	$2,680	10%	3%

Medical revenues reflect the continued conversion in the United States to safety-engineered products, which accounted for sales of $490 million, as compared with $459 million in the prior year. Included in Medical revenues were international sales of safety-engineered products of $81 million, as compared with $63 million in the prior year. Revenue growth in the Medical Surgical Systems unit of this segment was primarily driven by the growth in safety-engineered products and prefilled flush syringes. The Diabetes Care unit's revenue growth reflected strong sales of BGM products in the United States and pen needles worldwide. Sales of BGM meters, test strips and related disposables in the United States and Canada were $76 million, as compared with $42 million in 2004. BGM products were introduced into the European market through the launch in Germany during the fourth quarter of 2005. We expect revenues of BGM products to be about $115 million in 2006. Revenue growth in the Pharmaceutical Systems unit was primarily attributable to a 19% increase in international sales. For 2006, we expect the full year revenue growth for the Medical Segment to be about 5% to 6%, which includes an estimated unfavorable impact of foreign currency of about 2%.

Medical operating income was $711 million, or 24.0% of Medical revenues, in 2005, as compared with $567 million, or 21.1% in 2004, which included $45 million of BGM charges as further discussed below. Operating income as a percentage of revenues reflects gross margin improvement from increased sales of products that have higher overall gross profit margins, in particular, safety-engineered products and pen needles. See further discussion on gross profit margin improvement below. Selling and administrative expense as a percent of Medical revenues in 2005 was slightly lower compared with 2004, primarily due to the favorable effects from a weaker U.S. dollar along with tight controls on base spending. Incremental investments to support the BGM initiative were about $14 million. Research and development expenses in 2005 increased $14 million, or 17%, reflecting continued investment in the development of new products.

Diagnostics Segment

Diagnostics revenues in 2005 of $1.7 billion increased $125 million, or 8%, over 2004, which includes an estimated favorable impact of foreign currency translation of 2%.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2005	2004	Total Change	Foreign Exchange Impact
Preanalytical Systems	**$ 855**	$ 788	8%	2%
Diagnostic Systems	**802**	744	8%	2%
Total Revenues	**$1,657**	$1,532	8%	2%

Revenue growth in the Preanalytical Systems unit reflected the continued conversion in the United States to safety-engineered products and accounted for sales of $352 million, compared with $317 million in 2004. Sales of the *BD Vacutainer* Push Button Collection Sets were key to this trend. Preanalytical Systems revenues included international sales of safety-engineered products of $192 million, compared with $140 million in 2004. Geographic expansion in the Middle East and Asia Pacific regions, particularly in China, also contributed to the growth in the Preanalytical Systems unit. The Diagnostic Systems unit experienced solid worldwide sales of its automated diagnostic platforms, including the molecular *BD ProbeTec* ET, and the *BD Phoenix* Automated Microbiology System. These platforms reported combined incremental sales of $17 million over 2004. For 2006, we expect the full year revenue growth for the Diagnostics Segment to be about 5% to 6%, which includes an estimated unfavorable impact of foreign currency of about 2%.

Diagnostics operating income was $414 million, or 25.0% of Diagnostics revenues, in 2005, compared with $359 million, or 23.5%, in 2004. The increase in operating income as a percentage of revenues reflects gross profit improvement from increased sales of products that have higher overall gross profit margins, in particular, safety-engineered products and the *BD ProbeTec* ET platform. See further discussion on gross profit margin improvement below. Selling and administrative expense as a percent of Diagnostics revenues in 2005 was slightly lower

compared with 2004 primarily due to the favorable impact from a weaker U.S. dollar along with tight controls on spending. Research and development expenses in 2005 increased $6 million, or 8%, reflecting spending on new programs, and were partially offset by lower spending of $3 million, as a result of the completion of our cancer biomarker discovery program in 2004.

Biosciences Segment

Biosciences revenues in 2005 of $800 million increased $77 million, or 11%, over 2004, which includes an estimated impact of favorable foreign currency translation of 2%.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2005	2004	Total Change	Foreign Exchange Impact
Immunocytometry Systems	**$452**	$397	14%	3%
Pharmingen	**141**	136	4%	2%
Discovery Labware	**207**	190	9%	3%
Total Revenues	**$800**	$723	11%	3%

Revenue growth in the Immunocytometry Systems unit reflects strong sales of instruments and flow cytometry reagents, driven by increased demand for research and clinical analyzers. Revenue growth in the Immunocytometry Systems and Pharmingen units was adversely impacted by $1.8 million and $4.5 million, respectively, as a result of terminating a distribution agreement in 2005. Revenue growth in the Discovery Labware unit resulted primarily from market share gains. For 2006, we expect the full year revenue growth for the Biosciences Segment to be about 8% to 9%, which includes an estimated unfavorable impact of foreign currency of about 2%.

Biosciences operating income was $175 million, or 21.9% of Biosciences revenues in 2005, compared with $156 million, or 21.6% in 2004. The increase in operating income as a percentage of revenues reflects gross profit improvement from increased sales of products that have higher overall gross profit margins, in particular, research instruments and reagents. See further discussion of gross profit margin improvement below. Selling and administrative expense as a percent of Biosciences revenues in 2005 was comparable with 2004. The favorable effects from a weaker U.S. dollar and tight controls on spending were offset by one-time costs of $8 million incurred in connection with the termination of a distribution agreement. Research and development expenses in 2005 increased $5 million, or 10%, reflecting spending on new product development and advanced technology, particularly in the Immunocytometry Systems unit.

Geographic Revenues

On a geographic basis, revenues outside the United States in 2005 increased 13% to $2.8 billion. This increase includes an estimated impact of favorable foreign currency translation of 5%. International sales of safety-engineered devices were approximately $273 million in 2005, compared with $203 million in 2004. Our Asia Pacific/Japan, Canada, Europe, and Latin American regions contributed double-digit revenue growth in 2005.

Revenues in the United States in 2005 of $2.6 billion increased 6%, primarily from strong sales of safety-engineered devices, prefilled flush syringes and diabetes care products, including BGM products. Revenues of immunocytometry instruments and reagents also demonstrated good growth.

Gross Profit Margin

Gross profit margin was 50.8% in 2005, compared with 49.3% in 2004. Gross profit margin in the current year included share-based compensation expense of $9.7 million, which reduced gross profit margin by 0.2%. Gross profit margin in 2004 included BGM charges of $45 million, as discussed below, which reduced gross profit margin by 0.9%. Gross profit margin in the current year reflected an estimated 0.6% improvement resulting from a weaker U.S. dollar, an estimated 0.6% improvement relating to increased sales of products with higher margins, with the remaining 0.5% improvement primarily related to productivity gains. These improvements more than offset an estimated 0.8% unfavorable impact of higher raw material costs and intangible asset writedowns of 0.1%. We expect gross profit margin to improve by 30 to 40 basis points for fiscal 2006.

Operating Expenses

Selling and administrative expense ("SSG&A") of $1.4 billion in 2005 was 26.8% of revenues, compared with $1.3 billion or 26.6% of revenues, in 2004. SSG&A in 2005 included $54 million of share-based compensation expense, which amounted to 1.0%. Aggregate expenses for 2005 reflect base spending increases of $49 million, in line with inflation. In 2006, SSG&A as a percentage of revenues is expected to decrease by 40 to 50 basis points.

Research and development ("R&D") in 2005 was $272 million, or 5.0% of revenues, compared with $236 million, or 4.8% of revenues, in 2004. R&D in 2005 included $6 million of share-based compensation expense, which amounted to 0.1% of revenues. The increase in R&D expenditures also reflects spending for new programs in each of our segments, partially offset by reduced spending from molecular oncology diagnostics following the completion of our cancer biomarker discovery program in the third quarter of 2004. In 2006, we expect R&D to grow about 12%.

Operating Income
Operating margin in 2005 was 19.0% of revenues, compared with 16.0% in 2004. Operating income of $1.0 billion in 2005 included $70 million of share-based compensation expense. Operating income of $787 million in 2004 included the $45 million of BGM charges and the $100 million litigation settlement, both discussed further below.

Non-Operating Expense and Income
Interest expense was $56 million in 2005 compared with $45 million in 2004 and reflects higher interest rates on floating rate debt and on fixed-to-floating interest rate swap transactions. Interest income was $36 million in 2005 compared with $15 million in 2004 and reflects increased interest income due to higher interest rates and cash balances.

Income Taxes
The effective tax rate in 2005 was 31.1% and reflected a 7.7% increase relating to the one-time charge in the fourth quarter of 2005 attributable to the planned repatriation of earnings in 2006 under the American Jobs Creation Act of 2004. In addition, the effective tax rate in 2005 reflected a 0.2% benefit relating to share-based compensation and a 1.0% benefit due to the reversal of tax accruals in connection with the conclusion of tax examinations in four non-U.S. jurisdictions. In 2004, the effective tax rate was 22.6% and reflected a 1.0% benefit relating to the BGM charges, and a 1.5% benefit relating to the litigation settlement. In 2006, we expect our effective tax rate to be about 26%.

Income and Diluted Earnings per Share from Continuing Operations
Income from continuing operations and diluted earnings per share from continuing operations in 2005 were $692 million and $2.66, respectively. Share-based compensation expense and the tax repatriation charge decreased income from continuing operations in the aggregate by $127 million and diluted earnings per share from continuing operations by $.49 in 2005. Income from continuing operations and diluted earnings per share from continuing operations in 2004 were $583 million and $2.21, respectively. The BGM charges and the litigation settlement reduced income from continuing operations in the aggregate by $91 million and diluted earnings per share from continuing operations by $.35 in 2004.

Discontinued Operations
On August 31, 2005, we completed the sale of the Clontech unit of the Biosciences segment for $62 million. Clontech's results of operations are reported as discontinued operations for all periods presented in the Consolidated Statements of Income. Income from discontinued operations in 2005 reflected a gain on sale of $13 million ($29 million after taxes). The loss from discontinued operations in 2004 reflected an after-tax charge of approximately $116 million to write down the net assets of Clontech to their estimated fair value. See Note 17 of the Notes to Consolidated Financial Statements for additional discussion.

Financial Instrument Market Risk
We selectively use financial instruments to manage the impact of foreign exchange rate and interest rate fluctuations on earnings. The counterparties to these contracts are highly rated financial institutions. We do not enter into financial instruments for trading or speculative purposes.

We have foreign currency exposures throughout Europe, Asia Pacific, Canada, Japan and Latin America. We face transactional currency exposures that arise when we enter into transactions in non-hyperinflationary countries, generally on an intercompany basis, that are denominated in currencies other than our functional currency. We hedge substantially all such foreign exchange exposures primarily through the use of forward contracts and currency options. We also face currency exposure that arises from translating the results of our worldwide operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of a reporting period. We purchase option and forward contracts to partially protect against adverse foreign exchange rate movements. Gains or losses on our derivative instruments are largely offset by the gains or losses on the underlying hedged transactions. For foreign currency derivative instruments, market risk is determined by calculating the impact on fair value of an assumed change in foreign exchange rates relative to the U.S. dollar. Fair values were estimated based on market prices, when available, or dealer quotes. The reduction in fair value of our purchased option contracts is limited to the option's fair value. With respect to the derivative instruments outstanding at September 30, 2005, a 10% appreciation of the U.S. dollar over a one-year period would increase pre-tax earnings by $29 million, while a 10% depreciation of the U.S. dollar would increase pre-tax earnings by $15 million. Comparatively, considering our derivative instruments outstanding at September 30, 2004, a

10% appreciation of the U.S. dollar over a one-year period would have increased pre-tax earnings by $39 million, while a 10% depreciation of the U.S. dollar would have decreased pre-tax earnings by $6 million. These calculations do not reflect the impact of exchange gains or losses on the underlying positions that would substantially offset the results of the derivative instruments.

Our primary interest rate exposure results from changes in short-term U.S. dollar interest rates. Our debt and interest-bearing investments at September 30, 2005 are substantially all U.S. dollar-denominated. Therefore, transaction and translation exposure relating to such instruments is minimal. When managing interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate instruments. We may enter into interest rate swaps to help maintain this balance and manage debt and interest-bearing investments in tandem, since these items have an offsetting impact on interest rate exposure. For interest rate derivative instruments, market risk is determined by calculating the impact to fair value of an assumed change in interest rates across all maturities. Fair values are estimated based on dealer quotes. A change in interest rates on short-term debt and interest-bearing investments is assumed to impact earnings and cash flow, but not fair value because of the short maturities of these instruments. A change in interest rates on long-term debt is assumed to impact fair value but not earnings or cash flow because the interest on such obligations is fixed. Based on our overall interest rate exposure at September 30, 2005 and 2004, a change of 10% in interest rates would not have a material effect on our earnings or cash flows over a one-year period. An increase of 10% in interest rates would decrease the fair value of our long-term debt and interest rate swaps at September 30, 2005 and 2004 by approximately $40 million and $42 million, respectively. A 10% decrease in interest rates would increase the fair value of our long-term debt and interest rate swaps at September 30, 2005 and 2004 by approximately $34 million and $46 million, respectively.

Liquidity and Capital Resources

Cash Flows from Continuing Operating Activities

Cash provided by continuing operating activities, which continues to be our primary source of funds to finance operating needs and capital expenditures, was $1.2 billion in 2005 compared with $1.1 billion in 2004.

Cash Flows from Continuing Investing Activities

Capital expenditures were $318 million in 2005, compared with $266 million in 2004. Medical capital spending of $185 million related primarily to various capacity expansions. Diagnostics capital spending, which totaled $100 million, included spending for various capacity expansions as well as for safety devices. Biosciences capital spending of $22 million included spending on manufacturing capacity expansions. In 2006, capital expenditures are expected to be in the $400 million range.

Cash Flows from Continuing Financing Activities

Net cash used for financing activities was $525 million in 2005, as compared with $507 million in 2004 and included the repurchase of shares of our common stock for approximately $550 million, compared to approximately $450 million in 2004. At September 30, 2005, 4.3 million common shares remained available for purchase under a November 2004 Board of Directors' authorization to repurchase up to 10 million common shares. For 2006, we expect that cash used to repurchase common shares will be about $450 million. In 2005, the Company exercised the early redemption option available under the terms of our 8.7% Debentures, due January 15, 2025. Redemption, which is reflected in payments of long-term debt, was for the full $100 million in outstanding principal at a price of 103.949%. Total debt at September 30, 2005, was $1.3 billion compared with $1.2 billion at September 30, 2004. Short-term debt increased to 16% of total debt at year-end, from 4% at the end of 2004. Floating rate debt was 41% of total debt at the end of 2005 and 55% at the end of 2004. Our weighted average cost of total debt at the end of 2005 was 5.3%, up from 4.3% at the end of 2004 due to higher short-term interest rates. Debt-to-capitalization at year-end improved to 27.3% from 28.1% last year. Cash and equivalents were $1,043 million and $719 million at September 30, 2005 and 2004, respectively.

We have in place a commercial paper borrowing program that is available to meet our short-term financing needs, including working capital requirements. Borrowings outstanding under this program were $200 million at September 30, 2005. We maintain a syndicated credit facility totaling $900 million in order to provide backup support for our commercial paper program and for other general corporate purposes. This credit facility expires in August 2009 and includes a single financial

covenant that requires BD to maintain an interest expense coverage ratio (ratio of earnings before income taxes, depreciation and amortization to interest expense) of not less than 5-to-1 for the most recent four consecutive fiscal quarters. On the last eight measurement dates, this ratio had ranged from 18-to-1 to 21-to-1. The facility, under which there were no borrowings outstanding at September 30, 2005, can be used to support the commercial paper program or for general corporate purposes. In addition, we have informal lines of credit outside the United States.

At September 30, 2005, our long-term debt was rated "A2" by Moody's and "A+" by Standard and Poor's, and our commercial paper ratings were "P-1" by Moody's and "A-1" by Standard and Poor's. Given the availability of the various credit facilities and our strong credit ratings, we continue to have a high degree of confidence in our ability to refinance maturing short-term and long-term debt, as well as to incur substantial additional debt, if required.

BD's ability to generate cash flow from operations, issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms could be adversely affected in the event there was a material decline in the demand for BD's products, deterioration in BD's key financial ratios or credit ratings or other significantly unfavorable changes in conditions. While a deterioration in the Company's credit ratings would increase the costs associated with maintaining and borrowing under its existing credit arrangements, such a downgrade would not affect the Company's ability to draw on these credit facilities, nor would it result in an acceleration of the scheduled maturities of any outstanding debt.

The American Jobs Creation Act of 2004 (the "AJCA") was signed into law in October 2004. The AJCA creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the United States. As a result of the passage of the AJCA, we revisited our policy of indefinite reinvestment of foreign earnings and determined that we will repatriate approximately $1.3 billion in fiscal 2006. As a result, we recorded a one-time tax charge of $77 million in the fourth quarter of 2005 attributable to the planned repatriation of these earnings. Uses of the repatriated funds include cash expenditures for compensation and benefits to existing and newly hired U.S. workers, U.S. infrastructure and capital investments and other activities as permitted under the AJCA.

Contractual Obligations

In the normal course of business, we enter into contracts and commitments that obligate us to make payments in the future. The table below sets forth BD's significant contractual obligations and related scheduled payments:

(millions of dollars)	Total	2006	2007 to 2008	2009 to 2010	2011 and Thereafter
Short-term debt	$ 207	$207	$ —	$ —	$ —
Long-term debt[A]	1,819	60	208	307	1,244
Operating leases	142	42	59	26	15
Purchase obligations[B]	216	183	28	5	—
Total[C]	$2,384	$492	$295	$338	$1,259

(A) Long-term debt obligations include expected principal and interest obligations, including interest rate swaps. The interest rate forward curve at September 30, 2005 was used to compute the amount of the contractual obligation for variable rate debt instruments and swaps.

(B) Purchase obligations are for purchases made in the normal course of business to meet operational and capital requirements.

(C) Required funding obligations for 2006 relating to pension plans are not expected to be material.

2004 Compared With 2003

Worldwide revenues in 2004 were $4.9 billion, an increase of 11% over 2003, and included the estimated favorable impact of foreign currency translation of 5%. The remainder of the growth resulted primarily from volume increases in all segments.

Medical Segment

Medical revenues in 2004 of $2.7 billion increased 9% over 2003, which includes an estimated impact of favorable foreign currency translation of 5%.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2004	2003	Total Change	Foreign Exchange Impact
Medical Surgical Systems	$1,541	$1,426	8%	4%
Diabetes Care	586	542	8%	4%
Pharmaceutical Systems	497	436	14%	9%
Ophthalmic Systems	56	53	6%	6%
Total Revenues	$2,680	$2,457	9%	5%

Revenue growth in the Medical Surgical Systems unit of this segment included U.S. safety-engineered product sales of $459 million compared with $412 million in 2003. Revenue growth in the Diabetes Care unit included sales of BGM meters, test strips, and related disposables in the United States and Canada of $42 million compared with $15 million in 2003. Growth in the Diabetes Care unit was negatively affected by the decline in the home healthcare product area. Revenue growth in the Pharmaceutical Systems unit reflects the adverse impact of customer buying patterns to support product launches in 2003. Revenue growth in the Medical Surgical Systems unit and Pharmaceutical Systems unit reflected lower sales of *BD* Bifurcated Needles used in the administration of smallpox vaccines, which were $2 million and $26 million in 2004 and 2003, respectively.

Medical operating income was $567 million in 2004, which included $45 million of BGM charges, as discussed further below, compared with $556 million in 2003. Medical operating income in 2004 also reflected gross profit margin improvement resulting from the continued conversion to safety-engineered devices from conventional products and $15 million of benefits of the 2002 manufacturing restructuring program, partially offset by higher research and development spending to support several new product initiatives.

Diagnostics Segment

Diagnostics revenues in 2004 of $1.5 billion increased 12% over 2003, which includes an estimated impact of favorable foreign currency translation of 4%.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2004	2003	Total Change	Foreign Exchange Impact
Preanalytical Systems	$ 788	$ 707	11%	4%
Diagnostic Systems	744	667	12%	4%
Total Revenues	$1,532	$1,374	12%	4%

Revenues in the Preanalytical Systems unit included U.S. safety-engineered device sales of $317 million compared with $272 million in 2003. Revenues in the Diagnostic Systems unit reflected strong worldwide sales of its respiratory and flu diagnostic tests in Japan and the United States over 2003. This unit also experienced strong worldwide sales of its molecular diagnostic platform, *BD ProbeTec* ET, which reported incremental sales of $18 million over 2003, and good worldwide performance in the more traditional infectious disease categories.

Diagnostics operating income was $359 million in 2004 compared with $302 million in 2003. This increase primarily reflected gross profit margin improvement resulting from increased sales of products that have higher overall gross profit margins, including safety-engineered products and the *BD ProbeTec* ET platform.

Biosciences Segment

Biosciences revenues in 2004 of $723 million increased 14% over 2003, which includes an estimated impact of favorable foreign currency translation of 5%.

The following is a summary of revenues by organizational unit:

(millions of dollars)	2004	2003	Total Change	Foreign Exchange Impact
Immunocytometry Systems	$397	$332	20%	6%
Pharmingen	136	121	12%	5%
Discovery Labware	190	180	6%	4%
Total Revenues	$723	$633	14%	5%

Revenue growth in the Immunocytometry Systems unit was driven by sales of the newly introduced *BD FACSCanto* and *BD FACSArray* analyzers and continued strong market acceptance of the *BD FACSAria* cell sorter, as well as strong growth of cell analysis reagents.

Biosciences operating income was $156 million in 2004 compared with $101 million in 2003, which included noncash charges of $27 million, as discussed below. Biosciences 2004 operating income reflected sales growth resulting from new instrument introductions and increased sales of cell analysis reagents.

Geographic Revenues

On a geographic basis, revenues outside the United States in 2004 increased 15% over 2003 to $2.5 billion. This increase includes an estimated impact of favorable foreign currency translation of 9%. International sales of safety-engineered devices were approximately $200 million in 2004. International sales growth was led by strong sales of immunocytometry systems reagents and instruments as well as prefillable syringes in Europe. Also contributing to the growth were strong sales of respiratory and flu diagnostic tests in the Diagnostic Systems unit in Japan.

Revenues in the United States in 2004 of $2.4 billion increased 6% over 2003, primarily from strong sales of safety-engineered devices and prefillable syringes. Sales in the Diabetes Care unit included $40 million related to BGM meters, test strips and related disposables. The Diagnostic Systems unit reported incremental sales of $10 million over 2003 of the *BD ProbeTec* ET in the United States.

BGM Charges
We recorded a pre-tax charge of $45 million to Cost of products sold in 2004 related to our BGM products. The charge included a reserve of $6 million in connection with the voluntary product recall of certain lots of BGM test strips and the write-off of $30 million of certain test strip inventories. In addition, the charge reflected our decision to focus sales and marketing efforts on the *BD Logic* and Paradigm Link® blood glucose meters in the United States and to discontinue support of the *BD Latitude* system product offering in the United States, which decision resulted in a write-off of $9 million of related blood glucose meters and fixed assets. See Note 19 of the Notes to Consolidated Financial Statements for further discussion.

Non-Cash Charges
We recorded non-cash charges of $27 million in 2003 in Cost of products sold. These charges resulted from the decision to discontinue the development of certain products and product applications associated with the *BD IMAGN* instrument platform in the Biosciences segment. As a result, we recorded an impairment charge of $27 million for the related intangible assets and inventory. See Note 3 of the Notes to Consolidated Financial Statements for further discussion.

Gross Profit Margin
Gross profit margin was 49.3% in 2004, which included $45 million of BGM charges, compared with 48.5% in 2003, which included $27 million of non-cash charges. Gross profit margin primarily reflected increased sales of products with higher gross profit margins, including safety-engineered products, BGM products and the *BD ProbeTec* ET instrument platform. In addition, gross profit margin benefited from approximately $15 million of savings achieved from the 2002 Medical restructuring plan.

Operating Expenses
SSG&A expense of $1.3 billion in 2004 was 26.6% of revenues, compared to $1.2 billion in 2003, or 26.5% of revenues. This increase was primarily the result of increased investment in various strategic initiatives, in particular, blood glucose monitoring products, as well as a weaker U.S. dollar.

R&D in 2004 was $236 million, or 4.8% of revenues, compared with $224 million, or 5% of revenues, in 2003. Substantially all R&D efforts are in the United States and therefore are not impacted by foreign currency translation. However, the revenue increase attributable to foreign currency translation had the effect of decreasing R&D expenses as a percentage of sales.

The litigation settlement of $100 million in 2004, as discussed in Note 16 of the Notes to Consolidated Financial Statements, related to the pre-tax charge to record the settlement of the litigation brought by Retractable Technologies, Inc.

Non-Operating Expense and Income
Interest expense was $45 million in 2004, compared with $43 million in 2003. Interest income was $15 million in 2004, compared with $7 million in 2003. This increase was due primarily to interest income arising from tax refunds received in connection with the conclusion of certain tax examinations during 2004, as well as higher levels of interest-bearing investments.

Income Taxes
The effective tax rate in 2004 was 22.6%, and reflected a 1% benefit relating to the BGM charges and a 1.5% benefit relating to the litigation settlement. The effective tax rate in 2003 was 23.1%, which included the impact from the 2003 non-cash charges.

Income and Diluted Earnings per Share from Continuing Operations
Income from continuing operations and diluted earnings per share from continuing operations in 2004 were $583 million and $2.21, respectively, and included the impact of the BGM charges and litigation settlement in 2004, which reduced income from continuing operations in the aggregate by $91 million and diluted earnings per share from continuing operations in 2004 by $.35. Income from continuing operations and diluted earnings per share from continuing operations in 2003 were $555 million and $2.10, respectively. Non-cash charges in 2003 reduced income from continuing operations by $16 million and diluted earnings per share from continuing operations in 2003 by $.06.

Liquidity and Capital Resources

Cash Flows from Continuing Operating Activities
Cash provided by continuing operations was $1.1 billion in 2004, compared to $903 million in 2003.

Cash Flows from Continuing Investing Activities
Capital expenditures were $266 million in 2004, compared to $259 million in 2003. Medical and Diagnostics capital spending, which totaled $159 million and $80 million, respectively, in 2004, included spending for various capacity expansions as well as for safety devices. Biosciences capital spending, which totaled $17 million in 2004, included spending on manufacturing capacity expansions.

In the fourth quarter of 2004, we spent approximately $24 million, net of cash acquired, to purchase Atto Bioscience, Inc. See Note 5 of the Notes to Consolidated Financial Statements for additional discussion.

Cash Flows from Continuing Financing Activities
Net cash used for financing activities was $507 million in 2004, as compared with $289 million during 2003, and included the repurchase of shares of our common stock for approximately $450 million, compared with approximately $350 million in 2003. Total debt at September 30, 2004, was $1.2 billion compared with $1.3 billion at September 30, 2003. Short-term debt declined to 4% of total debt at the end of 2004, from 9% at the end of 2003. Floating rate debt was 55% of total debt at the end of both 2004 and 2003. Our weighted average cost of total debt at the end of 2004 was 4.3%, up from 3.8% at the end of 2003 due to higher short-term interest rates. Debt-to-capitalization at September 30, 2004 improved to 28.1% from 30.5% in 2003. Cash and equivalents were $719 million and $520 million at September 30, 2004 and 2003, respectively.

Critical Accounting Policies

The preparation of the consolidated financial statements requires management to use estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Some of those judgments can be subjective and complex and consequently, actual results could differ from those estimates. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For any given estimate or assumption made by management, there may also be other estimates or assumptions that are reasonable. However, we believe that given the current facts and circumstances, it is unlikely that applying any such alternative judgments would materially impact our consolidated financial statements. Management believes the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition
Revenue from product sales is recognized when title and risk of loss pass to the customer. We recognize revenue for certain instruments sold from the Biosciences segment upon installation at a customer's site. Based upon terms of the sales agreements, the Biosciences segment recognizes revenue in accordance with Emerging Issues Task Force No. 00-21, "Revenue Arrangements with Multiple Deliverables." These sales agreements have multiple deliverables, and as such are divided into separate units of accounting. Revenue is recognized upon the completion of each deliverable based on the relative fair values of items delivered.

BD's domestic businesses sell products primarily to distributors who resell the products to end-user customers. We provide rebates to distributors that sell to end-user customers at prices determined under a contract between BD and the end-user customer. Provisions for rebates, as well as sales discounts and returns, are accounted for as a reduction of revenues when revenue is recognized.

Impairment of Assets
Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and indefinite-lived intangible assets are subject to impairment reviews at least annually, or whenever indicators of impairment arise. Intangible assets other than goodwill and indefinite-lived intangible assets and other long-lived assets are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Impairment reviews are based on a cash flow approach that requires significant management judgment with respect to future volume, revenue and expense growth rates, changes in working capital use, appropriate discount rates and other assumptions and estimates. The estimates and assumptions used are consistent with BD's business plans. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of the asset, and potentially result in different impacts to BD's results of operations. Actual results may differ from management's estimates.

Investments
We hold equity interests in companies having operations or technology in areas within or adjacent to BD's strategic focus. For some of these companies that are publicly traded, market prices are available. However, for those companies that are not publicly traded, fair value is difficult to determine. We write down an investment when management believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of the underlying investments could result in an inability to recover the carrying value of the investments, thereby possibly requiring impairment charges in the future.

Tax Valuation Allowances
BD maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, management evaluates factors such as prior earnings history, expected future earnings, carryback and carry-forward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

Contingencies
We are involved, both as a plaintiff and a defendant, in various legal proceedings that arise in the ordinary course of business, including, without limitation, product liability and environmental matters, as further discussed in Note 12 of the Notes to Consolidated Financial Statements. We assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. In accordance with U.S. generally accepted accounting principles, we establish accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). A determination of the amount of accruals, if any, for these contingencies is made after careful analysis of each individual issue and, when appropriate, is developed after consultation with outside counsel. The accruals may change in the future due to new developments in each matter or changes in our strategy in dealing with these matters.

Given the uncertain nature of litigation generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which we are a party. In view of these uncertainties, we could incur charges in excess of any currently established accruals and, to the extent available, excess liability insurance. Accordingly, in the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on BD's consolidated results of operations and consolidated net cash flows in the period or periods in which they are recorded or paid.

Benefit Plans
We have significant net pension and postretirement benefit costs that are measured using actuarial valuations. Inherent in these valuations are key assumptions including discount rates and expected return on plan assets. We evaluate these key assumptions at least annually on a plan- and country-specific basis. We consider current market conditions, including changes in interest rates and market returns, in selecting these assumptions. Changes in the related net pension and postretirement benefits costs may occur in the future due to changes in assumptions.

The discount rate is selected to reflect the prevailing market rate on September 30 based on investment grade bonds and other factors. We reduced our discount rate for the U.S. pension and postretirement plans at September 30, 2005 from 6.0% to 5.50% and at September 30, 2004 from 6.25% to 6.0%.

To determine the expected long-term rate of return on pension plan assets, we consider the historical and expected returns on various plan asset classes, as well as current and expected asset allocations. At September 30, 2005, the one-year rate of return on assets for our U.S. pension plans was 12.8%, the five-year rate of return was 3.2%, and the ten-year rate of return was 8.3%. We believe that these results, in connection with our current and expected asset allocation, support our assumed long-term return of 8.0% on those assets.

Sensitivity to changes in key assumptions for our U.S. pension and postretirement plans are as follows:

- Discount rate–A change of plus (minus) 25 basis points, with other assumptions held constant, would have an estimated $7 million favorable (unfavorable) impact on the total U.S. net pension and postretirement benefit plan cost.
- Expected return on plan assets–A change of plus (minus) 25 basis points, with other assumptions held constant, would have an estimated $2 million favorable (unfavorable) impact on U.S. pension plan cost.

Stock-Based Compensation
Effective October 1, 2004, we adopted SFAS No. 123(R). This statement requires compensation cost relating to share-based payment transactions to be recognized in net income using a fair-value measurement method.

Prior to October 1, 2004, we accounted for stock options using the intrinsic value method. This method measures share-based compensation expense as the amount by which the market price of the stock on the date of grant exceeds the exercise price. We had not recognized any share-based compensation expense under this method in recent years because we granted stock options at the market price as of the date of grant.

See discussion in Note 13 of the Notes to Consolidated Financial Statements concerning the Company's methodology for determining fair value for its share-based awards.

Cautionary Statement Pursuant to Private Securities Litigation Reform Act of 1995–"Safe Harbor" for Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of BD. BD and its representatives may from time to time make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in this report and filings with the Securities and Exchange Commission and in our other reports to shareholders. Forward-looking statements may be identified by the use of words like "plan," "expect," "believe," "intend," "will," "anticipate," "estimate" and other words of similar meaning in conjunction with, among other things, discussions of future operations and financial performance, as well as our strategy for growth, product development, regulatory approvals, market position and expenditures. All statements that address operating performance or events or developments that we expect or anticipate will occur in the future–including statements relating to volume growth, sales and earnings per share growth and statements expressing views about future operating results–are forward-looking statements within the meaning of the Act.

Forward-looking statements are based on current expectations of future events. The forward-looking statements are and will be based on management's then-current views and assumptions regarding future events and operating performance, and speak only as of their dates. Investors should realize that if underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. Furthermore, we undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events and developments or otherwise.

The following are some important factors that could cause our actual results to differ from our expectations in any forward-looking statements:

- Regional, national and foreign economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins.
- We operate in a highly competitive environment. New product introductions by our current or future competitors could adversely affect our ability to compete in the global market. Patents attained by competitors, particularly as patents on our products expire, may also adversely impact our competitive position. While we believe our opportunities for sustained, profitable growth are considerable, actions of competitors could impact our revenue growth and earnings.
- Recently, it has been reported that the U.S. Food and Drug Administration ("FDA") advisory panel has recommended approval by the FDA of a new inhaled form of insulin, which, if approved, could adversely impact sales of our insulin injection devices. However, we believe that any impact would be mitigated by certain factors, including the convenience and efficacy of insulin injections, the high degree of satisfaction with insulin needles by patients who inject insulin, and our expectation that many insulin injectors would need to continue to inject at least once per day to control their blood sugar levels, even when inhaled insulin is used.
- Changes in domestic and foreign healthcare industry practices and regulations resulting in increased pricing pressures, including the continued consolidation among healthcare providers; trends toward managed care and healthcare cost containment; and government laws and regulations relating to sales and promotion, reimbursement and pricing generally.
- The effects, if any, of governmental and media activities relating to U.S. Congressional hearings regarding the business practices of group purchasing organizations, which negotiate product prices on behalf of their member hospitals with BD and other suppliers.
- Fluctuations in the cost and availability of raw materials and the ability to maintain favorable supplier arrangements and relationships (particularly with respect to sole-source suppliers) and the potential adverse effects of any disruption in the availability of such raw materials.
- Our ability to obtain the anticipated benefits of any restructuring programs that we may undertake.

- Adoption of or changes in government laws and regulations affecting domestic and foreign operations, including those relating to trade, monetary and fiscal policies, taxation, environmental matters, sales practices, price controls, licensing and regulatory approval of new products, or changes in enforcement practices with respect to any such laws and regulations.
- Fluctuations in U.S. and international governmental funding and policies for life science research.
- Difficulties inherent in product development, including the potential inability to successfully continue technological innovation, complete clinical trials, obtain regulatory approvals in the United States and abroad, or gain and maintain market approval of products, as well as the possibility of encountering infringement claims by competitors with respect to patent or other intellectual property rights, all of which can preclude or delay commercialization of a product.
- Pending and potential litigation or other proceedings adverse to BD, including antitrust claims, product liability claims, and patent infringement claims, as well as other risks and uncertainties detailed from time to time in our Securities and Exchange Commission ("SEC") filings.
- The effects, if any, of adverse media exposure or other publicity regarding BD's business or operations.
- Our ability to achieve earnings forecasts, which are generated based on projected volumes and sales of many product types, some of which are more profitable than others. There can be no assurance that we will achieve the projected level or mix of product sales.
- The effect of market fluctuations on the value of assets in BD's pension plans and the possibility that BD may need to make additional contributions to the plans as a result of any decline in the value of such assets.
- Our ability to effect infrastructure enhancements and incorporate new systems technologies into our operations.
- Product efficacy or safety concerns resulting in product recalls, regulatory action on the part of the FDA (or foreign counterparts) or declining sales.
- Economic and political conditions in international markets, including civil unrest, governmental changes and restrictions on the ability to transfer capital across borders.
- The effects of natural disasters, including hurricanes or pandemic diseases, on our ability to manufacture our products, particularly where production of a product line is concentrated in one or more plants, or on our ability to source components from suppliers that are needed for such manufacturing.
- Our ability to penetrate developing and emerging markets, which also depends on economic and political conditions, and how well we are able to acquire or form strategic business alliances with local companies and make necessary infrastructure enhancements to production facilities, distribution networks, sales equipment and technology.
- The impact of business combinations, including acquisitions and divestitures, both internally for BD and externally in the healthcare industry.
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board or the SEC.

The foregoing list sets forth many, but not all, of the factors that could impact our ability to achieve results described in any forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider this list to be a complete statement of all potential risks and uncertainties.

Reports of Management

Management's Responsibilities

The following financial statements have been prepared by management in conformity with U.S. generally accepted accounting principles and include, where required, amounts based on the best estimates and judgments of management. The integrity and objectivity of data in the financial statements and elsewhere in this Annual Report are the responsibility of management.

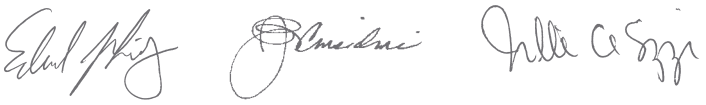
In fulfilling its responsibilities for the integrity of the data presented and to safeguard the Company's assets, management employs a system of internal accounting controls designed to provide reasonable assurance, at appropriate cost, that the Company's assets are protected and that transactions are appropriately authorized, recorded and summarized. This system of control is supported by the selection of qualified personnel, by organizational assignments that provide appropriate delegation of authority and division of responsibilities, and by the dissemination of written policies and procedures. This control structure is further reinforced by a program of internal audits, including a policy that requires responsive action by management.

The Board of Directors monitors the internal control system, including internal accounting and financial reporting controls, through its Audit Committee, which consists of five independent Directors. The Audit Committee meets periodically with the independent registered public accounting firm, the internal auditors and management to review the work of each and to satisfy itself that they are properly discharging their responsibilities. The independent registered public accounting firm and the internal auditors have full and free access to the Audit Committee and meet with its members, with and without management present, to discuss the scope and results of their audits including internal control, auditing and financial reporting matters.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Act of 1934. Management conducted an assessment of the effectiveness of internal control over financial reporting based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management concluded that internal control over financial reporting was effective as of September 30, 2005.

The financial statements and internal control over financial reporting have been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young's reports with respect to fairness of presentation of the statements, management's assessment, and the effectiveness of internal control over financial reporting are included herein.



Edward J. Ludwig	**John R. Considine**	**William A. Tozzi**
Chairman, President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*	*Vice President and Controller*

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Becton, Dickinson and Company

We have audited the accompanying consolidated balance sheets of Becton, Dickinson and Company as of September 30, 2005 and 2004, and the related consolidated statements of income, comprehensive income, and cash flows for each of the three years in the period ended September 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Becton, Dickinson and Company at September 30, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 13 to the consolidated financial statements, effective October 1, 2004, the Company adopted Financial Accounting Standard No. 123(R), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Becton, Dickinson and Company's internal control over financial reporting as of September 30, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 18, 2005, expressed an unqualified opinion thereon.

Ernst & Young LLP

ERNST & YOUNG LLP
New York, New York
November 18, 2005

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Becton, Dickinson and Company

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Becton, Dickinson and Company maintained effective internal control over financial reporting as of September 30, 2005, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Becton, Dickinson and Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, management's assessment that Becton, Dickinson and Company maintained effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Becton, Dickinson and Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Becton, Dickinson and Company as of September 30, 2005 and 2004, and the related consolidated statements of income, comprehensive income and cash flows for each of the three years in the period ended September 30, 2005 and our report dated November 18, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

ERNST & YOUNG LLP
New York, New York
November 18, 2005

Financial Statements

Consolidated Statements of Income

Years Ended September 30
Thousands of dollars, except per-share amounts

	2005	2004	2003
Operations			
Revenues	**$5,414,681**	$ 4,934,745	$ 4,463,509
Cost of products sold	**2,662,029**	2,500,362	2,296,637
Selling and administrative expense	**1,449,856**	1,311,467	1,181,403
Research and development expense	**271,626**	235,649	224,237
Litigation settlement	**—**	100,000	—
Total Operating Costs and Expenses	**4,383,511**	4,147,478	3,702,277
Operating Income	**1,031,170**	787,267	761,232
Interest expense	**(55,673)**	(44,832)	(43,477)
Interest income	**36,421**	15,225	6,928
Other expense, net	**(7,064)**	(4,792)	(2,725)
Income From Continuing Operations Before Income Taxes	**1,004,854**	752,868	721,958
Income tax provision	**312,571**	170,364	167,028
Income from Continuing Operations	**692,283**	582,504	554,930
Income (loss) from Discontinued Operations Net of income tax benefit of $14,439, $7,961 and $4,378	**29,980**	(115,102)	(7,874)
Net Income	**$ 722,263**	$ 467,402	$ 547,056
Basic Earnings Per Share			
Income from Continuing Operations	**$ 2.75**	$ 2.30	$ 2.17
Income (loss) from Discontinued Operations	**$ 0.12**	$ (0.46)	$ (0.03)
Basic Earnings Per Share[A]	**$ 2.87**	$ 1.85	$ 2.14
Diluted Earnings Per Share			
Income from Continuing Operations	**$ 2.66**	$ 2.21	$ 2.10
Income (loss) from Discontinued Operations	**$ 0.11**	$ (0.44)	$ (0.03)
Diluted Earnings Per Share	**$ 2.77**	$ 1.77	$ 2.07

(A) Total per share amounts may not add due to rounding.

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Years Ended September 30
Thousands of dollars

	2005	2004	2003
Net Income	**$722,263**	$467,402	$547,056
Other Comprehensive (Loss) Income, Net of Tax			
Foreign currency translation adjustments	**(17,742)**	83,522	207,107
Minimum pension liability adjustment	**4,494**	(6,730)	(9,248)
Unrealized (loss) gain on investments, net of amounts recognized	**(1,112)**	242	9,653
Unrealized loss on cash flow hedges, net of amounts realized	**(135)**	(2,461)	(5,499)
Other Comprehensive (Loss) Income, Net of Tax	**(14,495)**	74,573	202,013
Comprehensive Income	**$707,768**	$541,975	$749,069

See notes to consolidated financial statements

Consolidated Balance Sheets

Years Ended September 30
Thousands of dollars, except per-share amounts and numbers of shares

	2005	2004
Assets		
Current Assets		
Cash and equivalents	**$ 1,042,890**	$ 719,378
Short-term investments	**86,808**	32,119
Trade receivables, net	**842,806**	807,380
Inventories	**775,949**	738,778
Prepaid expenses, deferred taxes and other	**226,861**	279,985
Assets held for sale	**—**	63,694
Total Current Assets	**2,975,314**	2,641,334
Property, Plant and Equipment, Net	**1,933,718**	1,880,997
Goodwill	**470,049**	473,211
Core and Developed Technology, Net	**165,381**	188,541
Other Intangibles, Net	**101,558**	93,466
Capitalized Software, Net	**229,793**	283,918
Other	**196,156**	191,112
Total Assets	**$ 6,071,969**	$ 5,752,579
Liabilities		
Current Liabilities		
Short-term debt	**$ 206,509**	$ 49,289
Accounts payable	**252,262**	206,941
Accrued expenses	**439,894**	384,936
Salaries, wages and related items	**329,864**	307,996
Income taxes	**70,846**	86,739
Liabilities held for sale	**—**	14,181
Total Current Liabilities	**1,299,375**	1,050,082
Long-Term Debt	**1,060,833**	1,171,506
Long-Term Employee Benefit Obligations	**301,933**	374,222
Deferred Income Taxes and Other	**125,876**	88,906
Commitments and Contingencies	**—**	—
Shareholders' Equity		
ESOP convertible preferred stock–$1 par value: authorized–1,016,949 shares; issued and outstanding–527,819 shares in 2004	**—**	31,142
Preferred stock, series A - $1 par value: authorized–500,000 shares; none issued	**—**	—
Common stock–$1 par value: authorized–640,000,000 shares; issued–332,662,160 shares in 2005 and 2004	**332,662**	332,662
Capital in excess of par value	**615,846**	414,515
Retained earnings	**4,805,852**	4,264,778
Deferred compensation	**10,280**	10,222
Common stock in treasury–at cost–84,977,933 shares in 2005 and 83,327,295 shares in 2004	**(2,297,493)**	(1,816,756)
Accumulated other comprehensive loss	**(183,195)**	(168,700)
Total Shareholders' Equity	**3,283,952**	3,067,863
Total Liabilities and Shareholders' Equity	**$ 6,071,969**	$ 5,752,579

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended September 30
Thousands of dollars

	2005	2004	2003
Operating Activities			
Net income	**$ 722,263**	$ 467,402	$ 547,056
(Income) loss from discontinued operations, net	**(29,980)**	115,102	7,874
Income from continuing operations, net	**692,283**	582,504	554,930
Adjustments to income from continuing operations to derive net cash provided by continuing operating activities:			
Depreciation and amortization	**387,496**	357,224	335,759
Share-based compensation	**70,199**	2,466	—
Deferred income taxes	**63,229**	(31,345)	5,921
BGM charges	**—**	38,551	—
Change in operating assets:			
Trade receivables	**(41,618)**	(15,854)	31,450
Inventories	**(44,346)**	30,096	(49,854)
Prepaid expenses, deferred taxes and other	**12,636**	(2,466)	8,596
Accounts payable, income taxes and other liabilities	**142,254**	99,447	65,500
Pension obligation	**(58,842)**	48,045	(47,382)
Other, net	**638**	(5,942)	(1,987)
Net Cash Provided by Continuing Operating Activities	**1,223,929**	1,102,726	902,933
Investing Activities			
Capital expenditures	**(317,628)**	(265,718)	(259,218)
Capitalized software	**(18,922)**	(39,190)	(64,782)
Change in short-term investments	**(43,775)**	(31,298)	1,975
Purchases of long-term investments	**(1,171)**	(10,149)	(4,399)
Acquisition of business, net of cash acquired	**—**	(24,251)	—
Proceeds from discontinued operations	**62,051**	—	—
Other, net	**(62,566)**	(24,628)	(21,987)
Net Cash Used for Continuing Investing Activities	**(382,011)**	(395,234)	(348,411)
Financing Activities			
Change in short-term debt	**157,211**	(56,509)	(319,608)
Proceeds of long-term debt	**—**	—	404,683
Payment of long-term debt	**(104,522)**	(21,682)	(6,386)
Repurchase of common stock	**(549,999)**	(449,930)	(349,998)
Issuance of common stock	**123,494**	173,606	86,618
Excess tax benefit from stock option exercises	**31,545**	—	—
Dividends paid	**(182,236)**	(152,376)	(104,148)
Net Cash Used for Continuing Financing Activities	**(524,507)**	(506,891)	(288,839)
Net Cash Provided by (Used for) Discontinued Operations	**2,245**	(2,726)	(1,003)
Effect of exchange rate changes on cash and equivalents	**3,856**	1,617	12,091
Net Increase in Cash and Equivalents	**323,512**	199,492	276,771
Opening Cash and Equivalents	**719,378**	519,886	243,115
Closing Cash and Equivalents	**$1,042,890**	$ 719,378	$ 519,886

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

Thousands of dollars, except per-share amounts and numbers of shares

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1 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Becton, Dickinson and Company and its majority-owned subsidiaries (the "Company") after the elimination of intercompany transactions. The Company has no material interests in variable interest entities and none that require consolidation.

Reclassifications

The Company has reclassified certain prior year information to conform with the current year presentation.

Cash Equivalents

Cash equivalents are stated at cost plus accrued interest, which approximates market. The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are principally provided on the straight-line basis over estimated useful lives, which range from 20 to 45 years for buildings, four to 10 years for machinery and equipment and two to 17 years for leasehold improvements. Depreciation expense was $243,355, $221,545 and $217,553 in fiscal 2005, 2004 and 2003, respectively.

Goodwill and Other Intangible Assets

Goodwill is reviewed annually for impairment in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." In reviewing goodwill for impairment, potential impairment is identified by comparing the estimated fair value of a reporting unit with its carrying value. Core and developed

technology continues to be amortized over periods ranging from 15 to 20 years, using the straight-line method. Both goodwill and core and developed technology arise from acquisitions. Other intangibles with finite useful lives, which include patents, are amortized over periods principally ranging from two to 40 years, using the straight-line method. These intangibles, including core and developed technology, are periodically reviewed when impairment indicators are present to assess recoverability from future operations using undiscounted cash flows in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." To the extent carrying value exceeds the undiscounted cash flows, an impairment loss is recognized in operating results based upon the excess of the carrying value over fair value. Other intangibles also include certain trademarks that are considered to have indefinite lives, as they are expected to generate cash flows indefinitely. Therefore, in accordance with the provisions of SFAS No. 142, these trademarks are no longer amortized but are reviewed annually for impairment. See Note 3 for further discussion.

Capitalized Software

Capitalized software, including costs capitalized in accordance with the AICPA's Statement of Position 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," is stated at cost, less accumulated amortization. Amortization expense is principally provided on the straight-line basis over estimated useful lives, which do not exceed 10 years. Amortization expense was $71,416, $66,319 and $52,602 for 2005, 2004 and 2003, respectively.

Foreign Currency Translation

Generally, the net assets of foreign operations are translated into U.S. dollars using current exchange rates. The U.S. dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the foreign currency translation adjustments in Accumulated other comprehensive loss.

Revenue Recognition

Revenue from product sales are recognized when title and risk of loss pass to the customer. For the sale of certain instruments in the Biosciences segment, revenue is recognized upon completion of installation at the customer's site. Based upon the terms of sales arrangements entered into beginning in the fourth quarter of 2003, the Biosciences segment began to recognize revenue in accordance with Emerging Issues Task Force ("EITF") No. 00-21, "Revenue Arrangements with Multiple Deliverables." These sales arrangements have multiple deliverables and, as such, are divided into separate units of accounting. Revenue and cost of products sold are recognized at the completion of each deliverable based on the relative fair values of items delivered.

The Company's domestic businesses sell products primarily to distributors who resell the products to end-user customers. Rebates are provided to distributors that sell to end-user customers at prices determined under a contract between the Company and the end-user customer. Provisions for rebates, as well as sales discounts and returns, are accounted for as a reduction of revenues when revenue is recognized.

Shipping and Handling Costs

Shipping and handling costs are included in Selling and administrative expense. Shipping expense was $219,617, $205,280 and $190,472 in 2005, 2004 and 2003, respectively.

Derivative Financial Instruments

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, all derivatives are recorded in the balance sheet at fair value and changes in fair value are recognized currently in earnings unless specific hedge accounting criteria are met. See Note 9 for additional discussion on financial instruments.

Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company hedges its foreign currency exposures by entering into offsetting forward exchange contracts and currency options, when it deems appropriate. The Company utilizes interest rate swaps and forward rate agreements to manage its exposure to fluctuating interest rates. The Company does not use derivative financial instruments for trading or speculative purposes.

Any deferred gains or losses associated with derivative instruments, which on infrequent occasions may be terminated prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, such instrument would be closed and the resultant gain or loss would be recognized in income.

Income Taxes

United States income taxes are not provided on undistributed earnings of foreign subsidiaries where such undistributed earnings are indefinitely reinvested outside the United States. Deferred taxes are provided for earnings of foreign subsidiaries when those earnings are not considered indefinitely reinvested. Income taxes are provided and tax credits are recognized based on tax laws enacted at the dates of the financial statements.

The Company maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, management evaluates factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates or assumptions affect reported assets, liabilities, revenues and expenses as reflected in the consolidated financial statements. Actual results could differ from these estimates.

Share-Based Compensation

Effective October 1, 2004, the Company adopted SFAS No. 123 (revised 2004)–"Share-Based Payment" ("SFAS No. 123 (R)"). This statement requires compensation expense to be measured based on the estimated fair value of the share-based awards and recognized in income on a straight-line basis over the requisite service period, which is generally the vesting period. See Note 2 regarding the Company's adoption of SFAS No. 123(R).

Prior to October 1, 2004, the Company accounted for share-based compensation under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") using the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation expense for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the exercise price. The Company had not recognized any stock compensation expense under this method in 2004 and 2003, as the exercise price of stock options equaled the market value of the Company's stock on the date of grant.

2 Accounting Changes

Share-Based Compensation

The Company adopted SFAS No. 123(R) effective October 1, 2004. This statement requires compensation expense relating to share-based payments to be recognized in net income using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on a straight-line basis over the requisite service period, which is generally the vesting period. The Company elected the modified prospective method as prescribed in SFAS No. 123(R) and therefore, prior periods were not restated. Under the modified prospective method, this statement was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of October 1, 2004. The Company granted stock options and restricted stock unit awards in November 2004 under the 2004 Employee and Director Equity-Based Compensation Plan (the "2004 Plan"), its new long-term incentive program. See Note 13 for further discussion.

Share-based compensation expense in 2005 reduced the Company's results of operations as follows:

	2005
Income From Continuing Operations Before Income Taxes	$70,199
Net Income[A]	$50,258
Basic Earnings Per Share[A]	$ 0.20
Diluted Earnings Per Share[A]	$ 0.19

(A) Share-based compensation attributable to discontinued operations was not material.

Prior to October 1, 2004, the Company accounted for share-based employee compensation under the provisions of SFAS No. 123 using the intrinsic value method prescribed by APB No. 25 and related interpretations. Under the intrinsic value method, no compensation expense was recognized for stock options, as the exercise price of employee stock options equaled the market value of the Company's stock on the date of grant. The following pro-forma net income and earnings per share information has been determined as if the Company had accounted for its share-based compensation awards issued using the fair value method in 2004 and 2003.

	2004	2003
Net Income, as reported	$467,402[A]	$547,056
Less share-based compensation expense, net of tax	32,027	35,941
Pro-forma net income	$435,375	$511,115
Reported earnings per share:		
Basic	$ 1.85	$ 2.14
Diluted	$ 1.77	$ 2.07
Pro-forma earnings per share:		
Basic	$ 1.72	$ 2.00
Diluted	$ 1.66	$ 1.95

(A) Includes $2,466 of share-based compensation expense relating to restricted stock units granted in November 2003.

The pro-forma amounts and fair value of each option grant were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2004 and 2003: risk-free interest rates of 3.85% and 3.66%, respectively; expected volatility of 32.5% and 33.2%, respectively; expected dividend yields of 1.16% and 1.21%, respectively; and expected lives of six years for each year presented. The Black-Scholes model is a trading pricing model that does not reflect either the non-traded nature of employee stock options or the limited transferability of such options. This model also does not consider restrictions on trading for all employees, including certain restrictions imposed on senior management of the Company. Therefore, if the Company had used an option pricing model other than Black-Scholes, pro-forma results different from those shown above may have been reported.

Other Postretirement Benefits

The Company adopted Financial Accounting Standards Board Staff Position ("FSP") 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the "Act"), on a prospective basis effective January 1, 2004. The Act introduces a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare. This adoption resulted in a reduction of the Company's accumulated postretirement benefit obligation of $26,409 at October 1, 2003 and a reduction of the net periodic benefit cost of $3,654 and $2,053 for the years ended September 30, 2005 and 2004, respectively. See Note 4 for more information about the Company's benefit plans.

3 Other Intangible Assets

Other intangible assets at September 30 consisted of:

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core and developed technology	$274,615	$109,234	$297,342	$108,801
Patents, trademarks, and other	338,391	246,060	311,682	229,047
	$613,006	$355,294	$609,024	$337,848
Unamortized intangible assets				
Trademarks	$ 9,227		$ 10,831	

Intangible amortization expense was $33,405, $31,467 and $31,413 in 2005, 2004 and 2003, respectively. The estimated aggregate amortization expense for the fiscal years ending September 30, 2006 to 2010 are as follows: 2006–$32,600; 2007–$32,600; 2008–$31,500; 2009–$29,000; 2010–$27,700.

During 2003, the Company decided to discontinue the development of certain products and product applications associated with the *BD IMAGN* instrument platform in the Biosciences segment. As a result, the Company recorded an impairment loss of $26,717 in Cost of products sold. This loss included the write down of $25,230 of core and developed technology, $960 of indefinite-lived trademarks and $527 of licenses.

4 Benefit Plans

The Company has defined benefit pension plans covering substantially all of its employees in the United States and certain foreign locations. The Company also provides certain postretirement healthcare and life insurance benefits to qualifying domestic retirees. Postretirement healthcare and life insurance benefit plans in foreign countries are not material. The measurement date used for the Company's employee benefit plans is September 30.

Net pension and other postretirement cost included the following components:

	Pension Plans			Other Postretirement Benefits		
	2005	2004	2003	**2005**	2004	2003
Service cost	**$ 61,836**	$ 57,013	$ 44,798	**$ 3,657**	$ 3,510	$ 3,159
Interest cost	**66,837**	62,825	54,072	**15,321**	14,492	14,484
Expected return on plan assets	**(59,372)**	(51,923)	(47,190)	**—**	—	—
Amortization of prior service cost	**211**	180	85	**(6,233)**	(6,233)	(6,233)
Amortization of loss	**22,951**	17,586	13,121	**6,164**	4,116	3,342
Amortization of net obligation	**134**	132	11	**—**	—	—
Net curtailment gain	**—**	(300)	(147)	**—**	—	—
Net pension and postretirement costs	**$ 92,597**	$ 85,513	$ 64,750	**$18,909**	$15,885	$14,752

Net pension cost attributable to foreign plans included in the preceding table was $16,772, $16,053 and $13,302 in 2005, 2004 and 2003, respectively.

The change in benefit obligation, change in plan assets, funded status and amounts recognized in the Consolidated Balance Sheets for these plans were as follows:

	Pension Plans		Other Postretirement Benefits	
	2005	2004	**2005**	2004
Change in benefit obligation:				
Benefit obligation at October 1	**$1,185,394**	$1,058,645	**$ 263,678**	$ 255,106
Service cost	**61,836**	57,013	**3,657**	3,510
Interest cost	**66,837**	62,825	**15,321**	14,492
Plan amendments	**195**	761	**—**	—
Benefits paid	**(57,818)**	(55,401)	**(22,279)**	(18,282)
Actuarial loss	**164,161**	46,726	**20,820**	35,261
Other, includes translation	**(7,513)**	14,825	**—**	(26,409)[A]
Benefit obligation at September 30	**$1,413,092**	$1,185,394	**$ 281,197**	$ 263,678
Change in plan assets:				
Fair value of plan assets at October 1	**$ 735,167**	$ 685,585	**$ —**	$ —
Actual return on plan assets	**109,778**	56,018	**—**	—
Employer contribution	**151,439**	37,468	**—**	—
Benefits paid	**(57,818)**	(55,401)	**—**	—
Other, includes translation	**(4,646)**	11,497	**—**	—
Fair value of plan assets at September 30	**$ 933,920**	$ 735,167	**$ —**	$ —
Funded status at September 30:				
Unfunded benefit obligation	**$ (479,172)**	$ (450,227)	**$(281,197)**	$(263,678)
Unrecognized net transition obligation	**(904)**	1,150	**—**	—
Unrecognized prior service cost	**6,154**	4,321	**(19,153)**	(25,386)
Unrecognized net actuarial loss	**509,765**	420,678	**106,811**	93,033
Prepaid (accrued) benefit cost	**$ 35,843**	$ (24,078)	**$(193,539)**	$(196,031)
Amounts recognized in the Consolidated Balance Sheets at September 30 are as follows:				
Prepaid benefit cost	**$ 39,005**	$ 25,857	**$ —**	$ —
Intangible asset	**1,327**	1,168	**—**	—
Accrued benefit liability	**(148,403)**	(201,650)	**(193,539)**	(196,031)
Accumulated other comprehensive loss before income taxes	**143,914**	150,547	**—**	—
Net amount recognized	**$ 35,843**	$ (24,078)	**$(193,539)**	$(196,031)

(A) Relates to the adoption of FSP 106-2 as discussed in Note 2.

Foreign pension plan assets at fair value included in the preceding table were $261,841 and $207,765 at September 30, 2005 and 2004, respectively. The foreign pension plan projected benefit obligations were $339,466 and $279,029 at September 30, 2005 and 2004, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $1,149,504, $840,405 and $695,635, respectively as of September 30, 2005 and $1,034,223, $796,256 and $597,155, respectively as of September 30, 2004.

The assumptions used in determining pension plan information were as follows:

	2005	2004	2003
Net Cost			
Discount rate:			
U.S. plans[(A)]	**6.00%**	6.25%	6.75%
Foreign plans (average)	**4.95**	4.90	5.18
Expected return on plan assets:			
U.S. plans	**8.00**	8.00	8.00
Foreign plans (average)	**6.60**	6.72	7.15
Rate of compensation increase:			
U.S. plans[(A)]	**4.25**	4.25	4.00
Foreign plans (average)	**2.98**	2.92	3.17
Benefit Obligation			
Discount rate:			
U.S. plans[(A)]	**5.50**	6.00	6.25
Foreign plans (average)	**4.19**	4.95	4.90
Rate of compensation increase:			
U.S. plans[(A)]	**4.25**	4.25	4.25
Foreign plans (average)	**2.92**	2.98	2.92

(A) Also used to determine other postretirement benefit plan information.

At September 30, 2005 the assumed healthcare trend rates were 10% pre and post age 65, gradually decreasing to an ultimate rate of 5% beginning in 2011. At September 30, 2004 the corresponding assumed healthcare trend rates were 10% pre and post age 65, gradually decreasing to an ultimate rate of 5% beginning in 2010. A one percentage point increase in assumed healthcare cost trend rates in each year would increase the accumulated postretirement benefit obligation as of September 30, 2005 by $14,404 and the aggregate of the service cost and interest cost components of 2005 annual expense by $821. A one percentage point decrease in the assumed healthcare cost trend rates in each year would decrease the accumulated postretirement benefit obligation as of September 30, 2005 by $12,802 and the aggregate of the 2005 service cost and interest cost by $713.

Expected Funding

The Company's funding policy for its defined benefit pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that may be appropriate considering the funded status of the plans, tax consequences, the cash flow generated by the Company and other factors. While the Company will not be required to fund any of its pension plans in 2006, the Company made a discretionary contribution to its U.S. pension plan in October 2005 of $150 million.

Expected benefit payments are as follows:

	Pension Plans	Other Postretirement Benefits
2006	$ 67,230	$ 21,652
2007	61,005	21,983
2008	66,919	22,316
2009	76,686	22,593
2010	83,315	22,848
2011–2015	562,418	113,917

Expected receipts of the subsidy under the Act, as discussed in Note 2, which are not reflected in the expected other postretirement benefit payments included in the preceding table, are as follows: 2006, $2,378; 2007, $2,275; 2008, $2,296; 2009, $2,287; 2010, $2,245; 2011–2015, $10,272.

The Company's asset allocation for its defined benefit pension plans at September 30 were as follows:

	2005	2004
Equity securities	63.0%	66.9%
Debt securities	34.1	30.1
Other	2.9	3.0
Total	100.0%	100.0%

Investment Strategy

The Company's investment objective is to achieve superior returns on plan assets, subject to a prudent level of portfolio risk, for the purpose of enhancing the security of benefits for participants. The Company's investments include a broad range of equity and fixed income securities. These investments are diversified in terms of domestic and international equity securities, short-term and long-term securities, growth and value styles, as well as small and large capitalization stocks. The Company's target allocation percentages are as follows: equity securities (58%–69%); fixed-income securities (31%–39%); and cash (0%–3%). Equity securities are held for their expected high return and excess return over inflation. Fixed-income securities are held for diversification relative to equities. The plans may also hold cash to meet liquidity requirements. Due to short-term fluctuations in market conditions, allocation percentages may temporarily deviate from these target allocation percentages before a rebalancing occurs. Investment risks and returns are measured and monitored on an on-going basis through annual liability measurements and quarterly investment portfolio reviews to determine whether the asset allocation targets continue to represent an appropriate balance of expected risk and reward.

The expected rate of return on plan assets is based upon expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, the Company considers historical and expected rates of return for the asset classes in which the plan's assets are invested, as well as current economic and capital market conditions.

The Company utilizes a service-based approach in applying the provisions of SFAS No. 112, "Employers' Accounting for Postemployment Benefits," for most of its postemployment benefits. This approach recognizes that actuarial gains and losses may result from experience that differs from baseline assumptions. Postemployment benefit costs were $22,680, $17,295 and $11,561 in 2005, 2004 and 2003, respectively.

5 Acquisition

In July 2004, the Company acquired all of the outstanding equity interests in Atto Bioscience, Inc., a privately held company specializing in optical instrumentation, software and reagents for real-time analysis of interactions taking place in living cells. The purchase price was approximately $25,800 in cash. The purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair values as follows:

Inventories	$ 1,780
Property, plant and equipment	972
Core and developed technology	5,400
Goodwill	15,569
Other assets, net	979

In connection with this acquisition, a charge of $1,100 was recorded in connection with purchased in-process research and development. The results of operations of the acquired company were included in the consolidated results of the Company from the acquisition date. Unaudited pro forma consolidated results, after giving effect to this acquisition, would not have been materially different from the reported amounts.

6 Income Taxes

The provision for income taxes from continuing operations consisted of:

	2005	2004	2003
Current:			
Federal	**$120,172**	$ 91,669	$103,825
State and local, including Puerto Rico	**4,269**	3,362	3,880
Foreign	**124,901**	106,678	53,402
	249,342	201,709	161,107
Deferred:			
Domestic	**75,948**	(4,308)	6,209
Foreign	**(12,719)**	(27,037)	(288)
	63,229	(31,345)	5,921
	$312,571	$170,364	$167,028

The components of Income From Continuing Operations Before Income Taxes consisted of:

	2005	2004	2003
Domestic, including Puerto Rico	**$ 433,670**	$291,973	$355,032
Foreign	**571,184**	460,895	366,926
	$1,004,854	$752,868	$721,958

In accordance with SFAS No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are netted on the balance sheet by separate tax jurisdictions. At September 30, 2005 and 2004, net current deferred tax assets of $75,382 and $100,605, respectively, were included in Prepaid expenses, deferred taxes and other. There were no net non-current deferred tax assets in 2005 and 2004. Net current deferred tax liabilities of $1,949 and $1,346, respectively, were included in Current Liabilities–Income taxes. Net non-current deferred tax liabilities of $98,007 and $61,819, respectively, were included in Deferred Income Taxes and Other. Deferred taxes are not provided on substantially all undistributed earnings of foreign subsidiaries that are indefinitely reinvested. At September 30, 2005, the cumulative amount of such undistributed earnings indefinitely reinvested outside the United States was $655,617. Determining the tax liability that would arise if these earnings were remitted is not practicable. Deferred taxes are provided for earnings outside the United States when those earnings are not considered indefinitely reinvested.

In October 2004, the American Jobs Creations Act of 2004 (the "AJCA") was signed into law. The AJCA creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the United States. As a result of the passage of the AJCA, the Company revisited its policy of indefinite reinvestment of foreign earnings and determined that it will repatriate approximately $1.3 billion in 2006. The Company recorded a one-time charge of $77,200 in the fourth quarter of 2005 attributable to the planned repatriation of these earnings.

Deferred income taxes at September 30 consisted of:

	2005		2004	
	Assets	**Liabilities**	Assets	Liabilities
Compensation and benefits	**$154,085**	**$ —**	$170,148	$ —
Property and equipment	**—**	**147,188**	—	141,382
Repatriation of foreign earnings under the AJCA	**—**	**77,200**	—	—
Loss and credit carryforwards	**78,806**	**—**	33,552	—
Other	**178,244**	**139,205**	127,200	124,723
	411,135	**363,593**	330,900	266,105
Valuation allowance	**(72,116)**	**—**	(27,355)	—
	$339,019	**$363,593**	$303,545	$266,105

Valuation allowances have been established for capital loss carryforwards, state deferred tax assets, net of federal tax, related to net operating losses and credits and other deferred tax assets for which the Company has determined it is more likely than not that these benefits will not be realized. At September 30, 2005, the Company had deferred state tax assets for net state operating losses and credit carryforwards of $30,667 for which a valuation allowance has been established due to the uncertainty of generating sufficient taxable income in the state jurisdictions to utilize the deferred tax assets before they principally expire between 2006 and 2012. The Company also has federal and state capital loss carryforward deferred tax assets of $37,626 for which a full valuation allowance has been established due to the uncertainty of recognizing the benefit from these losses before they principally expire in 2010.

A reconciliation of the federal statutory tax rate to the Company's effective tax rate was as follows:

	2005	2004	2003
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of federal tax benefit	**0.6**	0.3	0.4
Effect of foreign and Puerto Rico earnings and foreign tax credits	**(10.3)**	(9.9)	(8.4)
Effect of Research, Empowerment Zone, Extraterritorial Income tax benefits	**(2.0)**	(2.5)	(3.0)
Repatriation of foreign earnings under the AJCA	**7.7**	—	—
Other, net	**0.1**	(0.3)	(0.9)
	31.1%	22.6%	23.1%

The approximate dollar and diluted earnings per share amounts of tax reductions related to tax holidays in various countries in which the Company does business were: 2005–$75,150 and $0.29; 2004–$55,461 and $0.21; and 2003–$42,050 and $0.16. The tax holidays expire at various dates through 2023.

The Company made income tax payments, net of refunds, of $183,867 in 2005, $146,574 in 2004 and $110,739 in 2003.

7 Supplemental Financial Information

Other Expense, Net

Other expense, net in 2005 totaled $7,064, which included foreign exchange losses (net of hedging costs) of $3,976 and net write downs of certain investments of $3,519.

Other expense, net in 2004 totaled $4,792, which included write downs and losses on certain investments of $6,951. These amounts were partially offset by gains on the sale of certain investments of $1,293.

Other expense, net in 2003 totaled $2,725, which included write downs of certain investments of $3,030 and the write-off of intangible assets of $1,841. These charges were partially offset by foreign exchange gains of $1,875 (net of hedging costs).

Trade Receivables, Net

Allowances for doubtful accounts and cash discounts netted against trade receivables were $47,609 and $52,361 at September 30, 2005 and 2004, respectively.

Inventories

	2005	2004
Materials	**$ 93,963**	$ 96,020
Work in process	**139,772**	132,841
Finished products	**542,214**	509,917
	$ 775,949	$ 738,778

Property, Plant and Equipment, Net

	2005	2004
Land	**$ 69,029**	$ 62,039
Buildings	**1,214,682**	1,162,327
Machinery, equipment and fixtures	**2,955,716**	2,811,679
Leasehold improvements	**65,702**	68,177
	4,305,129	4,104,222
Less allowances for depreciation and amortization	**2,371,411**	2,223,225
	$1,933,718	$1,880,997

8 Debt

The components of Short-term debt consisted of:

	2005	2004
Loans payable:		
Domestic	**$200,000**	$33,100
Foreign	**6,125**	15,729
Current portion of long-term debt	**384**	460
	$206,509	$49,289

Domestic loans payable consist of commercial paper. Foreign loans payable consist of short-term borrowings from financial institutions. The weighted average interest rates for loans payable were 3.8% and 2.1% at September 30, 2005 and 2004, respectively. The Company has in place a syndicated credit facility totaling $900 million in order to provide backup support for our commercial paper program and for other general corporate purposes. This credit facility expires in August 2009. Restrictive covenants include a minimum interest coverage ratio. There were no borrowings outstanding under the facility at September 30, 2005. In addition, the Company had short-term foreign lines of credit pursuant to informal arrangements of approximately $207,000 at September 30, 2005, of which $198,000 was unused.

Long-Term Debt consisted of:

	2005	2004
Domestic notes due through 2013		
(average year-end interest rate:		
3.2%–2005; 2.3%–2004)	**$ 10,194**	$ 10,415
Foreign notes due through 2007		
(average year-end interest rate:		
15.0%–2005 and 2004)	**34**	17
6.90% Notes due October 1, 2006	**99,937**	102,436
7.15% Notes due October 1, 2009	**210,153**	221,381
4.55% Notes due April 15, 2013	**198,349**	198,169
4.90% Notes due April 15, 2018	**207,116**	199,177
8.70% Debentures due January 15, 2025	**—**	104,861
7.00% Debentures due August 1, 2027	**168,000**	168,000
6.70% Debentures due August 1, 2028	**167,050**	167,050
	$1,060,833	$1,171,506

On January 15, 2005, the Company exercised the early redemption option available under the terms of our 8.7% Debentures, due January 15, 2025. Redemption was for the full $100 million in outstanding principal at a price of 103.949%. The Company had utilized an interest rate swap (designated as a fair value hedge) to effectively convert the fixed rate of interest under the debentures to a floating rate. The swap was terminated during the first quarter of 2005, which resulted in a gain, which largely offset the early redemption premium on the debentures.

In March 2003, the Company filed a registration statement with the Securities and Exchange Commission for one or more offerings of debt securities, common stock, warrants, purchase contracts and units, up to a total dollar amount of $750,000, including $100,000 of securities carried forward from a registration filed in October 1997. The remaining availability under the March 2003 registration statement is $350,000.

Long-term debt balances as of September 30, 2005 and 2004 have been impacted by certain interest rate swaps that have been designated as fair value hedges, as discussed in Note 9.

The aggregate annual maturities of long-term debt during the fiscal years ending September 30, 2007 to 2010 are as follows: 2007–$100,344; 2008–$393; 2009–$414; 2010–$210,589.

The Company capitalizes interest costs as a component of the cost of construction in progress. The following is a summary of interest costs:

	2005	2004	2003
Charged to operations	**$55,673**	$44,832	$43,477
Capitalized	**14,770**	12,203	10,346
	$70,443	$57,035	$53,823

Interest paid, net of amounts capitalized, was $68,527 in 2005, $40,730 in 2004 and $32,649 in 2003.

9 Financial Instruments

Foreign Exchange Derivatives

The Company uses foreign exchange forward contracts and currency options to reduce the effect of fluctuating foreign exchange rates on certain foreign currency denominated receivables and payables, third party product sales and investments in foreign subsidiaries. Gains and losses on the derivatives are intended to offset gains and losses on the hedged transaction. The Company's foreign currency risk exposure is in Europe, Asia Pacific, Canada, Japan and Latin America.

The Company hedges substantially all of its transactional foreign exchange exposures, primarily intercompany payables and receivables, through the use of forward contracts and currency options with maturities of less than 12 months. Gains or losses on these contracts are largely offset by gains and losses on the underlying hedged items. These foreign exchange contracts do not qualify for hedge accounting under SFAS No. 133.

In addition, the Company enters into option and forward contracts to hedge certain forecasted sales that are denominated in foreign currencies. These contracts are designated as cash flow hedges, as defined by SFAS No. 133, and are effective as hedges of these revenues. These contracts are intended to reduce the risk that the Company's cash flows from certain third party transactions will be adversely affected by changes in foreign currency exchange rates. Changes in the effective portion of the fair value of these contracts are included in other comprehensive income until the hedged sales transactions are recognized in earnings. Once the hedged transaction occurs, the gain or loss on the contract is recognized from Accumulated other comprehensive loss to revenues. The Company recorded hedge net losses, exclusive of hedging costs, of $1,876, $9,110 and $1,732 to revenues in fiscal 2005, 2004 and 2003, respectively. Fiscal 2005, 2004 and 2003 revenues are net of hedging costs of $17,286, $15,124 and $9,876, respectively, related to the purchased option contracts. The Company records in Other expense, net, the premium or cost of the forward contracts, which is excluded from the assessment of hedge effectiveness. The net cost was $236 in fiscal 2005 and the net premium was $618 and $993 in fiscal 2004 and 2003, respectively. All outstanding contracts that were designated as cash flow hedges as of September 30, 2005 will mature by September 30, 2006. At September 30, 2005 and 2004, Accumulated other comprehensive loss included an unrealized gain of $872 and an unrealized loss of $5,106, respectively, net of tax, relating to foreign exchange derivatives that have been designated as cash flow hedges.

The Company enters into forward exchange contracts to hedge its net investments in certain foreign subsidiaries. These forward contracts are designated and effective as net investment hedges, as defined by SFAS No. 133. The Company recorded losses of $2,390, $3,690 and $15,304 in fiscal 2005, 2004 and 2003, respectively, to foreign currency translation adjustments in other Accumulated comprehensive loss for the change in the fair value of the contracts.

Interest Rate Derivatives

The Company's policy is to manage interest cost using a mix of fixed and floating rate debt. The Company has entered into interest rate swaps in which it agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated as either fair value or cash flow hedges, as defined by SFAS No. 133. For fair value hedges, changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates. For cash flow hedges, changes in the fair value of the interest rate swaps are offset by amounts recorded in other comprehensive (loss) income. There was no ineffective portion to the hedges recognized in earnings during the period. If interest rate derivatives designated as cash flow hedges mature or are terminated, then the balance in other comprehensive (loss) income attributable to those derivatives is reclassified into earnings over the remaining life of the hedged debt. The amount that will be reclassified and recorded in Interest expense, net within the next 12 months is $1,753.

At September 30, 2005 and 2004, Accumulated other comprehensive loss included an unrealized loss of $13,360 and $7,247, respectively, net of tax, relating to interest rate derivatives that have been designated as cash flow hedges.

Fair Value of Financial Instruments

Cash equivalents, short-term investments and short-term debt are carried at cost, which approximates fair value. Equity investments, where a readily determinable market value exists, are classified as available-for-sale securities. Available-for-sale securities are carried at fair value, with unrecognized gains and losses reported in other comprehensive income, net of taxes. Losses on available-for-sale securities are recognized when a loss is determined to be other than temporary or when realized. In accordance with the provisions of SFAS No. 133, forward exchange contracts and currency options are recorded at fair value. Fair values were estimated based on market prices, where available, or dealer quotes. The fair value of certain long-term debt is based on redemption value. The estimated fair values of the Company's financial instruments at September 30 were as follows:

	2005		2004	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Assets:				
Currency options[A]	**$ 16,172**	**$ 16,172**	$ 8,618	$ 8,618
Forward exchange contracts[A]	**—**	**—**	5,805	5,805
Interest rate swaps[A]	**10,154**	**10,154**	30,142	30,142
Equity investments[B]	**24,918**	**24,918**	26,661	26,661
Liabilities:				
Forward exchange contracts[C]	**5,558**	**5,558**	—	—
Interest rate swaps[C]	**63**	**63**	10,912	10,912
Long-term debt	**1,060,833**	**1,113,311**	1,171,506	1,228,259

(A) Included in Prepaid expenses, deferred taxes and other.

(B) Included in Other non-current assets.

(C) Included in Accrued Expenses.

Concentration of Credit Risk

Substantially all of the Company's trade receivables are due from public and private entities involved in the healthcare industry. Due to the large size and diversity of the Company's customer base, concentrations of credit risk with respect to trade receivables are limited. The Company does not normally require collateral. Short-term investments consist primarily of liquid investments with high quality financial institutions. The Company is exposed to credit loss in the event of nonperformance by financial institutions with which it conducts business. However, this loss is limited to the amounts, if any, by which the obligations of the counterparty to the financial instrument contract exceed the obligations of the Company. The Company also minimizes exposure to credit risk by dealing with a diversified group of major financial institutions.

10 Shareholders' Equity

Changes in certain components of shareholders' equity were as follows:

	ESOP Preferred Stock Issued	Common Stock Issued at Par Value	Capital in Excess of Par Value	Retained Earnings	Unearned ESOP Compensation	Deferred Compensation	Treasury Stock Shares	Treasury Stock Amount
Balance at September 30, 2002	$ 37,945	$332,662	$185,122	$3,507,349	$(7,847)	$ 8,496	(77,132,248)	$(1,137,583)
Net income				547,056				
Cash dividends:								
Common ($.40 per share)				(101,612)				
Preferred ($3.835 per share), net of tax benefits				(2,201)				
Common stock issued for:								
Employee stock plans, net			71,206				5,048,394	45,357
Business acquisitions			97				2,487	24
Common stock held in trusts, net						478	(18,440)	(478)
Reduction in unearned ESOP compensation for the year					4,154			
Repurchase of common stock							(9,784,200)	(349,998)
Adjustment for redemption provisions	(3,497)		753				355,125	2,744
Balance at September 30, 2003	$ 34,448	$332,662	$257,178	$3,950,592	$(3,693)	$ 8,974	(81,528,882)	$(1,439,934)
Net income				467,402				
Cash dividends:								
Common ($.60 per share)				(151,093)				
Preferred ($3.835 per share), net of tax benefits				(2,123)				
Common stock issued for:								
Employee stock plans, net			156,478				7,408,051	71,725
Business acquisitions			149				3,545	35
Common stock held in trusts, net						1,248	(17,376)	(1,248)
Reduction in unearned ESOP compensation for the year					3,693			
Repurchase of common stock							(9,551,286)	(449,930)
Adjustment for redemption provisions	(3,306)		710				358,653	2,596
Balance at September 30, 2004	$ 31,142	$332,662	$414,515	$4,264,778	$ —	$10,222	(83,327,295)	$(1,816,756)
Net income				722,263				
Cash dividends:								
Common ($.72 per share)				(181,189)				
Common stock issued for:								
Employee stock plans, net			124,220				4,638,097	44,839
Business acquisitions			206				4,565	45
Share-based compensation			70,199					
Common stock held in trusts, net						58	40,472	(58)
Repurchase of common stock							(9,711,800)	(549,999)
Conversion of ESOP preferred stock	(31,142)		6,706				3,378,028	24,436
Balance at September 30, 2005	**$ —**	**$332,662**	**$615,846**	**$4,805,852**	**$ —**	**$10,280**	**(84,977,933)**	**$(2,297,493)**

Common stock held in trusts represents rabbi trusts in connection with deferred compensation under the Company's employee salary and bonus deferral plan and Directors' deferral plan.

Preferred Stock Purchase Rights

In accordance with the Company's shareholder rights plan, each certificate representing a share of outstanding common stock of the Company also represents one Preferred Stock Purchase Right (a "Right"). Each whole Right entitles the registered holder to purchase from the Company one eight-hundredths of a share of Preferred Stock, Series A, par value $1.00 per share, at a price of $67.50. The Rights will not become exercisable unless and until, among other things, a third party acquires 15% or more of the Company's outstanding common stock. The Rights are redeemable under certain circumstances at $.01 per Right and will expire, unless earlier redeemed, on April 25, 2006. There are 500,000 shares of preferred stock designated Series A, none of which has been issued.

11 Other Comprehensive (Loss) Income

The components of Accumulated other comprehensive loss were as follows:

	2005	2004
Foreign currency translation adjustments	**$ (90,413)**	$ (72,671)
Minimum pension liability adjustment	**(89,145)**	(93,639)
Unrealized gains on investments	**8,851**	9,963
Unrealized losses on cash flow hedges	**(12,488)**	(12,353)
	$(183,195)	$(168,700)

The income tax (benefit) provision recorded in fiscal years 2005 and 2004 for the unrealized gains on investments were $(631) and $285, respectively. The income tax provision (benefit) recorded in fiscal years 2005 and 2004 for cash flow hedges were $534 and $(3,130), respectively. The income tax provision (benefit) recorded in fiscal years 2005 and 2004 for the minimum pension liability adjustment were $2,139 and $(4,042), respectively. Income taxes are generally not provided for translation adjustments.

The unrealized losses on cash flow hedges included in other comprehensive (loss) income for 2005 and 2004 are net of reclassification adjustments of $11,880 and $15,025, net of tax, respectively, for realized net hedge losses recorded to revenues. These amounts had been included in Accumulated other comprehensive loss in prior periods. The tax benefits associated with these reclassification adjustments in 2005 and 2004 were $7,282 and $9,209, respectively.

12 Commitments and Contingencies

Commitments

Rental expense for all operating leases amounted to $59,000 in 2005, $59,200 in 2004 and $53,400 in 2003. Future minimum rental commitments on noncancelable leases are as follows: 2006–$42,400; 2007–$34,500; 2008–$24,000; 2009–$15,600; 2010–$10,300 and an aggregate of $15,400 thereafter.

As of September 30, 2005, the Company has certain future purchase commitments aggregating to approximately $216,100, which will be expended over the next several years.

Contingencies

In 1986, the Company acquired a business that manufactured, among other things, latex surgical gloves. In 1995, the Company divested this glove business. The Company, along with a number of other manufacturers, has been named as a defendant in approximately 524 product liability lawsuits related to natural rubber latex that have been filed in various state and Federal courts. Cases pending in Federal court are being coordinated under the matter *In re Latex Gloves Products Liability Litigation* (MDL Docket No. 1148) in Philadelphia, and analogous procedures have been implemented in the state courts of California, Pennsylvania, New Jersey and New York. Generally, these actions allege that medical personnel have suffered allergic reactions ranging from skin irritation to anaphylaxis as a result of exposure to medical gloves containing natural rubber latex. Since the inception of this litigation, 463 of these cases have been closed with no liability to the Company (462 of which were closed with prejudice), and 45 cases have been settled for an aggregate de minimis amount.

The Company, along with another manufacturer and several medical product distributors, is named as a defendant in three product liability lawsuits relating to healthcare workers who allegedly sustained accidental needlesticks, but have not become infected with any disease. Generally, these actions allege that healthcare workers have sustained needlesticks using hollow-bore needle devices manufactured by the Company and, as a result, require medical testing, counseling and/or treatment. In some cases, these actions additionally allege that the healthcare workers have sustained mental anguish. Plaintiffs seek money

damages in all of these actions. The Company had previously been named as a defendant in eight similar suits relating to healthcare workers who allegedly sustained accidental needlesticks, each of which has either been dismissed with prejudice or voluntarily withdrawn. Regarding the three pending suits:

- In Ohio, *Grant vs. Becton Dickinson et al.* (Case No. 98CVB075616, Franklin County Court), which was filed on July 22, 1998, the trial court granted class certification on June 6, 2005. The Company has filed an appeal of the trial court's ruling.
- In Oklahoma and South Carolina, cases have been filed on behalf of an unspecified number of healthcare workers seeking class action certification under the laws of these states in state court in Oklahoma, under the caption *Palmer vs. Becton Dickinson et al.* (Case No. CJ-98-685, Sequoyah County District Court), filed on October 27, 1998, and in state court in South Carolina, under the caption *Bales vs. Becton Dickinson et al.* (Case No. 98-CP-40-4343, Richland County Court of Common Pleas), filed on November 25, 1998.

The Company continues to oppose class action certification in these cases, including pursuing all appropriate rights of appeal.

In Illinois, the matter of *McCaster vs. Becton Dickinson* (Case No. 04L 012544) was settled on July 5, 2005 for an amount that is not material to the Company's results of operations, financial condition or cash flows. This case was originally filed as a purported class action needlestick case in the Circuit Court of Cook County and had been refiled in November 2004 as an individual personal injury case.

A purported class action suit was brought against the Company under the caption *Danielle Cardozo, by her litigation guardian Darlene Cardozo v. Becton, Dickinson and Company* (Civil Action No. S83059, Supreme Court, British Columbia) on November 6, 2003. The suit alleged personal injury to persons in British Columbia who received test results generated by the *BD ProbeTec* ET instrument, and sought money damages. The Company has reached a settlement in this case for an amount that is not material to the Company's results of operations, financial condition or cash flows.

The Company has insurance policies in place, and believes that a substantial portion of potential liability, if any, in the latex and class action matters would be covered by insurance. In order to protect our rights to additional coverage, the Company filed an action for declaratory judgment under the caption *Becton Dickinson and Company vs. Adriatic Insurance Company et al.* (Docket No. MID-L-3649-99MT, Middlesex County Superior Court) in New Jersey state court. The Company has withdrawn this action, with the right to refile, so that settlement discussions with the insurance companies may proceed.

On August 3, 2004, the Company was served with an administrative subpoena issued by the United States Attorney's Office in Dallas, Texas (the "U.S. Attorney") in connection with an investigation the U.S. Attorney is conducting of transactions between another company and certain of its suppliers, including the Company. The Company has fully responded to the subpoena. The Company believes that its transactions with the other company have fully complied with the law and that the Company is not currently a target of the investigation.

On August 8, 2005, the Company received a subpoena issued by the Attorney General of the State of Connecticut, which seeks documents and information relating to the Company's participation as a member of Healthcare Research & Development Institute, LLC. ("HRDI"), a healthcare trade organization (an independent member of the Company's board of directors, Gary Mecklenburg, also serves as the non-executive chairman of HRDI). The subpoena indicates that it was issued as part of an investigation into possible violations of the antitrust laws. The Company believes that its participation in HRDI complies fully with the law and has no additional information regarding the investigation at this time. The Company is responding to the subpoena.

The Company is named as a defendant in five purported class action suits brought on behalf of direct purchasers of the Company's products, such as distributors, alleging that the Company violated federal antitrust laws, resulting in the charging of higher prices for the Company's products to the plaintiff and other purported class members. The cases filed are as follows: *Louisiana Wholesale Drug Company, Inc., et. al. vs. Becton Dickinson and Company* (Civil Action No. 05-1602, U.S. District Court, Newark, New Jersey) filed on March 25, 2005; *SAJ Distributors, Inc. et. al. vs. Becton Dickinson & Co.* (Case 2:05-CV-04763-JD, United States District Court, Eastern District of Pennsylvania), filed on September 6, 2005; *Dik Drug Company, et. al. vs. Becton, Dickinson and Company* (Case No. 2:05-CV-04465, U.S. District Court, Newark, New Jersey) filed on September 12, 2005; *American Sales Company, Inc. et. al. vs. Becton, Dickinson & Co.* (Case No. 2:05-CV-05212-CRM, U.S. District Court, Eastern District of Pennsylvania), filed on October 3, 2005; and *Park Surgical Co. Inc. et. al. vs. Becton, Dickinson and Company* (Case 2:05-CV-05678-CMR, United States District Court, Eastern District of Pennsylvania), filed on October 26, 2005. The actions brought by Louisiana Wholesale Drug Company and Dik Drug Company in New Jersey have been consolidated under the caption "In re Hypodermic Products Antitrust Litigation." On June 7, 2005, Jabo's Pharmacy, Inc. filed a purported class action lawsuit against the Company under the caption *Jabo's Pharmacy, Inc., et. al. v. Becton Dickinson & Company* (Case No. 2:05-CV-00162, United States District Court, Greenville, Tennessee)

seeking monetary damages. The complaint alleges that the Company violated federal and various state antitrust laws, resulting in the charging of higher prices for the Company's products to plaintiff and other purported class members. Unlike the complaints described above, which were brought on behalf of direct purchasers of the Company's products, the Jabo's Pharmacy complaint is brought on behalf of indirect purchasers of the Company's products. The plaintiffs in each of these cases seek monetary damages. The Company has made a motion before the Judicial Panel on Multidistrict Litigation to transfer all of the above actions for coordinated or consolidated pre-trial proceedings. The panel heard the Company's motion on November 17, 2005, but has not yet issued a decision.

On August 31, 2005, Daniels Sharpsmart filed suit against the Company, another manufacturer and three group purchasing organizations under the caption *Daniels Sharpsmart, Inc. v. Tyco International, (US) Inc., et. al.* (Civil Action No. 505CV169, United States District Court, Eastern District of Texas). The plaintiff alleges, among other things, that the Company and the other defendants conspired to exclude the plaintiff from the sharps-collection market by entering into long-term contracts in violation of federal and state antitrust laws, and seeks monetary damages.

The Company was a defendant in the matter of *Dynovation Medical, Inc. et al v. Becton Dickinson and Company* (Civil Action No. 505CV73, U.S. District Court, Eastern District of Texas). The plaintiffs in the suit had alleged, among other things, that the Company materially breached its license agreement with Dynovation relating to the *BD Insyte Autoguard IV* catheter product, and that the Company's safety blood collection sets infringed certain Dynovation patents. The suit was concluded in September 2005 resulting in the Company receiving a fully-paid up patent license from Dynovation.

On May 28, 2004, Therasense, Inc. ("Therasense") filed suit against the Company in the U.S. District Court for the Northern District of California (Case Number: C 04-02123 WDB) asserting that the Company's blood glucose monitoring products infringe certain Therasense patents. On August 10, 2004, in response to a motion filed by Therasense in the U.S. District Court for the District of Massachusetts, the court transferred to the court in California an action previously filed by the Company against Therasense requesting a declaratory judgment that the Company's products do not infringe the Therasense patents and that the Therasense patents are invalid.

The Company believes that it has meritorious defenses to each of the above-mentioned suits pending against the Company and is engaged in a vigorous defense of each of these matters.

The Company is also involved both as a plaintiff and a defendant in other legal proceedings and claims that arise in the ordinary course of business.

The Company is a party to a number of Federal proceedings in the United States brought under the Comprehensive Environment Response, Compensation and Liability Act, also known as "Superfund," and similar state laws. For all sites, there are other potentially responsible parties that may be jointly or severally liable to pay all cleanup costs.

Given the uncertain nature of litigation generally, the Company is not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome of the litigation to which the Company is a party. In accordance with U.S. generally accepted accounting principles, the Company establishes accruals to the extent probable future losses are estimable (in the case of environmental matters, without considering possible third-party recoveries). In view of the uncertainties discussed above, the Company could incur charges in excess of any currently established accruals and, to the extent available, excess liability insurance. In the opinion of management, any such future charges, individually or in the aggregate, could have a material adverse effect on the Company's consolidated results of operations and consolidated cash flows in the period or periods in which they are recorded or paid.

13 Share-Based Compensation

The Company grants share-based awards under the 2004 Plan, which provides for long-term incentive compensation to employees and directors consisting of: stock options, performance-based stock awards, stock appreciation rights, restricted stock units and other stock awards. The Company believes such awards align the interest of its employees and directors with those of its shareholders and encourage employees and directors to act as equity owners of the Company. Prior to the adoption of the 2004 Plan, the Company had employee and director stock option plans, which were terminated with respect to future grants effective upon shareholder approval of the 2004 Plan in February 2004. In 2005 and 2004, the compensation expense for these plans charged to income was $70,199 and $2,466, respectively, and the associated income tax benefit recognized was $19,941 and $937, respectively. No compensation expense was charged to income in 2003.

Stock options

All stock option grants are for a ten-year term. Stock options issued after November 2001 vest over a four-year period. Stock options issued prior to November 2001 vested over a three-year period. Beginning with the November 2004 (fiscal 2005) stock option grants, fair value was estimated on the date of grant using a lattice-based binomial option valuation model that uses the following weighted-average assumptions: risk-free interest rate of 3.93%; expected volatility of 29%; expected dividend yield of 1.28% and expected life of 6.5 years. Expected volatility is based upon historical volatility for the Company's common stock and other factors. The expected term of options granted is derived from the output of the model, using assumed exercise rates based on historical exercise and termination patterns, and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate used is based upon the published U.S. Treasury yield curve in effect at the time of grant for instruments with a similar life. The dividend yield is based upon the most recently declared quarterly dividend as of the grant date.

The weighted average grant date fair value of stock options granted during the years 2005, 2004 and 2003 was $17.16, $13.25 and $10.20, respectively. Stock options granted in 2004 and 2003 were valued based on the grant date fair value of those awards, using the Black-Scholes option pricing model. See Note 2 for further discussion.

A summary of stock options outstanding as of September 30, 2005, and changes during the year then ended is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at October 1	26,926,805	$31.15		
Granted	1,808,715	54.44		
Exercised	(4,607,210)	26.83		
Forfeited, canceled or expired	(400,386)	35.92		
Balance at September 30	23,727,924	$33.68	5.77	$444,811
Vested and expected to vest at September 30	22,898,297	$33.49	5.70	$433,730
Exercisable at September 30	15,431,655	$30.79	4.66	$334,002

Cash received from the exercising of stock options in 2005, 2004 and 2003 was $123,613, $173,883 and $86,364, respectively. The actual tax benefit realized for tax deductions from stock option exercises totaled $44,958, $52,131 and $29,969, respectively. The total intrinsic value of stock options exercised during the years 2005, 2004 and 2003 was $134,342, $157,293 and $91,276, respectively.

Performance-Based Restricted Stock Units

Performance-based restricted stock units cliff vest three years after the date of grant, and are tied to the Company's performance against pre-established targets, including its compound growth rate of consolidated revenues and average return on invested capital, over a three-year performance period. Under the Company's long-term incentive program, the actual payout under these awards may vary from zero to 250% of an employee's target payout, based on the Company's actual performance over the three-year performance period. The fair value is based on the market price of the Company's stock on the date of grant. Compensation cost initially recognized assumes that the target payout level will be achieved and is adjusted for subsequent changes in the expected outcome of performance-related conditions until the vesting date.

A summary of performance-based restricted stock units outstanding as of September 30, 2005, and changes during the year then ended is as follows:

	Stock Units	Weighted Average Conversion Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at October 1	367,978	$38.93		
Granted	1,404,033	54.41		
Converted	(1,009)	54.41		
Forfeited or canceled	(20,342)	54.41		
Balance at September 30[A]	1,750,660	$51.16	1.94	$91,787
Expected to vest at at September 30[B]	994,973	$51.16	1.94	$52,166

(A) Based on 250% of the target payout.

(B) Net of expected forfeited units and units in excess of the expected performance payout of 175,066 and 580,621, respectively.

The weighted average grant date fair value of performance-based restricted stock units granted during the years 2005 and 2004 was $54.41 and $38.93, respectively.

Time-Vested Restricted Stock Units

Time-vested restricted stock units generally cliff vest three years after the date of grant, except for certain key executives of the Company, including the executive officers, for which such units generally vest one year following the employee's retirement. The related share-based compensation expense is recorded over the requisite service period, which is the vesting period or in the

case of certain key executives is based on an assumed average retirement age. The fair value of all time-vested restricted stock units is based on the market value of the Company's stock on the date of grant.

A summary of time-vested restricted stock units outstanding as of September 30, 2005, and changes during the year then ended is as follows:

	Stock Units	Weighted Average Conversion Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at October 1	77,915	$38.78		
Granted	571,669	54.48		
Converted	(5,887)	54.41		
Forfeited or canceled	(13,640)	54.41		
Balance at September 30	630,057	$52.54	3.47	$33,034
Expected to vest at September 30	567,051	$52.54	3.47	$29,731

The weighted average grant date fair value of time-vested restricted stock units granted during the years 2005 and 2004 was $54.48 and $38.78, respectively.

The amount of unrecognized compensation expense for all non-vested share-based awards as of September 30, 2005 is approximately $125.4 million, which is expected to be recognized over a weighted-average remaining life of approximately 2.1 years. As of September 30, 2005, 5,931,893 shares remain available for award under the original 9,000,000 share authorization of the 2004 Plan.

The Company has a policy of satisfying share-based payments through either open market purchases or shares held in treasury. At September 30, 2005, the Company estimates that it has sufficient shares held in treasury to satisfy these payments in 2006.

Other Stock Plans

The Company has a Stock Award Plan, which allows for grants of common shares to certain key employees. Distribution of 25% or more of each award is deferred until after retirement or involuntary termination, upon which the deferred portion of the award is distributable in five equal annual installments. The balance of the award is distributable over five years from the grant date, subject to certain conditions. In February 2004, this plan was terminated with respect to future grants upon the adoption of the 2004 Plan. At September 30, 2005 and 2004, awards for 283,003 and 321,131 shares, respectively were outstanding.

The Company has a Restricted Stock Plan for Non-Employee Directors which reserves for issuance 300,000 shares of the Company's common stock. No restricted shares were issued in 2005.

The Company has a Directors' Deferral Plan, which provides a means to defer director compensation, from time to time, on a deferred stock or cash basis. As of September 30, 2005, 111,868 shares were held in trust, of which 13,288 shares represented Directors' compensation in 2005, in accordance with the provisions of the plan. Under this plan, which is unfunded, directors have an unsecured contractual commitment from the Company.

The Company also has a Deferred Compensation Plan that allows certain highly-compensated employees, including executive officers, to defer salary, annual incentive awards and certain equity-based compensation. As of September 30, 2005, 183,205 shares were issuable under this plan.

14 Earnings Per Share

For the years ended September 30, 2005, 2004 and 2003, the computations of basic and diluted earnings per share (shares in thousands) were as follows:

	2005	2004	2003
Income from continuing operations	**$692,283**	$582,504	$554,930
Preferred stock dividends	**(367)**	(2,115)	(2,344)
Income from continuing operations available to common shareholders[A]	**691,916**	580,389	552,586
Preferred stock dividends–using "if converted" method	**367**	2,115	2,344
Additional ESOP contribution–using "if converted" method	**—**	(52)	(502)
Income from continuing operations available to common shareholders after assumed conversions[B]	**$692,283**	$582,452	$554,428
Average common shares outstanding[C]	**251,429**	252,011	254,497
Dilutive stock equivalents from stock plans	**8,671**	7,948	5,402
Shares issuable upon conversion of preferred stock	**612**	3,378	3,736
Average common and common equivalent shares outstanding–assuming dilution[D]	**260,712**	263,337	263,635
Basic earnings per share–income from continuing operations (A divided by C)	**$ 2.75**	$ 2.30	$ 2.17
Diluted earnings per share–income from continuing operations (B divided by D)	**$ 2.66**	$ 2.21	$ 2.10

15 Segment Data

The Company's organizational structure is based upon its three principal business segments: BD Medical ("Medical"), BD Diagnostics ("Diagnostics") and BD Biosciences ("Biosciences").

The major product lines in the Medical segment include needles, syringes and intravenous catheters, including safety-engineered devices, for medication delivery; insulin injection devices and blood glucose monitors for the treatment of diabetes; prefillable drug delivery devices provided to pharmaceutical companies and sold to end-users as drug/device combinations; surgical blades and regional anesthesia needles; critical care monitoring devices; ophthalmic surgery devices; sharps disposal containers; and home healthcare products. The major products and services in the Diagnostics segment are integrated systems for evacuated blood collection; an extensive line of safety-engineered specimen collection products and systems; plated media; automated blood culturing; molecular testing systems for sexually transmitted diseases; microorganism identification and drug susceptibility systems; and rapid manual testing products. The major product lines in the Biosciences segment include fluorescence activated cell sorters and analyzers; cell imaging systems; monoclonal antibodies and kits; reagent systems for life sciences research; tools to aid in drug discovery and growth of tissue and cells; and diagnostic assays.

The Company evaluates performance of its business segments based upon operating income. Segment operating income represents revenues reduced by product costs and operating expenses.

Distribution of products is primarily through distributors, as well as directly to hospitals, laboratories and other end users. Sales to a distributor which supplies the Company's products to many end users accounted for approximately 11% of revenues in 2005, 2004 and 2003, respectively and included products from the Medical and Diagnostics segments. No other customer accounted for 10% or more of revenues in each of the three years presented.

Revenues	**2005**	2004	2003
Medical	**$2,958,088**	$2,680,165	$2,456,876
Diagnostics	**1,657,064**	1,531,639	1,373,651
Biosciences	**799,529**	722,941	632,982
Total[A]	**$5,414,681**	$4,934,745	$4,463,509
Segment Operating Income			
Medical	**$ 710,551**	$ 566,582[B]	$ 556,284
Diagnostics	**413,908**	359,370	302,071
Biosciences	**175,339**	155,888	100,597[C]
Total Segment Operating Income	**1,299,798**	1,081,840	958,952
Unallocated Expenses[D]	**(294,944)**[E]	(328,972)[F]	(236,994)
Income From Continuing Operations Before Income Taxes	**$1,004,854**	$ 752,868	$ 721,958
Segment Assets			
Medical	**$2,656,320**	$2,703,643	$2,738,082
Diagnostics	**1,245,769**	1,217,620	1,128,878
Biosciences	**678,286**	706,728	717,455[C]
Total Segment Assets	**4,580,375**	4,627,991	4,584,415
Corporate and All Other[G]	**1,491,594**	1,060,894	792,535
Discontinued Operations	**—**	63,694	195,303
Total	**$6,071,969**	$5,752,579	$5,572,253
Capital Expenditures			
Medical	**$ 184,525**	$ 158,728	$ 167,168
Diagnostics	**99,742**	79,782	61,590
Biosciences	**22,218**	16,560	20,287
Corporate and All Other	**11,143**	10,648	10,173
Total	**$ 317,628**	$ 265,718	$ 259,218
Depreciation and Amortization			
Medical	**$ 202,825**	$ 187,254	$ 174,711
Diagnostics	**102,882**	97,731	86,882
Biosciences	**64,599**	55,878	55,896
Corporate and All Other	**17,190**	16,361	18,270
Total	**$ 387,496**	$ 357,224	$ 335,759

(A) Intersegment revenues are not material.

(B) Includes the $45,024 charge related to blood glucose monitoring products as discussed in Note 19.

(C) Includes $26,717 in 2003 of impairment charges discussed in Note 3.

(D) Includes interest, net; foreign exchange; corporate expenses; and certain legal defense costs.

(E) Includes share-based compensation expense, as discussed further in Note 2.

(F) Includes the litigation settlement of $100,000 as discussed in Note 16.

(G) Includes cash and investments and corporate assets.

Revenues by Organizational Units	2005	2004	2003
BD Medical			
Medical Surgical Systems	**$1,661,150**	$1,540,723	$1,426,202
Diabetes Care	**674,020**	586,190	542,327
Pharmaceutical Systems	**563,271**	497,421	435,624
Ophthalmic Systems	**59,647**	55,831	52,723
	$2,958,088	$2,680,165	$2,456,876
BD Diagnostic			
Preanalytical Systems	**$ 854,831**	$ 787,996	$ 707,079
Diagnostic Systems	**802,233**	743,643	666,572
	$1,657,064	$1,531,639	$1,373,651
BD Biosciences			
Immunocytometry Systems	**$ 452,383**	$ 397,151	$ 332,386
Pharmingen	**140,585**	135,650	121,173
Discovery Labware	**206,561**	190,140	179,423
	$ 799,529	$ 722,941	$ 632,982
Total	**$5,414,681**	$4,934,745	$4,463,509

Geographic Information

The countries in which the Company has local revenue-generating operations have been combined into the following geographic areas: the United States (including Puerto Rico), Europe and Other, which is composed of Canada, Latin America, Japan and Asia Pacific.

Revenues to unaffiliated customers are based upon the source of the product shipment. Long-lived assets, which include net property, plant and equipment, are based upon physical location.

	2005	2004	2003
Revenues			
United States	**$2,590,951**	$2,435,889	$2,296,318
Europe	**1,671,112**	1,482,793	1,277,994
Other	**1,152,618**	1,016,063	889,197
Total	**$5,414,681**	$4,934,745	$4,463,509
Long-Lived Assets			
United States	**$1,687,808**	$1,687,276	$1,652,508
Europe	**776,681**	805,179	778,375
Other	**410,354**	398,453	410,134
Corporate	**221,812**	220,337	227,777
Total	**$3,096,655**	$3,111,245	$3,068,794

16 Litigation Settlement

In July 2004, the Company entered into an agreement to settle the lawsuit filed against it by Retractable Technologies, Inc. ("RTI"). RTI alleged that the Company and other defendants conspired to exclude it from the market and to maintain the Company's market share by entering into long-term contracts in violation of state and Federal antitrust laws. RTI also asserted claims for business disparagement, common law conspiracy and tortious interference with business relationships. The settlement was also paid in July 2004 and was in exchange for a general release of all claims (excluding certain patent matters) and a dismissal of the case with prejudice, which means this case cannot be re-filed. The Company recorded the related pretax charge of $100,000 ($63,000 after taxes and approximately 24 cents per diluted share) in the Company's results of operations in 2004.

17 Discontinued Operations

On August 31, 2005, the Company completed the sale of the Clontech unit of the Biosciences segment for $62,100 and recognized a gain on sale of $13,336 ($28,533 after taxes). In September 2004, the Company recorded a charge of approximately $124 million ($116 million after taxes) to write down the net assets of Clontech to their estimated fair value. Clontech's results of operations are reported as discontinued operations for all periods presented in the accompanying Consolidated Statements of Income. Clontech's statement of financial position is reported separately as Assets held for sale and Liabilities held for sale, respectively, in the accompanying Consolidated Balance Sheet at September 30, 2004.

Results of discontinued operations for the years ended September 30 were as follows:

	2005[A]	2004	2003
Revenues	**$49,670**	$ 60,513	$ 64,431
Income (loss) from discontinued operations before income taxes	**15,541**	(123,063)	(12,252)
Income tax benefit	**14,439**	7,961	4,378
Net income (loss) from discontinued operations	**$29,980**	$(115,102)	$ (7,874)

(A) Includes operations through August 31, 2005.

In 2004, the statutory tax rate of 35.0% was reduced to an effective tax rate benefit of 6.5% as a result of the assumption of an asset sale, which reflected the tax impact of the non-deductibility of a goodwill write-off of 26.3%, as well as other items of 2.2%. In 2005, the effective tax rate benefit of 92.9% reflected the consummation of the sale of Clontech as a sale of stock. In aggregate, the effective tax rate benefit realized of 20.8% on the sale primarily reflected a valuation allowance related to the capital loss on the sale of stock of 35.0%, partially offset by the write-off of deferred tax liabilities of 17.1% associated with basis adjustments and other items of 3.7%.

Assets held for sale at September 30 were as follows:

	2004
Current assets	$26,676
Property, plant and equipment	9,562
Core and developed technology	15,256
Other intangibles	8,785
Other assets	3,415
	$63,694

Liabilities held for sale at September 30 were as follows:

	2004
Current liabilities	$13,522
Other liabilities	659
	$14,181

18 Employee Stock Ownership Plan/ Savings Incentive Plan

The Company has an Employee Stock Ownership Plan ("ESOP") as part of its voluntary defined contribution plan (Savings Incentive Plan) covering eligible employees in the United States. The ESOP was established to satisfy all or part of the Company's obligation to match 50% of employees' contributions, up to a maximum of 3% of each participant's salary. To accomplish this, in 1990, the ESOP borrowed $60,000 in a private debt offering and used the proceeds to purchase from the Company an issue of ESOP convertible preferred stock (the "ESOP Preferred Stock"). The ESOP Preferred Stock paid an annual dividend of $3.835 per share, a portion of which was used by the ESOP, together with the Company's contributions, to service the ESOP debt. Since the ESOP debt was guaranteed by the Company, it had been reflected on the Consolidated Balance Sheets as debt with a related amount shown in the Shareholders' Equity as Unearned ESOP compensation. In July 2004, the Company repaid the ESOP debt in full. In December 2004, the Trustee of the ESOP converted all of the outstanding shares of ESOP Preferred Stock into BD common stock. This was done in response to the November 2004 dividend declaration, which reflected a 20% increase in the common dividend versus the preceding quarter and increased the difference between the common dividend and the fixed dividend payable on the ESOP Preferred Stock (on an equivalent share basis). The share conversion occurred at the rate of 6.4 BD common shares for each share of ESOP Preferred Stock. In April 2005, the shares in the ESOP were allocated to plan participants. As a result, the Company meets its matching obligation by contributing cash to the ESOP, which is used by the Trustee of the ESOP to purchase BD common stock at prevailing market prices.

The amount of ESOP expense recognized is equal to the cost of shares allocated to plan participants. Prior to July 2004, the amount of ESOP expense recognized was equal to the cost of the ESOP Preferred Stock allocated to plan participants and the ESOP interest expense for the year, reduced by the amount of dividends paid on the ESOP Preferred Stock that were utilized by the plan to service the debt.

Selected financial data pertaining to the ESOP/Savings Incentive Plan follows:

	2005	2004	2003
Total expense of the Savings Incentive Plan	$6,905	$2,252	$2,626
Compensation expense (included in total expense above)	$6,905	$2,137	$2,168
Dividends on ESOP Preferred Stock used for debt service	$ —	$1,592	$2,344
Number of shares allocated at September 30 ESOP Preferred Stock	—	503,011	500,807

The Company guarantees employees' contributions to the fixed income fund of the Savings Incentive Plan, which consists of diversified money market instruments. The amount guaranteed was $136,460 at September 30, 2005.

19 Blood Glucose Monitoring Charges

The Company recorded a pre-tax charge of $45,024 to Cost of products sold in its results of operations during 2004 related to its blood glucose monitoring ("BGM") products, which included a reserve of $6,473 in connection with the voluntary product recall of certain lots of BGM test strips and the write-off of $29,803 of certain test strip inventories. Based upon internal testing, it was determined that certain BGM test strip lots, produced by the Company's manufacturing partner, were not performing within the Company's specifications. As a result, the Company decided to recall the affected lots and dispose of the non-conforming product in inventory. In addition, the charge reflects the Company's decision to focus its sales and marketing efforts on the *BD Logic* and Paradigm Link® blood glucose meters in the United States, and to discontinue support of the *BD Latitude* system product offering in the United States, resulting in a write-off of $8,748 of related blood glucose meters and fixed assets. As of September 30, 2005, the accrual for product to be returned related to this product recall has been fully utilized and no further returns are anticipated.

Quarterly Data (unaudited)

Thousands of dollars, except per-share amounts

	2005				
	1st[B]	2nd[B]	3rd[B]	4th[B]	Year[B]
Revenues	**$1,288,369**	**$1,365,530**	**$1,381,306**	**$1,379,476**	**$5,414,681**
Gross Profit	**653,868**	**687,512**	**694,542**	**716,730**	**2,752,652**
Income from Continuing Operations	**194,398**	**186,509**	**189,801**	**121,575**	**692,283[C]**
Earnings Per Share:					
Income from Continuing Operations	**.77**	**.74**	**.75**	**.49**	**2.75**
Income from Discontinued Operations	**—**	**.01**	**—**	**.11**	**.12**
Basic Earnings Per Share	**.78**	**.74**	**.75**	**.60**	**2.87**
Income from Continuing Operations[A]	**.74**	**.71**	**.73**	**.47**	**2.66**
Income from Discontinued Operations[A]	**—**	**.01**	**—**	**.11**	**.11**
Diluted Earnings Per Share[A]	**.75**	**.72**	**.73**	**.58**	**2.77**

	2004				
	1st	2nd	3rd	4th	Year
Revenues	$1,185,120	$1,253,633	$1,242,714	$1,253,278	$4,934,745
Gross Profit	550,865	624,117	627,101	632,300	2,434,383[D]
Income from Continuing Operations	124,925	164,083	110,162	183,334	582,504[D][E]
Earnings Per Share:					
Income from Continuing Operations	.49	.65	.43	.73	2.30
Loss from Discontinued Operations	—	—	—	(.46)	(.46)
Basic Earnings Per Share	.50	.65	.43	.27	1.85
Income from Continuing Operations[A]	.48	.62	.42	.70	2.21
Loss from Discontinued Operations	—	—	—	(.44)	(.44)
Diluted Earnings Per Share	.48	.62	.41	.26	1.77

(A) Total per share amounts may not add due to rounding.

(B) Includes the impact of share-based compensation expense, as discussed further in Note 2.

(C) Includes the tax charge of $77,200 in the fourth quarter related to the planned repatriation of foreign earnings in 2006 under the American Jobs Creation Act of 2004, as discussed in Note 6.

(D) Includes the $45,024 charge in the first quarter related to blood glucose monitoring (BGM) products, as discussed in Note 19.

(E) Includes the litigation settlement of $100,000 in the third quarter, as discussed in Note 16.

Corporate Information

Annual Meeting
1:00 p.m.
Tuesday, January 31, 2006
Hilton Short Hills
41 John F. Kennedy Parkway
Short Hills, NJ 07078

Direct Stock Purchase Plan
The Direct Stock Purchase Plan established through Computershare Trust Company, N.A., enhances the services provided to existing shareholders and facilitates initial investments in BD shares. Additional information may be obtained by calling Computershare Trust Company, N.A. at 1-866-238-5345.

NYSE Symbol
BDX

On March 2, 2005, Edward J. Ludwig, Chairman, President and Chief Executive Officer, submitted to the NYSE the Written Affirmation required by the rules of the NYSE certifying that he was not aware of any violations by BD of NYSE Corporate Governance listing standards.

The certifications of Mr. Ludwig and John R. Considine, Executive Vice President and Chief Financial Officer, made pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of BD's public disclosure, have been filed as exhibits to the Company's 2005 Annual Report on Form 10-K.

Transfer Agent and Registrar
Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021
Phone: 1-877-498-8861
International: 781-575-2726
E-mail: equiserve@equiserve.com
Internet: www.computershare.com/equiserve

Common Stock Prices and Dividends (per common share)

By Quarter	2005		
	High	**Low**	**Dividends**
First	**$57.83**	**$49.52**	**$0.18**
Second	**59.98**	**53.90**	**0.18**
Third	**59.65**	**51.27**	**0.18**
Fourth	**55.65**	**51.30**	**0.18**

By Quarter	2004		
	High	Low	Dividends
First	$41.45	$35.71	$0.15
Second	49.89	41.03	0.15
Third	53.25	47.74	0.15
Fourth	51.81	46.41	0.15

Shareholder Information
BD's Statement of Corporate Governance Principles, BD's Business Conduct and Compliance Guide, the charters of BD's Committees of the Board of Directors and BD's reports and statements filed with or furnished to the Securities and Exchange Commission, are posted on BD's website at www.bd.com/investors/. Shareholders may receive, without charge, printed copies of these documents, including BD's 2005 Annual Report to the Securities and Exchange Commission on Form 10-K, by contacting:

Investor Relations
BD
1 Becton Drive
Franklin Lakes, NJ 07417-1880
Phone: 1-800-284-6845
Internet: www.bd.com

Independent Auditors
Ernst & Young LLP
5 Times Square
New York, NY 10036-6530
Phone: 212-773-3000
Internet: www.ey.com

Certain BD Biosciences products are intended for research use only, and not for use in diagnostic or therapeutic procedures.

Reconciliations to adjusted amounts (in millions)	**2005**	2004
Gross profit	**$2,753**	$2,434
Share-based compensation expense	**10**	—
BGM charges	**—**	45
Gross profit–adjusted	**$2,762**	$2,479
as a % of revenues	**51.0%**	50.2%
Research and development (R&D) expense	**$ 272**	$ 236
Share-based compensation expense	**6**	—
R&D expense–adjusted	**$ 266**	$ 236
% change from 2004	**13.0%**	
Operating income	**$1,031**	$ 787
Share-based compensation expense	**70**	—
BGM charges	**—**	45
Litigation settlement	**—**	100
Operating income–adjusted	**$1,101**	$ 932
as a % of revenues	**20.3%**	18.9%

Amounts may not add due to rounding.

Board of Directors

Basil L. Anderson[1,2,6]
Vice Chairman–Staples, Inc.

Henry P. Becton, Jr.[2,5,6]
President–WGBH Educational Foundation

Edward F. DeGraan[1,2,4,7]
Vice Chairman– Gillette
Procter & Gamble Company

Edward J. Ludwig[5]
Chairman, President and
Chief Executive Officer–BD

Gary A. Mecklenburg[1,4,7]
President and Chief Executive Officer
Northwestern Memorial HealthCare

James F. Orr[1,2,5]
Chairman and Chief Executive Officer–
Convergys Corporation

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Retired Chairman of the Board–
Ingersoll-Rand Company

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Executive Vice President of TIAA-CREF,
and President and Chief Executive Officer
of TIAA-CREF Life Insurance Company

Alfred Sommer, M.D., M.H.S.[3,6]
Professor of International Health,
Epidemiology and Ophthalmology–
Johns Hopkins University Schools
of Public Health and Medicine

Margaretha af Ugglas[3,4,7]
Former Minister of Foreign Affairs
of Sweden

Committees appointed by the Board of Directors
1 – Audit Committee
2 – Compensation and Benefits Committee
3 – Corporate Affairs Committee
4 – Corporate Governance and Nominating Committee
5 – Executive Committee
6 – Finance Committee
7 – Qualified Legal Compliance Committee

Pictured above left to right are: front row, Bertram L. Scott, Gary A. Mecklenburg, Edward F. DeGraan; middle row, Margaretha af Ugglas, Edward J. Ludwig, Henry P. Becton, Jr., Basil L. Anderson; back row, Alfred Sommer, M.D., M.H.S., James E. Perrella, Willard J. Overlock, Jr. and James F. Orr

Corporate Officers

Edward J. Ludwig
Chairman, President and Chief Executive Officer

Geraldo Q. Barbosa
President–South Latin America

Richard K. Berman
Vice President and Treasurer

Donna M. Boles
Vice President–Human Resources

Mark H. Borofsky
Vice President–Taxes

James R. Brown
Vice President–Quality Management

Gary M. Cohen
President–BD Medical

John R. Considine
Executive Vice President and Chief Financial Officer

Helen Cunniff
President–Asia-Pacific

David T. Durack, M.D.
Vice President–Corporate Medical Affairs

Vincent A. Forlenza
President–BD Biosciences

A. John Hanson
President–Europe

Laureen Higgins
President–North Latin America

David W. Highet
Vice President, Chief Intellectual Property Counsel
and Assistant Secretary

William A. Kozy
President–BD Diagnostics

Dean J. Paranicas
Vice President, Corporate Secretary and Public Policy

Jeffrey S. Sherman
Vice President and General Counsel

Patricia B. Shrader
Vice President, Corporate Regulatory and
External Affairs

William A. Tozzi
Vice President and Controller

Rex C. Valentine
President–Japan

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