

## Reconciliation of Non-GAAP Financial Measures

The tables below are provided to reconcile certain financial disclosures in the Letter to Shareholders, page 1.

(Dollars in Millions Except Per Share Data)	2011	2010	2009	'11 vs. '10 % Change	'10 vs. '09 % Change
Earnings before provision for taxes on income — as reported	\$12,361	16,947	15,755	(27.1)%	7.6
Net litigation settlements loss (gain)	1,710	(966)	(386)		
Product liability expenses	1,600	569	—		
Restructuring expense	656	—	1,186		
DePuy ASR™ Hip recall program	521	280	—		
Adjustment to the value of the currency option and costs related to planned acquisition of Synthes, Inc.	491	—	—		
In-process research and development	14	—	—		
Earnings before provision for taxes on income — as adjusted	\$17,353	16,830	16,555	3.1%	1.7
Net Earnings — as reported	\$ 9,672	13,334	12,266	(27.5)%	8.7
Net litigation settlements loss (gain)	1,466	(698)	(212)		
Product liability expenses	1,279	404	—		
Restructuring expense	536	—	852		
DePuy ASR™ Hip recall program	426	239	—		
Adjustment to the value of the currency option and costs related to planned acquisition of Synthes, Inc.	477	—	—		
In-process research and development	11	—	—		
Net Earnings — as adjusted	\$13,867	13,279	12,906	4.4%	2.9
Diluted Net Earnings per share — as reported	\$ 3.49	4.78	4.40	(27.0)%	8.6
Net litigation settlements loss (gain)	0.53	(0.25)	(0.08)		
Product liability expenses	0.46	0.14	—		
Restructuring expense	0.19	—	0.31		
DePuy ASR™ Hip recall program	0.16	0.09	—		
Adjustment to the value of the currency option and costs related to planned acquisition of Synthes, Inc.	0.17	—	—		
In-process research and development	—	—	—		
Diluted Net Earnings per share — as adjusted	\$ 5.00	4.76	4.63	5.0%	2.8

  

(Dollars in Millions)	2011	2010	2009	'11 vs. '10 % Change	'10 vs. '09 % Change
Net cash flows from operating activities	\$14,298	16,385	16,571		
Additions to property, plant and equipment	(2,893)	(2,384)	(2,365)		
Free Cash Flow	\$11,405	14,001	14,206	(18.5)%	(1.4)

The Company provides earnings before provision for taxes on income, net earnings, net earnings per share (diluted) and net cash flows from operating activities on an adjusted basis because management believes that these measures provide useful information to investors. Among other things, these measures may assist investors in evaluating the Company's results of operations period over period. In various periods, these measures may exclude such items as significant costs associated with acquisitions, restructuring, litigation, and changes in applicable laws and regulations (including significant accounting or tax matters). These special items may be highly variable, difficult to predict, and of a size that sometimes has substantial impact on the Company's reported results of operations for a period. Management uses these measures internally for planning, forecasting and evaluating the performances of the Company's businesses, including allocating resources and evaluating results relative to employee performance compensation targets. Unlike earnings before provision for taxes on income, net earnings, net earnings per share (diluted) and net cash flows from operating activities prepared in accordance with GAAP, adjusted earnings before provision for taxes on income, adjusted net earnings, adjusted net earnings per share (diluted) and free cash flow may not be comparable with the calculation of similar measures for other companies. These non-GAAP financial measures are presented solely to permit investors to more fully understand how management assesses the performance of the Company. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of the Company's results of operations without including all events during a period, such as the effects of an acquisition, restructuring, litigation, and changes in applicable laws and regulations (including significant accounting or tax matters) and do not provide a comparable view of the Company's performance to other companies in the health care industry. Investors should consider non-GAAP financial measures in addition to, and not as replacements for, or superior to, measures of financial performance prepared in accordance with GAAP.