



**Unaudited Interim Condensed Consolidated
Financial Statements**

As of June 30, 2009

Synthes, Inc. and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements

INDEX

	Page
Financial Review	3-5
Condensed Consolidated Balance Sheets June 30, 2009 (Unaudited), December 31, 2008 and June 30, 2008 (Unaudited)	6
Condensed Consolidated Statements of Operations (Unaudited) for the Six Months Ended June 30, 2009 and 2008	7
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Six Months Ended June 30, 2009 and 2008	8
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2009 and 2008	9
Notes to Condensed Consolidated Financial Statements (Unaudited)	10-15

Synthes' First Half 2009 Results

West Chester (PA), USA, July 29, 2009

Synthes (SWX: SYST.VX) today announced its **First Half Year 2009** financial results, with sales and earnings growth of 4.0% and 9.4%, respectively (10.4% and 12.7%, respectively, in local currencies).

Second Quarter 2009

- **Sales gained momentum** vs. Q1 2009 with 11.2% growth in local currencies (LC) vs. prior year (PY)
- **Consolidated sales** of US\$ 831.0 million increased by US\$ 38.5 million vs. PY
- **North America** sales growth accelerated in spite of continued economic challenges
- **Asia Pacific** also gained momentum and generated strong growth due to the performance in developing markets
- **Global product development** processes and organizations continue to be strengthened

First Half Year 2009

- **Net earnings** of US\$ 381.7 million, compared to US\$ 348.8 million in 2008, grew in excess of double-digit sales growth in LC
- **Consolidated sales** of US\$ 1,636.0 million increased by US\$ 62.5 million (US\$ 164.0 million in LC)
- **Double-digit sales growth** was achieved in all regions and product groups outside of North America
- **North America's** growth was driven by new Spine and Trauma products, despite a recessionary U.S. economy
- **Gross margin** remained solid at 83.1%
- **Income tax rate decreased** by 2.8 pps vs. PY to 29.5%
- **Free cash flow generation** of US\$ 364.9 million, was significantly higher vs. H1 2008, resulting in a record cash balance of US\$ 1,133.1 million (30% growth vs. year end 2008)
- **Increased penetration of new products**, sales force expansion, and ongoing educational efforts continue to positively influence future growth

Michel Orsinger, President and CEO of Synthes, comments on the performance:

"We are pleased with our performance, especially our strong low double-digit top-line growth during the second quarter 2009. This is a solid result considering the challenging economic environment. Our continued focus on new product launches, sales force expansion, education, and productivity improvements allowed us to deliver good financial results."

REGIONAL PERFORMANCE (Second Quarter 2009)

North America gained momentum vs. the first quarter and achieved high single-digit growth despite a challenging economic environment. In Trauma, Synthes leveraged its product development strength, product quality and the skills of its highly trained sales force to launch a number of new products and maintain its leadership position. Spine's good performance continued as a result of new product introductions and sales force expansion. These achievements were realized despite reduced procedure volumes, a more challenging pricing environment and pressure on inventory reduction from our hospital customers.

In **Europe**, Synthes continued to generate double-digit local currency growth across all product groups. This was the result of the organization's ongoing focus on sales force expansion, introduction of new products, educational initiatives to improve patient outcomes, and the establishment of a direct sales force in Northern Germany. Our new minimal invasive Spine products, such as In-Space and VBS (Vertebral Body Stent), combined with the introduction of our new locking screw concept for Trauma nails (ASLS) have gained widespread market acceptance.

Asia Pacific's sales growth accelerated due to double-digit sales growth in China and India. In Japan, Synthes posted low double-digit sales growth (in LC) despite government mandated price decreases. The expansion of the sales force in underpenetrated markets and the launch of a significant number of products continued to positively influence growth across the entire region. Additionally, the LCP platform and PFNA product lines were again well received by customers.

Rest of World (Latin America and Middle East) continued to experience strong growth across all product groups, primarily as a result of the major Latin American countries growing at a double-digit local currency rate. This growth was achieved in spite of the absence of Middle Eastern tenders, which favorably impacted the second quarter of 2008. New product launches across all product groups and sales force expansion contributed to the solid performance.

FINANCIAL PERFORMANCE (First Half Year 2009)

First half year 2009 **gross profit margin** of 83.1% (as a percentage of sales) remained strong.

Operating expenses (as a percentage of sales) were slightly up vs. PY due to a negative FX impact. Productivity improvements remained a priority and helped to partially offset increased legal expenses.

Other Income (Expense) in relation to PY was favorably impacted by an absence of FX losses which were experienced in 2008. Interest income declined despite increasing cash balances, due to the reduction in interest rates.

Improvement in the **income tax rate** to 29.5% (vs. 32.3% in H1 2008) was achieved due to a continuation of tax planning efforts and favorable settlement of tax contingencies.

Capital Expenditures of US\$ 122.1 million reflect Synthes' commitment to business expansion. Sales force equipment investments (implant and instrument sets) represent approximately 60% of total capital expenditures. Sales force investments demonstrate Synthes' continued support of its sales force and new product launches.

Synthes' **net cash flow** of US\$ 261.5 million vs. year end 2008 resulted in a record cash balance of US\$ 1,133.1 million.

Inventory turns (LC) improved to 1.1 vs. PY 1.0, whereas **inventory levels** increased by US\$ 50.5 million. This increase was primarily due to seasonal holiday build-up and an increase to support growth in Asia Pacific.

Synthes, Inc. and Subsidiaries
Interim Report – Financial Review (continued)

During the first half year 2009, Synthes increased its staffing by almost 500 employees. Over 80% of the increase consisted of sales force and manufacturing personnel. On June 30, 2009, Synthes employed **10,443 employees** worldwide.

OUTLOOK

Synthes continues to remain focused and committed to its core strategies of innovative new product launches, sales force expansion and education. Synthes expects to maintain its current performance for the balance of the year, despite a challenging global economic environment.

Synthes, Inc. and Subsidiaries

**Condensed Consolidated Balance Sheets
as of June 30, 2009, December 31, 2008 and June 30, 2008**

	(Unaudited) June 30, 2009 <i>in 1,000 US\$</i>	Dec. 31, 2008 <i>in 1,000 US\$</i>	(Unaudited) June 30, 2008 <i>in 1,000 US\$</i>
Assets			
Current Assets			
Cash and cash equivalents	1,133,069	871,543	553,251
Accounts receivable			
Trade	585,429	586,265	563,338
Less Trade allowance	(23,061)	(20,381)	(22,185)
Other	67,517	60,922	61,303
Inventories, net	521,873	471,335	486,540
Prepaid expenses and other current assets	31,260	50,531	49,205
Deferred income taxes	40,044	40,835	34,705
Total current assets	2,356,131	2,061,050	1,726,157
Property, plant and equipment, net	660,235	643,850	653,638
Other assets			
Intangible assets	2,070,024	2,107,447	2,169,928
Less accumulated amortization of intangibles	(207,460)	(188,189)	(170,130)
Goodwill	1,101,917	1,123,716	1,164,898
Other assets	59,891	58,454	29,769
Deferred income taxes	92,035	90,930	73,128
Total other assets	3,116,407	3,192,358	3,267,593
Total assets	6,132,773	5,897,258	5,647,388
Liabilities and stockholders' equity			
Current liabilities			
Current maturities of long-term debt	2,037	2,007	4,864
Accounts payable	46,744	45,970	58,787
Income taxes payable	57,210	62,520	79,742
Accrued payroll and other compensation and benefits including withholding taxes and pensions	159,020	170,407	147,273
Accrued taxes other than income and payroll	39,169	28,663	30,917
Accrued expenses other	159,269	128,192	130,898
Current acquisition-related liabilities	105,614	96,106	56,127
Deferred income taxes	24,935	25,103	28,919
Total current liabilities	593,998	558,968	537,527
Long-term debt, net of current maturities	2,938	2,770	3,098
Long-term acquisition-related liabilities	89,405	113,279	175,125
Other long-term liabilities	110,445	110,528	49,990
Deferred income taxes	275,787	285,893	278,591
Total liabilities	1,072,573	1,071,438	1,044,331
Stockholders' equity			
Common stock CHF 0.001 par value, shares authorized - 150,000,000; shares issued - June '09 - 118,717,913; Dec. '08 - 118,717,913, June '08 - 118,699,793	79	79	79
Additional paid-in-capital	1,930,960	1,930,002	1,930,722
Treasury stock - at cost	(4,044)	(6,623)	(21)
Retained earnings	2,726,835	2,461,762	2,075,596
Accumulated other comprehensive income	406,370	440,600	596,681
Total stockholders' equity	5,060,200	4,825,820	4,603,057
Total liabilities and stockholders' equity	6,132,773	5,897,258	5,647,388

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and Subsidiaries

**Condensed Consolidated Statements of Operations (Unaudited)
for the six months ended June 30, 2009 and 2008**

	June 30, 2009 <i>in 1,000 US\$</i>	June 30, 2008 <i>in 1,000 US\$</i>
Net sales	1,635,987	1,573,504
Cost of goods sold	<u>276,518</u>	<u>263,511</u>
Gross profit	1,359,469	1,309,993
Operating expenses		
Selling and promotion	482,446	465,382
General and administrative	197,998	176,535
Research and development	80,409	83,898
Royalty expense	32,238	31,188
Amortization of intangible assets	<u>21,569</u>	<u>22,144</u>
Operating income	544,809	530,846
Other income (expense)		
Interest expense	(2,796)	(4,307)
Interest income	1,926	7,024
Foreign exchange gains (losses)	39	(15,078)
Other, net	<u>(2,471)</u>	<u>(3,114)</u>
Earnings before income taxes	541,507	515,371
Income taxes	<u>159,840</u>	<u>166,572</u>
Net earnings	381,667	348,799
Basic and diluted earnings per share (expressed in US\$)	3.22	2.94
	<i>in 1,000 of shares</i>	<i>in 1,000 of shares</i>
Weighted average number of common shares outstanding	118,673	118,697
Weighted average number of common shares outstanding with dilutive effect	118,675	118,726

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
for the six months ended June 30, 2009 and 2008

	Common stock		Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity	Comprehensive income (loss)
	<i>in 1,000 of shares</i>	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>
Balance December 31, 2007	118,700	79	1,929,991	(33)	1,834,706	321,230	4,085,973	806,848
Net earnings YTD June 30, 2008	-	-	-	-	348,799	-	348,799	348,799
Re-issuance of treasury shares	-	-	(57)	2,890	-	-	2,833	-
Purchase of treasury shares	-	-	-	(2,878)	-	-	(2,878)	-
Share-based payment arrangements compensation	-	-	788	-	-	-	788	-
Dividends CHF 0.9000 (US\$.9092) per share	-	-	-	-	(107,909)	-	(107,909)	-
Foreign currency translation adjustment YTD June 30, 2008	-	-	-	-	-	275,451	275,451	275,451
Balance June 30, 2008	118,700	79	1,930,722	(21)	2,075,596	596,681	4,603,057	624,250
Balance December 31, 2008	118,718	79	1,930,002	(6,623)	2,461,762	440,600	4,825,820	854,334
Net earnings YTD June 30, 2009	-	-	-	-	381,667	-	381,667	381,667
Re-issuance of treasury shares	-	-	98	2,579	-	-	2,677	-
Share-based payment arrangements compensation	-	-	860	-	-	-	860	-
Dividends CHF 1.1000 (US\$ 0.9824) per share	-	-	-	-	(116,594)	-	(116,594)	-
Foreign currency translation adjustment YTD June 30, 2009	-	-	-	-	-	(34,230)	(34,230)	(34,230)
Balance June 30, 2009	118,718	79	1,930,960	(4,044)	2,726,835	406,370	5,060,200	347,437

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and Subsidiaries

**Condensed Consolidated Statements of Cash Flows (Unaudited)
for the six months ended June 30, 2009 and 2008**

	June 30, 2009 <i>in 1,000 US\$</i>	June 30, 2008 <i>in 1,000 US\$</i>
Cash flows from operating activities		
Net earnings	381,667	348,799
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	103,536	107,736
Amortization	21,569	22,165
Share-based compensation	3,439	788
Provisions for inventory obsolescence	21,544	21,635
Realized foreign exchange (gains) losses	(25,443)	50,077
Changes in income taxes payable	(5,344)	(62,877)
Changes in working capital	(14,438)	(127,437)
Other	10,459	(16,766)
Net cash provided by operating activities	496,989	344,120
Cash flows from investing activities		
Capital expenditures for property, plant and equipment	(122,141)	(126,497)
Consideration in connection with a prior asset acquisition	(22,136)	(25,138)
Contingent consideration related to prior acquisitions	-	(24,979)
Proceeds and (payments) of other instruments	25,443	(50,077)
Other investing activities	(1,801)	(5,729)
Net cash used in investing activities	(120,635)	(232,420)
Cash flows from financing activities		
Principal payments of debt and capital lease obligations	(55)	(10,777)
Proceeds from issuance of long-term debt	367	4,187
Dividends paid to stockholders	(116,594)	(107,909)
Purchases of treasury shares	-	(2,878)
Net cash used in financing activities	(116,282)	(117,377)
Effect of exchange rate changes on cash and cash equivalents	1,454	14,046
Net increase in cash and cash equivalents	261,526	8,369
Cash and cash equivalents as of January 1	871,543	544,882
Cash and cash equivalents as of June 30	1,133,069	553,251
Supplemental disclosures of cash flow information		
Interest paid	259	547
Income taxes paid	306,388	237,659

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description and nature of operations

Synthes, Inc. and its subsidiaries (the Group) develops, manufactures, and distributes products for the operative treatment of bone fractures including both metallic and osteobiological materials. Additionally, the Group has a power tools business including development, manufacturing and distribution.

2. Basis of the condensed consolidated financial statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim reporting and do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and notes included in the Group's Annual Report for the year ended December 31, 2008.

The condensed consolidated financial statements include the accounts of Synthes, Inc. and all companies in which Synthes, Inc. has directly or indirectly more than a 50% voting interest, or is the primary beneficiary of a variable interest entity. For those consolidated subsidiaries where ownership is less than 100%, the outside stockholders' interests are shown in noncontrolling interest in the accompanying consolidated financial statements. As of June 30, 2009, the Group does not have a noncontrolling interest in a consolidated subsidiary. Subsidiaries are consolidated from the date of acquisition. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. All intercompany transactions and balances between Group companies are eliminated.

3. Reclassifications

Certain June 2008 financial information has been reclassified to conform to the current period's presentation.

4. Segment reporting

The Group's operations are classified into four reportable segments that manufacture and sell similar products in different geographic areas. The North America, Europe, Asia Pacific and Latin America reportable segments derive their revenues from the sale of medical implants. The key determining factor in identifying the reportable segments is how the Group's Chief Executive Officer routinely reviews the Group's results.

Intersegment revenues are sales made between Group companies, and are based upon transfer prices. The "Eliminations" column consists primarily of intercompany eliminations between the reportable segments. Generally, the Group evaluates performance on the basis of revenues, operating profit and net profit.

Synthes, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

4. Segment reporting (continued)

	Reportable segments <i>(in 1,000 US\$)</i>					
For the six months ended June 30, 2009	North America	Europe	Asia Pacific	Latin America	Elimi- nations	Consolidated totals
External revenue	1,011,354	399,584	161,443	63,606	-	1,635,987
Intersegment revenue	61,883	256,862	-	-	(318,745)	-
Interest income	910	801	93	122	-	1,926
Interest expense	356	2,389	39	12	-	2,796
Depreciation and amortization	75,754	56,307	13,695	3,093	(23,744)	125,105
Segment operating income	369,737	188,269	(1,642)	5,842	(17,397)	544,809
Income tax expense (benefit)	127,223	31,884	1,467	1,940	(2,674)	159,840
Segment net earnings	243,059	151,491	(2,440)	6,008	(16,451)	381,667
Segment total assets	2,254,742	3,377,943	514,692	182,599	(197,203)	6,132,773
Expenditures for long-lived assets	80,623	55,266	17,985	5,309	(34,376)	124,807

	Reportable segments <i>(in 1,000 US\$)</i>					
For the six months ended June 30, 2008	North America	Europe	Asia Pacific	Latin America	Elimi- nations	Consolidated totals
External revenue	943,543	416,480	149,938	63,543	-	1,573,504
Intersegment revenue	46,839	228,673	-	-	(275,512)	-
Interest income	4,889	1,904	121	110	-	7,024
Interest expense	1,001	3,251	31	24	-	4,307
Depreciation and amortization	71,257	59,447	14,422	4,220	(19,445)	129,901
Segment operating income	378,247	188,620	361	8,322	(44,704)	530,846
Income tax expense (benefit)	134,949	31,321	1,731	3,134	(4,563)	166,572
Segment net earnings	249,198	138,403	(1,265)	4,820	(42,357)	348,799
Segment total assets	1,626,794	3,549,876	504,035	162,235	(195,552)	5,647,388
Expenditures for long-lived assets	100,903	53,207	13,491	2,879	(30,910)	139,570

Synthes, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

5. Earnings per share (EPS)

The following is a calculation of basic and diluted earnings per share for the six months ended June 30, 2009 and 2008. For the diluted earnings per share, the weighted average shares are adjusted to assume conversion of all potentially dilutive stock options.

	For the six months ended June 30, 2009	For the six months ended June 30, 2008
	<i>in 1,000 US\$</i>	<i>in 1,000 US\$</i>
Net earnings	381,667	348,799
	<i>in 1,000 of shares</i>	<i>in 1,000 of shares</i>
Weighted average number of common shares used in basic EPS	118,673	118,697
Effects of dilutive equity incentive plan stock options	2	29
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	118,675	118,726
Basic EPS of common stock (expressed in US\$)	3.22	2.94
Diluted EPS of common stock (expressed in US\$)	3.22	2.94

6. Commitments and contingencies

The Group must observe the laws, government orders and regulations of the countries in which it operates. Synthes, Inc. and certain subsidiaries are currently involved in legal and administrative proceedings arising out of the normal conduct of their business.

The Group is, and will likely continue to be, subject to various lawsuits and claims that arise from time to time in the ordinary course of business, including those involving product liability, intellectual property, commercial, employment, real estate, environmental and antitrust matters. Legal proceedings of this nature are inherently unpredictable and substantial losses sometimes result. As a consequence, the Group may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its financial position, results of operations or cash flows. Management does not anticipate that any currently pending legal proceedings of this nature will result in any material losses not covered by provisions therefor.

Governments and regulatory authorities have been stepping up their compliance and law enforcement activities in recent years in key areas, including food and drug regulation, sales and marketing practices, corruption, environmental and antitrust matters. The Group's businesses have been subject, from time to time, to such governmental investigations and information requests and audits by regulatory authorities. Government investigations are inherently unpredictable and substantial losses sometimes result.

As previously disclosed, on March 23, 2006, the Group received a grand jury subpoena from the United States Attorney's Office for the Eastern District of Pennsylvania. This and subsequently received subpoenas involved an investigation of the Group's alleged off-label promotion of Norian XR®, a Spine product the Group voluntarily stopped selling in 2004, and related allegations. On June 16, 2009, the United States Attorney's Office for the Eastern District of Pennsylvania filed

Synthes, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

6. Commitments and contingencies – (Continued)

indictments against the Group charging the parent company with 44 misdemeanors and its subsidiary, Norian Corporation, with 52 felonies. The Group fully cooperated with the government's investigation, and believes that its marketing practices in connection with Norian XR were proper. The Group intends to vigorously defend itself against the charges. Management does not anticipate that this matter will result in any material losses not covered by provisions therefor.

7. Acquisitions

Effective December 17, 2007, the Group purchased 100% of the outstanding stock of N Spine, Inc., a privately held company based in San Diego, CA (USA) that designs, develops and markets devices to treat lumbar spinal disorders using posterior dynamic stabilization. The acquisition price included US\$ 32.7 million consisting of cash at closing and transaction costs, payments of up to US\$ 45.0 million based upon the achievement of certain milestones, and additional earn-out payments based on product sales. In connection with the milestones, the Group recorded a liability as of December 31, 2007 for the portion of the consideration considered payable beyond a reasonable doubt, and through June 30, 2009, all payments corresponding to this liability have been settled. Additional payments of contingent consideration will be recorded as additional goodwill if and when the contingencies for such payments have been determined.

8. Acquisition of assets

On August 28, 2006, the Group acquired the Synthes trade names and marks and substantially all of the intellectual property, including patents and patent rights from the AO Foundation ("AO"). The acquisition cost was CHF 999.9 million (US\$ 809.3 million) including a combination of stock CHF 503.4 million (US\$ 407.5 million), cash CHF 100.0 million (US\$ 80.9 million) at closing, CHF 75.0 million (US\$ 60.7 million) due six months after closing, installment payments of CHF 300.0 million (US\$ 242.8 million), and CHF 21.5 million (US\$ 17.4 million) including the assumption of certain liabilities and transaction costs net of imputed interest. As of June 30, 2009, the present value of the remaining installment payments is CHF 142.6 million (US\$ 131.9 million).

9. Financial value measurement

Effective January 1, 2008, the Group adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), for financial assets and liabilities measured on a recurring basis. SFAS 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis and establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. The Group's adoption of SFAS 157 was limited to its foreign currency forward derivative contracts, and there was no impact to the consolidated financial statements as a result of the adoption.

In accordance with FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), the Group deferred the adoption of SFAS 157 for its nonfinancial assets and nonfinancial liabilities until January 1, 2009. As of January 1, 2009, the Group adopted SFAS 157 for its fair value measure of nonfinancial assets and liabilities and there was no material impact on the consolidated results of operations. On a non-recurring basis, the Group uses fair value measures when analyzing asset impairment. Long-lived assets, including intangible assets and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. During the fourth quarter of each year, the Group evaluates goodwill for impairment at the reporting unit level in addition to indefinite lived intangible assets.

Synthes, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

9. Financial value measurement – (Continued)

SFAS 157 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions and counterparty credit risk. The fair value hierarchy consists of the following three levels:

Level 1:

Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3:

Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The Group utilizes the market approach to measure fair value for financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The following table summarizes the valuation of the Group's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and the basis for that measurement (in 1,000 US\$):

	Total Fair Value Measurement	Quoted Prices In Active Markets For Identical Assets Or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	June 30, 2009	(Level 1)	(Level 2)	(Level 3)
Assets				
Derivative assets (1)	\$ 2,153	-	\$ 2,153	-
Liabilities				
Derivative liabilities (2)	\$ 11,995	-	\$ 11,995	-

(1) Contained within prepaid expenses and other current assets in the condensed consolidated balance sheet as of June 30, 2009.

(2) Contained within accrued expenses other, and other long-term liabilities in the condensed consolidated balance sheet as of June 30, 2009.

Although there were no fair value adjustments to non-financial assets, the Group typically uses the following valuation techniques (all Level 3) to determine the fair value of its assets measured on a nonrecurring basis:

Goodwill:

When performing goodwill impairment tests, the Group estimates the fair value of its reporting units using an income approach, generally a discounted cash flow methodology, that includes assumptions for, among other things, forecasted revenues, gross profit margins, operating profit margins, working capital cash flow, growth rates, income tax rates, expected tax benefits and long-term discount rates, all of which require significant judgments by management. The Group also considers comparable market data based on multiples of revenue as well as the reconciliation of

Synthes, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

9. Financial value measurement – (Continued)

Goodwill – (Continued):

the Group's market capitalization to the total fair value of its reporting units. There are, however, inherent uncertainties related to these factors and to management's judgment in applying them to this analysis. Nonetheless, management believes that the combination of these two methods provides a reasonable approach to estimate the fair value of the Group's reporting units. If the estimated fair value of any reporting unit is less than its carrying value, an impairment exists.

Intangible Assets:

When performing an intangible asset impairment test, the Group estimates the fair value of the asset using either a discounted cash flow or a relief of royalty methodology, which includes assumptions for, among other things, budgets and economic projections, market trends, product development cycles and long-term discount rates. Finite lived intangible assets are amortized on a straight-line basis over their estimated useful lives, and are evaluated for potential impairment when current facts or circumstances indicate that the carrying value of such assets may not be recoverable. Indefinite lived intangible assets are not amortized but are required to be tested for potential impairment at least annually, or whenever impairment indicators exist. If the estimated fair value of the asset is less than its carrying value, an impairment exists.

10. Financial derivatives

The Group has entered into forward exchange contracts to minimize the impact of currency fluctuations on transactions and cash flows. A majority of these contracts have not been designated as hedges and changes in their fair value have been recorded in the condensed consolidated statements of operations in "other income (expense)". As these contracts settle, the realized gain or loss attributed to changes in foreign currency is classified as an investing activity in the statements of cash flow. The Group recognized US\$ 25.4 million and US\$ (50.1) million in realized gains and losses during the first half of 2009 and 2008, respectively, related to changes in foreign currency on settled forward exchange contracts and related intercompany debt agreements. The impact of the foreign exchange derivatives, related to intercompany debt (mentioned above), on the Group's net earnings was minimal in both years as realized gains and losses were offset by unrealized gains and losses.

11. Recently issued accounting standards

In 2008, the FASB issued FSP No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1). This FSP amends SFAS 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. The Group is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.