ZIMMER BIOMET

Your progress. Our promise.™

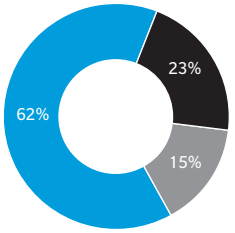
ZIMMER BIOMET HOLDINGS, INC.

2016 Annual Report

Financial Highlights

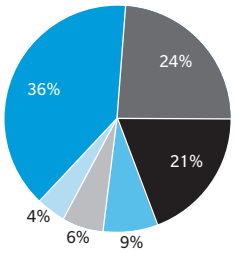
(Dollars in millions except per share amounts)

Sales by Geography



	2012	2013	2014	2015	2016	% Change 2015-2016 Reported	% Change 2015-2016 Constant Currency[1]
Americas	$2,476	$2,620	$2,594	$3,662	$4,803	31%	31%
Europe	1,178	1,212	1,269	1,418	1,730	22%	25%
Asia Pacific	818	791	810	918	1,151	25%	22%
Consolidated	$4,472	$4,623	$4,673	$5,998	$7,684	28%	28%

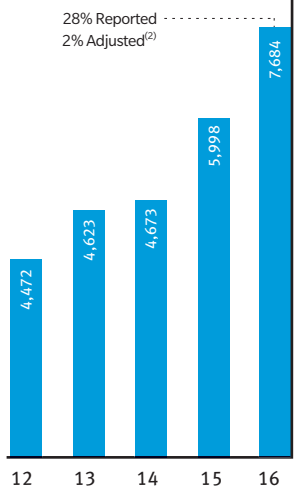
Sales by Product Category



	2012	2013	2014	2015	2016	% Change 2015-2016 Reported	% Change 2015-2016 Constant Currency[1]
Knees	$1,815	$1,862	$1,895	$2,277	$2,752	21%	22%
Hips	1,342	1,331	1,326	1,533	1,868	22%	22%
S.E.T.	730	847	863	1,215	1,645	35%	35%
Dental	238	239	243	336	428	27%	28%
Spine & CMF	209	202	207	404	662	64%	64%
Other	138	142	139	233	329	41%	41%
Consolidated	$4,472	$4,623	$4,673	$5,998	$7,684	28%	28%

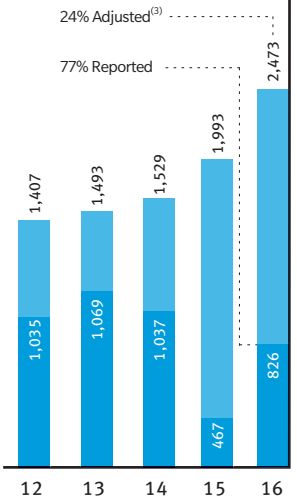
Net Sales

Our diversified growth during 2016 shows that demand for our proven musculoskeletal portfolio remains strong. Zimmer Biomet recorded net sales of $7.684 billion in 2016, reflecting 28% revenue growth over 2015. In 2016, we experienced growth across our broad and complementary musculoskeletal portfolio highlighted by the noteworthy, ongoing acceleration of our S.E.T. category and Asia Pacific sales region.



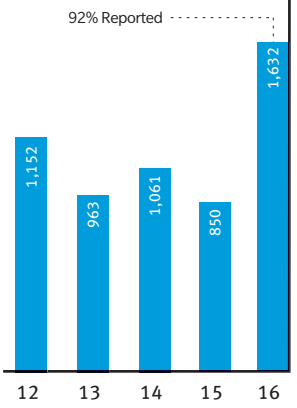
Operating Profit

As we deployed capital to expand our musculoskeletal portfolio in 2016, we maintained a competitive operating margin profile. Our global teams continue to honor our longstanding commitments to disciplined expense management, process efficiency and quality excellence. This inherently lean cost structure was enhanced, in part, by the delivery of $225 million of net EBIT operating synergies in 2016.



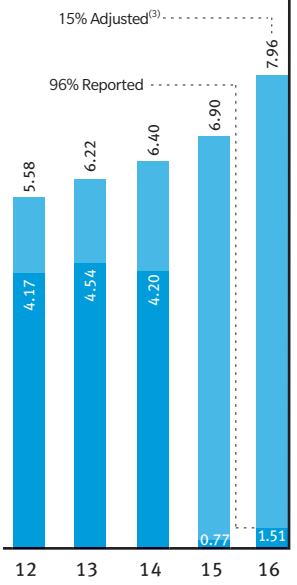
Operating Cash Flow

We continued to benefit from our strong cash position in 2016, supporting the flexibility to fund long-term growth drivers. Importantly, we made significant investments in 2016 to enhance our differentiated R&D pipeline, launching 50 new clinical solutions during the year. We also completed a number of strategic acquisitions in 2016 that we expect to drive a strong return on invested capital. In addition, we continued to deleverage our balance sheet and return value to stockholders through our dividend program.



Diluted Earnings Per Share

In 2016, we generated full-year adjusted earnings per share growth of 15.4%. We drove results through focused execution and an enduring commitment to commercial and operational excellence around the globe. Our focus on long-term, sustainable value creation means that we strive for innovation in every aspect of our global business.



(1) "Constant Currency" refers to sales growth resulting from translating current and prior-period sales at the same predetermined foreign currency exchange rate. The translated results are then used to determine year-over-year percentage increases or decreases that exclude the effect of changes in foreign currency exchange rates. See the reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure on page 84.

(2) Adjusted net sales growth refers to growth on a constant currency, adjusted pro forma basis. Adjusted net sales refers to a comparison adjusted to reflect the impact of previously announced divestiture remedies in all periods and to exclude the contribution to net sales from the acquisition of LDR Holding Corporation in July 2016. Pro forma net sales refers to a comparison that reflects the inclusion of Biomet net sales as if the merger occurred on January 1, 2015. This growth rate excludes the effects of foreign currency exchange rates. See the reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure on page 83.

(3) "Adjusted" refers to performance measures that exclude the effects of inventory step-up and other inventory and manufacturing related charges, certain claims, special items, intangible asset amortization, financing and other expenses/gains related to the Biomet merger and other acquisitions, debt extinguishment charges, the tax effects of these items and certain tax adjustments. See the reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures on page 84.

To Our Stockholders:

For 90 years, Zimmer Biomet has been at the forefront of musculoskeletal innovation with an expanding portfolio of technologies, solutions and personalized services to address the needs of patients and healthcare professionals. As we reflect on 2016, our accomplishments strengthen our confidence in the unique value-creation opportunity we offer in the dynamic global healthcare environment.

As we look to the future, we believe that we are well-positioned to deliver growth and drive stockholder value, and we are committed to leading through quality, portfolio diversification and innovation at every level of our global business.

Highlights from 2016 include:

- **Financial Performance:** We delivered consolidated revenue and earnings growth relative to 2015, marked by consistently noteworthy results from our Asia Pacific region. Zimmer Biomet's 2016 net sales totaled $7.684 billion, with adjusted diluted earnings per share of $7.96, an increase of 15.4 percent over adjusted diluted earnings per share for the prior year. In 2016, we generated growth across our broad and complementary musculoskeletal portfolio, most notably through our expanded specialized sales forces in our S.E.T.[1] product category.

- **Portfolio Expansion and Innovative New Offerings:** Zimmer Biomet continues to innovate across the full spectrum of musculoskeletal care. We proudly introduced 50 new products from our research and development pipeline in 2016, including technologies that expand and enhance our market-leading Knee and Hip portfolios. In addition, we completed a number of strategic investments to strengthen our core offerings and expand our presence in the marketplace. We also launched Zimmer Biomet Signature Solutions, a comprehensive offering of clinical services and technologies designed to assist hospitals, ambulatory surgery centers and medical practices to succeed in today's value-based reimbursement environment.

- **On-Target Delivery of Net Operating Synergies:** Our competitive operating margin profile, in addition to the flexibility we need to invest in our growth drivers, has been supported in part by the significant cost savings we have generated from delivering on the net operating synergies modeled into our 2015 merger. In 2016, we met our net operating synergy target of $225 million.

Our Expanding Musculoskeletal Portfolio: Unlocking Diversified Growth

The year 2016 marked our first full year of operating results as a combined company, during which we made progress toward realizing the powerful commercial, operational and financial synergies that formed the basis of our landmark merger of Zimmer and Biomet in 2015. Our combination has allowed us to continue developing a core expertise for innovative research and development across the continuum and episode of patient care.

For example, in 2016 we celebrated the 40th anniversary of the launch of the Oxford® Partial Knee System, the most widely used and clinically-proven partial knee replacement system in the world. Every aspect of the Oxford Partial Knee reflects our commitment to achieving optimal patient outcomes and satisfaction. The Oxford system was designed to help with shorter hospital stays, fewer complications and a more rapid recovery. We have brought that mindset into the design of our entire portfolio, in our efforts to meet the needs of the healthcare sector with enhanced workflow efficiency and cost savings.

[1] Sports Medicine, Surgical, Extremities, Trauma, Biologics and Foot & Ankle

Among the 50 new product introductions in 2016, Zimmer Biomet Signature Solutions best reflects our approach to clinically and economically relevant innovation. As we have seen in recent years, world economies are adopting public reforms that tie healthcare reimbursement to patient and health economics outcomes. To help healthcare professionals and institutions with joint replacement service lines make a seamless transition to value-based healthcare models, Zimmer Biomet Signature Solutions offers valuable analytic tools and state-of-the-art platforms for engaging patients and providers at every stage of care delivery. We are currently expanding the release of Zimmer Biomet Signature Solutions through collaborative partnerships with major healthcare institutions.

Additional commercial introductions during 2016 included:

- Launching the Vanguard® Individualized Design (ID) Knee Replacement. This first-of-its-kind total knee replacement enables surgeons to fine-tune knee ligament balance with simplified soft tissue preservation, as well as achieve a personalized fit with knee bearing options in a range of thicknesses and geometries.

- Releasing the Comprehensive® Vault Reconstruction System, the first commercially available patient-matched glenoid replacement. This innovative and patient-specific implant was designed to expand the treatment options for patients with severe glenoid deformities, and represents a key addition to our upper Extremities portfolio.

- Significantly enhancing three successful Zimmer Biomet Hip systems, with the addition of the Echo® Bi-Metric® Microplasty® Stem, G7® Dual Mobility Construct and Arcos® One-Piece Revision System. These 2016 releases expanded the versatility of the Echo, G7 and Arcos systems that represent strong brands within our broad Hip portfolio.

- Launching the redesigned OSS™ Orthopedic Salvage System, including updated implant components, Universal Quick Connection instruments and new 3D printed implant components created with OsseoTi® Porous Metal technology. The OSS system is the first and only limb salvage system utilizing this proprietary porous metal technology. In addition to supporting optimal outcomes, these important upgrades are designed to provide the surgeon with an efficient and intuitive experience.

We are also committed to driving other long-term commercial projects in 2017 and beyond. These include the ongoing expansion and enhancement of our industry-leading intelligent instrumentation options, which were utilized in nearly 100,000 procedures worldwide in 2016.

Prudent M&A: Strengthening and Diversifying our Portfolio

Zimmer Biomet has a healthy balance sheet with strong free cash flow, and we remain committed to achieving our goal of generating $2 billion in annual free cash flow by 2020.[2] This financial flexibility enables the Company to assess a broad range of potential M&A opportunities to drive value creation, while at the same time returning value to stockholders. Since our merger in 2015, we have deployed approximately $1.5 billion in eight strategic acquisitions, including transactions that have enhanced our core offerings, increased our portfolio diversification and introduced exciting new platform technologies.

Strategic transactions to enhance the portfolio in 2016 included:

- Expanding our Spine portfolio with the Mobi-C® Cervical Disc Prosthesis, through a combination with LDR Holding Corporation to position Zimmer Biomet as a leader in cervical disc replacement. In addition to this premier spinal platform, combining with LDR provides us with the scale, talent and portfolio of solutions needed to become a leader in the nearly $10 billion global Spine market.

[2] See the Note on Forward-Looking Non-GAAP Financial Measures on page 83.

- Strengthening our Sports Medicine capabilities with a portfolio of advanced soft tissue reconstruction solutions for knee, shoulder and extremities procedures to address the $18 billion S.E.T. market through the acquisition of Cayenne Medical.

- Furthering our strategy to offer the industry's most comprehensive range of intelligent instrumentation options with the acquisition of Medtech SA, developer of the ROSA® robotics platform for minimally invasive brain, neurological and spinal procedures. In addition to leveraging this current robotics technology, we now have the potential to identify and develop additional applications for the ROSA platform across other anatomical sites.

- Integrating a comprehensive, at-home telerehabilitation platform into Zimmer Biomet Signature Solutions that is designed to enhance patient compliance with physical therapy and improve the quality of recovery through the acquisition of the RespondWell® Telerehabilitation Platform.

- Enhancing capabilities to further develop and market immunoassays and biomarker tests designed to inform treatment decisions to improve patient outcomes and reduce complications with the acquisition of CD Diagnostics, a company with which we have co-developed and marketed the Synovasure® Periprosthetic Joint Infection (PJI) test since 2012, the first and only test specifically designed and validated for the diagnosis of PJI.

As we have undertaken these strategic investments, we are also focused on reducing our debt and returning value to stockholders. We have delivered dividend growth to our stockholders with a compound annual growth rate in the high single-digits range over the past four years. Additionally, we have made steady progress toward solidifying our investment-grade credit rating, having paid down $1.5 billion in debt incurred in connection with the Biomet acquisition. While we borrowed $750 million to finance the LDR acquisition in 2016, we are making progress toward achieving our goal of a gross debt-to-adjusted EBITDA ratio of 2.5 by the end of 2018.[3]

Clinical Validation and our Commitment to Patients

The strength of our clinical evidence solidifies our portfolio's value proposition to healthcare providers and the life-changing benefits we offer patients. Recently, we had the privilege of announcing the results of a seven-year study of the Mobi-C Cervical Disc Prosthesis, which demonstrated that the Mobi-C Cervical Disc achieved statistically superior success rates and significant advantages over traditional two-level anterior cervical discectomy and fusion. This clinical validation has helped the Mobi-C Cervical Disc become the most widely covered device for one- and two-level cervical disc replacement by U.S. commercial health insurers. The Mobi-C Cervical Disc has now been used in more than 40,000 procedures worldwide.

Additionally, an analysis from the UK National Joint Registry showed Trabecular Metal™ Cups used in revision hip surgery were 21 percent less likely to result in subsequent revision due to infection.[4] We are pleased to see that our Trabecular Metal acetabular devices have been recognized for their clinical benefits and ability to meet the long-term performance needs of hip implant patients.

This past year we were also proud to reinforce our commitment to patients by partnering with the Indo UK Institutes of Health. Working together, we plan to develop orthopaedic centers to support better access to high-quality, affordable musculoskeletal healthcare for approximately 400 million people in India over the next two decades.

[3] See the Note on Forward-Looking Non-GAAP Financial Measures on page 83.

[4] Statistically significant, p-value=0.036. According to NJR data from 2003 to 2015 where 9,573 Trabecular Metal and 30,452 non-Trabecular Metal cups were used in revision THA and based on hazard ratios adjusted by patient gender, age group, and indications (OA/non-OA). NJR data shows a higher percentage of TM cups were used with antibiotic bone cement compared to all other non-TM cementless cups.

Net Synergy Capture: Adding to our Longstanding Pledge to Operational and Quality Excellence

We have established a strong track record of attractive operating margin performance by building a culture of operational and quality excellence that complements our culture of innovation. Due to our lean cost structure, we believe that we are positioned to continue fueling margin expansion through the acceleration of our top line sales growth over the coming years. In concert with disciplined operating expense and working capital management, we are committed to the ongoing optimization and harmonization of our global supply chain, manufacturing and quality infrastructure. As a top priority, we are continuing to make important investments as we strive to establish a best-in-class Quality Management System across our global network.

In the area of net operating synergies, our global teams continue to successfully drive our detailed plans for unlocking cost savings as a combined company. In 2016, their efforts resulted in the successful delivery of $225 million in net EBIT synergies. We remain on-pace to deliver $350 million in net EBIT synergies by mid-2018.

On Track for the Future

This exciting year was marked by solid financial performance, significant portfolio expansion and strategic investments to support long-term growth. In short, 2016 demonstrated the power and innovation of Zimmer Biomet's presence within musculoskeletal healthcare. We sincerely thank our global teams for rising to the occasion. By drawing from the broadest and most differentiated product portfolio in our industry, our specialized sales channels delivered top line growth. And as we expanded our musculoskeletal portfolio with groundbreaking robotic technology and diversified offerings to address new markets, we were also addressing the need for value-creation in healthcare with Zimmer Biomet Signature Solutions.

Our employees are an integral part of our success and we thank them for their dedication to Zimmer Biomet. It has been our honor to serve the global healthcare community, working together to help millions of people to live better lives with our musculoskeletal innovations. On behalf of our 18,000 employees around the globe, we thank you for this opportunity and for your ongoing support of Zimmer Biomet.

Sincerely,

David C. Dvorak
President and
Chief Executive Officer

Larry C. Glasscock
Chairman of the Board

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For year ended December 31, 2016

Commission file number 001-16407

ZIMMER BIOMET HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-4151777**
(State of Incorporation)	*(IRS Employer Identification No.)*
345 East Main Street Warsaw, Indiana	**46580**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(574) 267-6131**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange
1.414% Notes due 2022	New York Stock Exchange
2.425% Notes due 2026	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined Exchange Act Rule 12b-2). Yes ☐ No ☑

The aggregate market value of shares held by non-affiliates was $23,998,830,521 (based on the closing price of these shares on the New York Stock Exchange on June 30, 2016 and assuming solely for the purpose of this calculation that all directors and executive officers of the registrant are "affiliates"). As of February 22, 2017, 201,101,794 shares of the registrant's $.01 par value common stock were outstanding.

Documents Incorporated by Reference

Document	**Form 10-K**
Portions of the Proxy Statement with respect to the 2017 Annual Meeting of Stockholders	Part III

Cautionary Note About Forward-Looking Statements

This Annual Report on Form 10-K includes "forward-looking" statements within the meaning of federal securities laws. Forward-looking statements may be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "may," "will," "can," "should," "would," "could," "anticipate," "expect," "plan," "seek," "believe," "predict," "estimate," "potential," "project," "assume," "guide," "target," "forecast," "intend," "strategy," "is confident that," "future," "opportunity," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled "Risk Factors" (refer to Part I, Item 1A of this report). Readers of this report are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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PART I

Item 1. Business

Overview

Zimmer Biomet is a global leader in musculoskeletal healthcare. We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; office based technologies; spine, craniomaxillofacial and thoracic products; dental implants; and related surgical products. We collaborate with healthcare professionals around the globe to advance the pace of innovation. Our products and solutions help treat patients suffering from disorders of, or injuries to, bones, joints or supporting soft tissues. Together with healthcare professionals, we help millions of people live better lives. In this report, "Zimmer Biomet," "we," "us," "our," "the Company" and similar words refer collectively to Zimmer Biomet Holdings, Inc. and its subsidiaries. "Zimmer Biomet Holdings" refers to the parent company only.

Zimmer Biomet Holdings was incorporated in Delaware in 2001. Our history dates to 1927, when Zimmer Manufacturing Company, a predecessor, was founded in Warsaw, Indiana. On August 6, 2001, we were spun off from our former parent and became an independent public company.

On June 24, 2015 (the "Closing Date"), we acquired LVB Acquisition, Inc. ("LVB"), the parent company of Biomet, Inc. ("Biomet"), and LVB and Biomet became our wholly-owned subsidiaries (sometimes hereinafter referred to as the "Biomet merger" or the "merger"). In connection with the merger, we changed our name from Zimmer Holdings, Inc. to Zimmer Biomet Holdings, Inc. "Zimmer" used alone refers to the business or information of us and our subsidiaries on a stand-alone basis without inclusion of the business or information of LVB or any of its subsidiaries.

Customers, Sales and Marketing

Our primary customers include orthopaedic surgeons, neurosurgeons, oral surgeons, and other specialists, dentists, hospitals, stocking distributors, healthcare dealers and, in their capacity as agents, healthcare purchasing organizations or buying groups. These customers range from large multinational enterprises to independent clinicians and dentists.

We have operations throughout the world. We manage our operations through three major geographic operating segments and four product category operating segments. Our three major geographic operating segments are the Americas, which is comprised principally of the U.S. and includes other North, Central and South American markets; EMEA, which is comprised principally of Europe and includes the Middle East and African markets; and Asia Pacific, which is comprised primarily of Japan and includes other Asian and Pacific markets. Our four product category operating segments, which are individually not as significant as our geographic operating segments, are as follows: 1) Americas Spine; 2) Office Based Technologies; 3) Craniomaxillofacial and Thoracic ("CMF"); and 4) Dental.

We market and sell products through three principal channels: 1) direct to healthcare institutions, such as hospitals, referred to as direct channel accounts; 2) through stocking distributors and healthcare dealers; and 3) directly to dental practices and dental laboratories. With direct channel accounts, inventory is generally consigned to sales agents or customers. With sales to stocking distributors, healthcare dealers, dental practices and dental laboratories, title to product passes upon shipment or upon implantation of the product. Direct channel accounts represented approximately 80 percent of our net sales in 2016. No individual direct channel account, stocking distributor, healthcare dealer, dental practice or dental laboratory accounted for more than 1 percent of our net sales for 2016.

We stock inventory in our warehouse facilities and retain title to consigned inventory in an effort to have sufficient quantities available when products are needed for surgical procedures. Safety stock levels are determined based on a number of factors, including demand, manufacturing lead times and quantities required to maintain service levels. We also carry trade accounts receivable balances based on credit terms that are generally consistent with local market practices.

We utilize a network of sales associates, sales managers and support personnel, some of whom are employed or contracted by independent distributors and sales agencies. We invest a significant amount of time and expense in training sales associates in how to use specific products and how to best inform surgeons of product features and uses. Sales force representatives must have strong technical selling skills and medical education to provide technical support for surgeons.

In response to the different healthcare systems throughout the world, our sales and marketing strategies and organizational structures differ by region. We utilize a global approach to sales force training, marketing and medical education to provide consistent, high quality service. Additionally, we keep current with key surgical developments and other issues related to orthopaedic surgeons, neurosurgeons, other specialists, dentists and oral surgeons and the medical procedures they perform.

We allocate resources to achieve our operating profit goals through seven operating segments. Our operating segments are comprised of both geographic and product category business units. We are organized through a combination of geographic and product category operating segments for various reasons, including the distribution channels through which products are sold. Our product category operating segments generally have distribution channels focused specifically on those product categories, whereas our geographic operating segments have distribution channels that sell multiple product categories. The following is a summary of our seven operating segments. See Note 18 to the consolidated financial statements for more information regarding our segments.

Americas. The Americas geographic operating segment is our largest operating segment. The U.S. accounts for 93 percent of net sales in this region. The U.S. sales force consists of a combination of employees and independent sales agents, most of whom sell products exclusively for Zimmer Biomet. The sales force in the U.S. receives a commission on product sales and is responsible for many operating decisions and costs.

In this region, we contract with group purchasing organizations and managed care accounts and have promoted unit growth by offering volume discounts to customer healthcare institutions within a specified group. Generally, we are designated as one of several preferred purchasing sources for specified products, although members are not obligated to purchase our products. Contracts with group purchasing organizations generally have a term of three years, with extensions as warranted.

In the Americas, we monitor and rank independent sales agents and our direct sales force across a range of performance metrics, including the achievement of sales targets and maintenance of efficient levels of working capital.

EMEA. The EMEA geographic operating segment is our second largest operating segment. France, Germany, Italy, Spain and the United Kingdom collectively account for 57 percent of net sales in the region. This segment also includes other key markets, including Switzerland, Benelux, Nordic, Central and Eastern Europe, the Middle East and Africa. Our sales force in this segment is comprised of direct sales associates, commissioned agents, independent distributors and sales support personnel. We emphasize the advantages of our clinically proven, established designs and innovative solutions and new and enhanced materials and surfaces. In most European countries, healthcare is sponsored by the government and therefore government budgets impact healthcare spending, which can affect our sales in this segment.

Asia Pacific. The Asia Pacific geographic operating segment includes key markets such as Japan, Australia, New Zealand, Korea, China, Taiwan, India, Thailand, Singapore, Hong Kong and Malaysia. Japan is the largest market within this segment, accounting for 44 percent of the region's sales. In Japan and most countries in the Asia Pacific region, we maintain a network of dealers, who act as order agents on behalf of hospitals in the region, and sales associates, who build and maintain relationships with orthopaedic surgeons and neurosurgeons in their markets. The knowledge and skills of these sales associates play a critical role in providing service, product information and support to surgeons. We have a research and development center in Beijing, China, which focuses on products and technologies designed to meet the unique needs of Asian patients and their healthcare providers.

Americas Spine. The Americas Spine product category operating segment is comprised of our spine products division in the Americas, primarily in the U.S. market, but also in other North, Central and South American markets. The market dynamics of the Americas Spine business are similar to those described in the Americas geographic operating segment. However, the Americas Spine business maintains a separate sales force of employees and independent sales agents.

Office Based Technologies. Our Office Based Technologies product category operating segment only sells to U.S. customers. In this product category, we market our products to doctors who prescribe them for use by patients. The products are mostly provided directly by Zimmer Biomet to patients and are paid for through patients' insurance or by patients themselves. Products are also sold through wholesale channels on a limited basis.

CMF. Our CMF product category operating segment competes across the world through a combination of direct and independent sales agents. The U.S. sales force consists of a combination of employees and independent sales agents. Internationally, our primary customers are independent stocking distributors who market our products to their customers.

Dental. Our Dental product category operating segment competes across the world. Our sales force is primarily composed of employees who market our products to customers. We sell directly to dental practices or dental laboratories, or to independent stocking distributors depending on the market.

Seasonality

Our business is seasonal in nature to some extent, as many of our products are used in elective procedures, which typically decline during the summer months and can increase at the end of the year once annual deductibles have been met on health insurance plans.

Distribution

We distribute our products both through large, centralized warehouses and through smaller, market specific facilities, depending on the needs of the market. We maintain large, centralized warehouses in the U.S. and Europe to be able to efficiently distribute our products to customers in those regions. In addition to these centralized warehouses, we maintain smaller distribution facilities within each of the countries where we have a direct sales presence. In many locations, our inventory is consigned to the healthcare institution.

We generally ship our orders via expedited courier. We do not consider our back orders of firm orders to be material to an understanding of our business.

Products

Our products include orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; office based technologies, spine and CMF products; dental implants; and related surgical products.

KNEES

Total knee replacement surgeries typically include a femoral component, a patella (knee cap), a tibial tray and an articular surface (placed on the tibial tray). Knee replacement surgeries include first-time, or primary, joint replacement procedures and revision procedures for the replacement,

repair or enhancement of an implant or component from a previous procedure. There are also procedures for partial reconstruction of the knee, which treat limited knee degeneration and involve the replacement of only one side, or compartment, of the knee with a unicompartmental knee prosthesis. Our knee portfolio also includes early intervention and joint preservation products, which seek to preserve the joint by repairing or regenerating damaged tissues and by treating osteoarthritis.

Our significant knee brands include the following:

- Persona® The Personalized Knee System
- NexGen® Complete Knee Solution
- Vanguard® Knee System
- Oxford® Partial Knee

HIPS

Total hip replacement surgeries replace both the head of the femur and the socket portion of the pelvis (acetabulum) of the natural hip. Hip procedures include first-time, or primary, joint replacement as well as revision procedures. Hip implant procedures involve the use of bone cement to attach or affix the prosthetic components to the surrounding bone, or are press-fit into bone, which means that they have a surface that bone affixes to through either ongrowth or ingrowth technologies.

Our significant hip brands include the following:

- Zimmer® M/L Taper Hip Prosthesis
- Taperloc® Hip System
- Arcos® Modular Hip System
- Continuum® Acetabular System
- G7® Acetabular System

S.E.T.

Our S.E.T. product category includes surgical, sports medicine, biologics, foot and ankle, extremities and trauma products. Our surgical products are used to support various surgical procedures. Our sports medicine products are primarily for the repair of soft tissue injuries, most commonly used in the knee and shoulder. Our biologics products are used as early intervention for joint preservation or to support surgical procedures. Our foot and ankle and extremities products are designed to treat arthritic conditions and fractures in the foot, ankle, shoulder, elbow and wrist. Our trauma products are used to stabilize damaged or broken bones and their surrounding tissues to support the body's natural healing process.

Our significant S.E.T. brands include the following:

- Transposal® and Transposal Ultra® Fluid Waste Management Systems
- A.T.S.® Automatic Tourniquet Systems
- JuggerKnot® Soft Anchor System
- Gel-One®[1] Cross-linked Hyaluronate
- Trabecular Metal™ Reverse Shoulder System
- Comprehensive® Shoulder
- Zimmer® Natural Nail® System
- DVR® Plating System

SPINE and CMF

Our spine products division designs, manufactures and distributes medical devices and surgical instruments to deliver comprehensive solutions for individuals with back or neck pain caused by degenerative conditions, deformities or traumatic injury of the spine. Our CMF division includes face and skull reconstruction products as well as products that fixate and stabilize the bones of the chest in order to facilitate healing or reconstruction after open heart surgery, trauma or for deformities of the chest.

Our significant spine and CMF brands include the following:

- Polaris™ Spinal System
- Timberline® Lateral Fusion System
- Mobi-C® Cervical Disc
- SternaLock® Blu Closure System
- SternaLock® Rigid Sternal Fixation

DENTAL

Our dental products division manufactures and/or distributes: 1) dental reconstructive implants – for individuals who are totally without teeth or are missing one or more teeth; 2) dental prosthetic products – aimed at providing a more natural restoration to resemble the original teeth; and 3) dental regenerative products – for soft tissue and bone rehabilitation.

Our significant dental brands include the following:

- Tapered Screw-Vent® Implant System
- 3i T3® Implant
- Puros® Allograft Products

OTHER

Our other product category primarily includes our bone cement and office based technology products. Our significant brands include the following:

- PALACOS®[2] Bone Cement
- SpinalPak® Spinal Fusion Stimulator

Research and Development

We have extensive research and development activities to develop new surgical techniques, materials, biologics and product designs. The research and development teams work closely with our strategic brand marketing function. The rapid commercialization of innovative new materials, biologics products, implant and instrument designs and surgical techniques remains one of our core strategies and continues to be an important driver of sales growth.

We are broadening our offerings in each of our product categories and exploring new technologies with possible applications in multiple areas. Our primary research and development facility is located in Warsaw, Indiana. We have other research and development personnel based in, among other places, Canada, China, France, Switzerland and other U.S. locations. As of December 31, 2016, we employed approximately 2,000 research and development employees worldwide.

[1] Registered trademark of Seikagaku Corporation

[2] Registered trademark of Heraeus Medical GmbH

We expect to continue to identify innovative technologies, which may include acquiring complementary products or businesses, establishing technology licensing arrangements or strategic alliances.

Government Regulation and Compliance

We are subject to government regulation in the countries in which we conduct business. In the U.S., numerous laws and regulations govern all the processes by which medical devices are brought to market. These include, among others, the Federal Food, Drug and Cosmetic Act and regulations issued or promulgated thereunder. The U.S. Food and Drug Administration ("FDA") has enacted regulations that control all aspects of the development, manufacture, advertising, promotion and postmarket surveillance of medical products, including medical devices. In addition, the FDA controls the access of products to market through processes designed to ensure that only products that are safe and effective are made available to the public.

Most of our new products fall into an FDA classification that requires the submission of a Premarket Notification (510(k)) to the FDA. This process requires us to demonstrate that the device to be marketed is at least as safe and effective as, that is, substantially equivalent to, a legally marketed device. We must submit information that supports our substantial equivalency claims. Before we can market the new device, we must receive an order from the FDA finding substantial equivalence and clearing the new device for commercial distribution in the U.S.

Other devices we develop and market are in a category (class) for which the FDA has implemented stringent clinical investigation and Premarket Approval ("PMA") requirements. The PMA process requires us to provide clinical and laboratory data that establishes that the new medical device is safe and effective. The FDA will approve the new device for commercial distribution if it determines that the data and information in the PMA application constitute valid scientific evidence and that there is reasonable assurance that the device is safe and effective for its intended use(s).

All of our devices marketed in the U.S. have been cleared or approved by the FDA, with the exception of some devices which are exempt or were in commercial distribution prior to May 28, 1976. The FDA has grandfathered these devices, so new FDA submissions are not required.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations. The FDA reviews design and manufacturing practices, labeling and record keeping, and manufacturers' required reports of adverse experiences and other information to identify potential problems with marketed medical devices. We are also subject to periodic inspection by the FDA for compliance with its Quality System Regulation (21 CFR Part 820) ("QSR"), among other FDA requirements, such as restrictions on advertising and promotion. Our manufacturing operations, and those of our third-party manufacturers, are required to comply with the QSR, which addresses a company's responsibility for product design, testing and manufacturing quality assurance and the maintenance of records and documentation. The QSR requires that each manufacturer establish a quality system by which the manufacturer monitors the manufacturing process and maintains records that show compliance with FDA regulations and the manufacturer's written specifications and procedures relating to the devices. QSR compliance is necessary to receive and maintain FDA clearance or approval to market new and existing products. The FDA makes announced and unannounced periodic and on-going inspections of medical device manufacturers to determine compliance with the QSR. If in connection with these inspections the FDA believes the manufacturer has failed to comply with applicable regulations and/or procedures, it may issue inspectional observations on Form 483 that would necessitate prompt corrective action. If FDA inspectional observations are not addressed and/or corrective action is not taken in a timely manner and to the FDA's satisfaction, the FDA may issue a warning letter (which would similarly necessitate prompt corrective action) and/or proceed directly to other forms of enforcement action, including the imposition of operating restrictions, including a ceasing of operations, on one or more facilities, enjoining and restraining certain violations of applicable law pertaining to medical devices and assessing civil or criminal penalties against our officers, employees or us. The FDA could also issue a corporate warning letter, a recidivist warning letter or a consent decree of permanent injunction. The FDA may also recommend prosecution to the U.S. Department of Justice ("DOJ"). Any adverse regulatory action, depending on its magnitude, may restrict us from effectively manufacturing, marketing and selling our products and could have a material adverse effect on our business, financial condition and results of operations. For information regarding certain warning letters and FDA Form 483 inspectional observations that we are addressing, see Note 20 to the consolidated financial statements.

The FDA, in cooperation with U.S. Customs and Border Protection ("CBP"), administers controls over the import of medical devices into the U.S. The CBP imposes its own regulatory requirements on the import of our products, including inspection and possible sanctions for noncompliance. We are also subject to foreign trade controls administered by certain U.S. government agencies, including the Bureau of Industry and Security within the Commerce Department and the Office of Foreign Assets Control within the Treasury Department ("OFAC").

There are also requirements of state, local and foreign governments that we must comply with in the manufacture and marketing of our products.

In many of the foreign countries in which we market our products, we are subject to local regulations affecting, among other things, design and product standards, packaging requirements and labeling requirements. Many of the regulations applicable to our devices and products in these countries are similar to those of the FDA. The member countries of the European Union have adopted the European Medical Device Directive, which creates a single set of medical device regulations for products marketed in all member countries. Compliance with the Medical Device Directive and

certification to a quality system (e.g., ISO 13485 certification) enable the manufacturer to place a CE mark on its products. To obtain authorization to affix the CE mark to a product, a recognized European Notified Body must assess a manufacturer's quality system and the product's conformity to the requirements of the Medical Device Directive. We are subject to inspection by the Notified Bodies for compliance with these requirements. In addition, many countries, including Canada and Japan, have very specific additional regulatory requirements for quality assurance and manufacturing with which we must comply.

Further, we are subject to other federal, state and foreign laws concerning healthcare fraud and abuse, including false claims and anti-kickback laws, as well as the U.S. Physician Payments Sunshine Act and similar state and foreign healthcare professional payment transparency laws. These laws are administered by, among others, the DOJ, the Office of Inspector General of the Department of Health and Human Services ("OIG-HHS"), state attorneys general and various foreign government agencies. Many of these agencies have increased their enforcement activities with respect to medical device manufacturers in recent years. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the U.S., exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration health programs.

Our operations in foreign countries are subject to the extraterritorial application of the U.S. Foreign Corrupt Practices Act ("FCPA"). Our global operations are also subject to foreign anti-corruption laws, such as the UK Bribery Act, among others. As part of our global compliance program, we seek to address anti-corruption risks proactively. On January 12, 2017, we resolved previously-disclosed FCPA matters involving Biomet and certain of its subsidiaries. As part of that settlement, we entered into a Deferred Prosecution Agreement ("DPA") with the DOJ. For information regarding the DPA, see Note 20 to the consolidated financial statements.

Our facilities and operations are also subject to complex federal, state, local and foreign environmental and occupational safety laws and regulations, including those relating to discharges of substances in the air, water and land, the handling, storage and disposal of wastes and the clean-up of properties contaminated by pollutants. We do not expect that the ongoing costs of compliance with these environmental requirements will have a material impact on our consolidated earnings, capital expenditures or competitive position.

In addition, we are subject to federal, state and international data privacy and security laws and regulations that govern the collection, use, disclosure and protection of health-related and other personal information. Certain of our affiliates are subject to privacy and security regulations promulgated under the Health Insurance Portability and Accountability Act of 1996 and the Health Information Technology for Economic and Clinical Health Act (collectively, "HIPAA"). The FDA also has issued guidance to which we may be subject concerning data security for medical devices.

International data protection laws, including the European Union ("EU") Data Protection Directive and member state implementing legislation, may also apply to some of our operations. The EU Data Protection Directive imposes strict obligations and restrictions on the ability to collect, analyze and transfer EU personal data. Moreover, the General Data Protection Regulation, an EU-wide regulation that will be fully enforceable by May 25, 2018, will introduce new data protection requirements in the EU and substantial fines for violations of the data protection rules.

Failure to comply with U.S. and international data protection laws and regulations could result in government enforcement actions (which could include civil and/or criminal penalties), private litigation and/or adverse publicity and could negatively affect our operating results and business.

Competition

The orthopaedics and broader musculoskeletal care industry is highly competitive. In the global markets for our knees, hips, and S.E.T. products, our major competitors include: the DePuy Synthes Companies of Johnson & Johnson; Stryker Corporation; and Smith & Nephew plc. There are smaller competitors in these product categories as well who have success by focusing on smaller subsegments of the industry.

In the spine and CMF categories, we compete globally primarily with the spinal and biologic business of Medtronic plc, the DePuy Synthes Companies, Stryker Corporation, NuVasive, Inc. and Globus Medical, Inc.

In the dental implant category, we compete primarily with Nobel Biocare Holding AG (part of the Danaher Corporation), Straumann Holding AG and Dentsply International.

Competition within the industry is primarily based on pricing, technology, innovation, quality, reputation and customer service. A key factor in our continuing success in the future will be our ability to develop new products and improve existing products and technologies.

Manufacturing and Raw Materials

We manufacture our products at various sites. We also strategically outsource some manufacturing to qualified suppliers who are highly capable of producing components.

The manufacturing operations at our facilities are designed to incorporate the cellular concept for production and to implement tenets of a manufacturing philosophy focused on continuous improvement efforts in product quality, lead time reduction and capacity optimization. Our continuous improvement efforts are driven by Lean and Six Sigma methodologies. In addition, at certain of our manufacturing facilities, many of the employees are cross-trained to perform a broad array of operations.

We generally target operating our manufacturing facilities at optimal levels of total capacity. We continually evaluate the potential to in-source and outsource production as part of our manufacturing strategy to provide value to our stakeholders.

We have improved our manufacturing processes to harmonize and optimize our quality systems and to protect our

profitability and offset the impact of inflationary costs. We have, for example, employed computer-assisted robots and multi-axis grinders to precision polish medical devices; automated certain manufacturing and inspection processes, including on-machine inspection and process controls; purchased state-of-the-art equipment; in-sourced core products and processes; and negotiated cost reductions from third-party suppliers.

We use a diverse and broad range of raw materials in the manufacturing of our products. We purchase all of our raw materials and select components used in manufacturing our products from external suppliers. In addition, we purchase some supplies from single sources for reasons of quality assurance, sole source availability, cost effectiveness or constraints resulting from regulatory requirements. We work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. To date, we have not experienced any significant difficulty in locating and obtaining the materials necessary to fulfill our production schedules.

Intellectual Property

Patents and other proprietary rights are important to the continued success of our business. We also rely upon trade secrets, know-how, continuing technological innovation and licensing opportunities to develop and maintain our competitive position. We protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with vendors, employees, consultants and others who may have access to proprietary information. We own or control through licensing arrangements over 8,000 issued patents and patent applications throughout the world that relate to aspects of the technology incorporated in many of our products.

Employees

As of December 31, 2016, we employed approximately 18,500 employees worldwide, including approximately 2,000 employees dedicated to research and development. Approximately 8,700 employees are located within the U.S. and approximately 9,800 employees are located outside of the U.S., primarily throughout Europe and in Japan. We have approximately 7,800 employees dedicated to manufacturing our products worldwide. The Warsaw, Indiana production facilities employ approximately 2,600 employees in the aggregate.

We have production employees represented by a labor union in each of Dover, Ohio and Bridgend, South Wales. We have other employees in Europe who are represented by Works Councils. We believe that our relationship with our employees is satisfactory.

EXECUTIVE OFFICERS

The following table sets forth certain information with respect to our executive officers as of February 19, 2017.

Name	Age	Position
David C. Dvorak	53	President and Chief Executive Officer
Daniel P. Florin	52	Senior Vice President and Chief Financial Officer
Tony W. Collins	48	Vice President, Corporate Controller and Chief Accounting Officer
Robert D. Delp	47	President, Americas
Adam R. Johnson	39	Group President, Spine, Dental, CMF and Thoracic
Katarzyna Mazur-Hofsaess, M.D., Ph.D.	53	President, Europe, Middle East and Africa
David A. Nolan Jr.	51	Group President, Biologics, Extremities, Sports Medicine, Surgical, Trauma, Foot and Ankle, Office Based Technologies and Zimmer Biomet Signature Solutions
Chad F. Phipps	45	Senior Vice President, General Counsel and Secretary
Daniel E. Williamson	51	Group President, Joint Reconstruction
Sang Yi	55	President, Asia Pacific

Mr. Dvorak was appointed President, Chief Executive Officer and a member of the Board of Directors in May 2007. He championed Zimmer's acquisition of Biomet, positioning the combined Zimmer Biomet as a global leader in musculoskeletal healthcare. Prior to his appointment as President and Chief Executive Officer, Mr. Dvorak served as Group President, Global Businesses and Chief Legal Officer from December 2005. From October 2003 to December 2005, he served as Executive Vice President, Corporate Services, Chief Counsel and Secretary, as well as Chief Compliance Officer. Mr. Dvorak joined the Company (then Zimmer) as Senior Vice President, Corporate Affairs and General Counsel in December 2001, shortly following the Company's spin-off from its former parent.

Mr. Florin was appointed Senior Vice President and Chief Financial Officer effective June 2015. He served as Senior Vice President and Chief Financial Officer of Biomet from June 2007 to June 2015. Prior to joining Biomet, Mr. Florin served as Vice President and Corporate Controller of Boston Scientific Corporation from 2001 through May 2007. Before being appointed Corporate Controller in 2001, Mr. Florin served in financial leadership positions within Boston

Scientific Corporation and its various business units. Prior to joining Boston Scientific Corporation, Mr. Florin worked for C.R. Bard from October 1990 through June 1995.

Mr. Collins was appointed Vice President, Corporate Controller and Chief Accounting Officer effective June 2015. Prior to that, Mr. Collins served as Vice President, Finance for the Global Reconstructive Division and Global Operations organization. He joined the Company (then Zimmer) in 2010 as Vice President, Finance for the Global Reconstructive Division and U.S. Commercial organization. Before joining Zimmer, Mr. Collins held the position of Vice President, Finance and served as the chief financial officer of the Commercial segment of Oshkosh Corporation from 2007 to 2010. From 1997 to 2007, he was employed at Guidant Corporation and Boston Scientific Corporation, where he held a number of positions of increasing responsibility, including Finance Director and chief financial officer of the Guidant Japan organization, Global Director of Operations Finance and Director of Strategic Planning.

Mr. Delp was appointed President, Americas effective January 2017. He is responsible for the Company's sales and management of the direct and indirect sales channels in the Americas region, including the United States, Canada and Latin America. He served as Vice President, U.S. Sales from June 2015 until assuming his current role. Mr. Delp previously served in commercial Vice President roles with Biomet from October 2007 until June 2015. Prior to those appointments, Mr. Delp held numerous positions within the musculoskeletal healthcare field, where he began his career in 1995.

Mr. Johnson was appointed Group President with responsibility for the Company's Spine, Dental, Craniomaxillofacial and Thoracic businesses effective June 2015. He served as Senior Vice President, Biomet, and President, Biomet Microfixation, Bone Healing and Spine from June 2012 to June 2015. Before that, he served as President, Biomet Microfixation from 2007 to 2012 and Vice President, Global Marketing, Biomet Microfixation from 2006 to 2007. Prior to that, Mr. Johnson served as Director of Global Marketing for Regeneration Technologies, Inc. (now known as RTI Surgical, Inc.). He also worked for Biomet for five years previously, starting his career with Biomet in 1999.

Dr. Mazur-Hofsaess was appointed President, EMEA in April 2013. Dr. Mazur-Hofsaess joined the Company (then Zimmer) in February 2010 as Senior Vice President, EMEA Reconstructive. She has more than 20 years' experience within the pharmaceutical, diagnostics and medical device sectors. Prior to joining Zimmer, Dr. Mazur-Hofsaess served in various management positions at Abbott Laboratories beginning in 2001, most recently as Vice President, Diagnostics – Europe.

Mr. Nolan was appointed Group President effective June 2015. He has responsibility for the Company's Biologics, Extremities, Sports Medicine, Surgical, Trauma, Foot and Ankle, Office Based Technologies and Zimmer Biomet Signature Solutions businesses. He joined the Company (then Zimmer) in November 2012 as Senior Vice President, Sales. From January 2014 to June 2015, he served as Senior Vice President, Sales and Advanced Solutions. Prior to joining Zimmer, Mr. Nolan served as President, Biomet Sports Medicine, Extremities and Trauma from 2011 to 2012 and as President, Biomet Sports Medicine from 2001 to 2011. He joined Biomet in 1996.

Mr. Phipps was appointed Senior Vice President, General Counsel and Secretary in May 2007. He has global responsibility for the Company's Legal Affairs and he serves as Secretary to the Board of Directors. Mr. Phipps also oversees the Company's Government Affairs, Corporate Communication and Public Relations activities. Previously, Mr. Phipps served as Associate General Counsel and Corporate Secretary from December 2005 to May 2007. He joined the Company (then Zimmer) in September 2003 as Associate Counsel and Assistant Secretary. Prior to joining Zimmer, he served as Vice President and General Counsel of L&N Sales and Marketing, Inc. in Pennsylvania and he practiced law with the firm of Morgan, Lewis & Bockius in Philadelphia, focusing on corporate and securities law, mergers and acquisitions and financial transactions.

Mr. Williamson was appointed Group President, Joint Reconstruction with responsibility for the Company's Knee, Hip, Bone Cement, Patient-Matched Implants and Personalized Solutions businesses effective June 2015. He served as Senior Vice President, Biomet and President, Global Reconstructive Joints from February 2014 to June 2015. Prior to that, Mr. Williamson served as Biomet's Vice President and General Manager, Global Bone Cement and Biomaterials Research from September 2011 to February 2014, and as Corporate Vice President, Global Biologics and Biomaterials from May 2006 to September 2011. Mr. Williamson previously served as Biomet's Vice President, Business Development from December 2003 to May 2006. He began his career with Biomet in 1990 as a Product Development Engineer.

Mr. Yi was appointed President, Asia Pacific effective June 2015. He is responsible for the sales, marketing and distribution of products in the Asia Pacific region. Mr. Yi joined the Company (then Zimmer) in March 2013 as Senior Vice President, Asia Pacific. Before joining Zimmer, he served as Vice President and General Manager of St. Jude Medical for Asia Pacific and Australia from 2005 to 2013. Prior to that, Mr. Yi held several leadership positions over a ten-year period with Boston Scientific Corporation, ultimately serving as Vice President for North Asia.

AVAILABLE INFORMATION

Our Internet address is www.zimmerbiomet.com. We routinely post important information for investors on our website in the "Investor Relations" section, which may be accessed from our homepage at www.zimmerbiomet.com or directly at http://investor.zimmerbiomet.com. We use this website as a means of disclosing material, non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following our press releases, Securities and Exchange Commission ("SEC") filings, public conference calls,

presentations and webcasts. Our goal is to maintain the Investor Relations website as a portal through which investors can easily find or navigate to pertinent information about us, free of charge, including:

- our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as soon as reasonably practicable after we electronically file that material with or furnish it to the SEC;
- announcements of investor conferences and events at which our executives talk about our products and competitive strategies, as well as archives of these events;
- press releases on quarterly earnings, product announcements, legal developments and other material news that we may post from time to time;
- corporate governance information including our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Chief Executive Officer and Senior Financial Officers, information concerning our Board of Directors and its committees, including the charters of the Audit Committee, Compensation and Management Development Committee, Corporate Governance Committee and Research, Innovation and Technology Committee, and other governance-related policies;
- stockholder services information, including ways to contact our transfer agent and information on how to sign up for direct deposit of dividends or enroll in our dividend reinvestment plan; and
- opportunities to sign up for email alerts and RSS feeds to have information provided in real time.

The information available on our website is not incorporated by reference in, or a part of, this or any other report we file with or furnish to the SEC.

Item 1A. Risk Factors

Risk factors which could cause actual results to differ from our expectations and which could negatively impact our financial condition and results of operations are discussed below and elsewhere in this report. Additional risks and uncertainties not presently known to us or that are currently not believed to be significant to our business may also affect our actual results and could harm our business, financial condition and results of operations. If any of the risks or uncertainties described below or any additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected.

We may not be able to effectively integrate acquired businesses into our operations or achieve expected cost savings or profitability from our acquisitions.

Our acquisitions involve numerous risks, including:

- unforeseen difficulties in integrating personnel and sales forces, operations, manufacturing, logistics, research and development, information technology, communications, purchasing, accounting, marketing, administration and other systems and processes;
- harmonizing and optimizing quality systems and operations;
- diversion of financial and management resources from existing operations;
- unforeseen difficulties related to entering geographic regions where we do not have prior experience;
- potential loss of key employees;
- unforeseen liabilities associated with businesses acquired; and
- inability to generate sufficient revenue or realize sufficient cost savings to offset acquisition or investment costs.

As a result, if we fail to evaluate and execute acquisitions properly, we might not achieve the anticipated benefits of such acquisitions and we may incur costs in excess of what we anticipate. These risks would likely be greater in the case of larger acquisitions.

We incurred substantial additional indebtedness in connection with the Biomet and LDR mergers and may not be able to meet all of our debt obligations.

We incurred substantial additional indebtedness in connection with the Biomet and LDR Holding Corporation ("LDR") mergers. At December 31, 2016, our total indebtedness was $11.2 billion, as compared to $1.4 billion at December 31, 2014. We funded the cash portion of the Biomet merger consideration, the pay-off of certain indebtedness of Biomet and the payment of transaction-related expenses through a combination of available cash-on-hand and proceeds from debt financings, including proceeds from a $7.65 billion issuance of senior unsecured notes in March 2015 and borrowings of $3.0 billion under a five-year term loan in June 2015. In addition, in September 2016, we borrowed $750 million under a three-year unsecured term loan facility and utilized these funds to repay outstanding borrowings under our revolving facility incurred in connection with the acquisition of LDR. Also, in December 2016, we issued €1.0 billion aggregate principal amount of Euro-denominated senior notes and used the proceeds to repay a portion of the U.S. dollar-denominated senior notes issued in connection with the Biomet merger. As of December 31, 2016, our debt service obligations, comprised of principal and interest (excluding capital leases and equipment notes), during the next 12 months are expected to be $891.1 million. As a result of the increase in our debt, demands on our cash resources have increased. The increased level of debt could, among other things:

- require us to dedicate a large portion of our cash flow from operations to the servicing and repayment of our debt, thereby reducing funds available for working capital, capital expenditures, research and development expenditures and other general corporate requirements;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures, research and development expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- restrict our ability to make strategic acquisitions or dispositions or to exploit business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- adversely affect our credit rating, with the result that the cost of servicing our indebtedness might increase and our ability to obtain surety bonds could be impaired;
- adversely affect the market price of our common stock; and
- limit our ability to apply proceeds from a future offering or asset sale to purposes other than the servicing and repayment of debt.

If we fail to comply with healthcare fraud and abuse or data privacy and security laws and regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

Our industry is subject to various federal, state and foreign laws and regulations pertaining to healthcare fraud and abuse, including the federal False Claims Act, the federal Anti-Kickback Statute, the federal Stark law, the federal Physician Payments Sunshine Act and similar state and foreign laws. In addition, we are subject to various federal and foreign laws concerning anti-corruption and anti-bribery matters, sales to countries or persons subject to economic sanctions and other matters affecting our international operations. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the U.S., exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration health programs. These laws are administered by, among others, the DOJ, the OIG-HHS, the SEC, the OFAC, the Bureau of Industry and Security of the U.S. Department of Commerce and state attorneys general.

We are also subject to federal, state and international data privacy and security laws and regulations that govern the collection, use, disclosure and protection of health-related and other personal information. Certain of our affiliates are subject to privacy and security regulations promulgated under HIPAA. The FDA also has issued guidance to which we may be subject concerning data security for medical devices.

International data protection laws, including the EU Data Protection Directive and member state implementing legislation, may also apply to some of our operations and restrict our ability to collect, analyze and transfer EU personal data. Moreover, the General Data Protection Regulation, an EU-wide regulation that will be fully enforceable by May 25, 2018, will introduce new data protection requirements in the EU and substantial fines for violations of the data protection rules.

The interpretation and enforcement of the laws and regulations described above are uncertain and subject to change.

If we fail to comply with the terms of the DPA that we entered into in January 2017, we may be subject to criminal prosecution and/or exclusion from federal healthcare programs.

On January 12, 2017, we resolved previously-disclosed FCPA matters involving Biomet and certain of its subsidiaries. As part of the settlement, we entered into a DPA with the DOJ. A copy of the DPA is incorporated by reference as an exhibit to this report.

If we do not comply with the terms of the DPA, we could be subject to prosecution for violating the internal controls provisions of the FCPA and the conduct of Biomet and its subsidiaries described in the DPA, which conduct pre-dated our acquisition of Biomet, as well as any new or continuing violations. We could also be subject to exclusion by OIG-HHS from participation in federal healthcare programs, including Medicaid and Medicare. Any of these events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to various governmental regulations relating to the manufacturing, labeling and marketing of our products, non-compliance with which could adversely affect our business, financial condition and results of operations.

The medical devices we design, develop, manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory approvals to market a medical device can be costly and time consuming and approvals might not be granted for future products on a timely basis, if at all. Delays in receipt of, or failure to obtain, approvals for future products could result in delayed realization of product revenues or in substantial additional costs.

Both before and after a product is commercially released, we have ongoing responsibilities under FDA regulations. Compliance with the FDA's requirements, including the QSR, recordkeeping regulations, labeling and promotional requirements and adverse event reporting regulations, is subject to continual review and is monitored rigorously through periodic inspections by the FDA, which may result in observations on Form 483, and in some cases warning letters, that require corrective action, or other forms of enforcement. If the FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the FDA could ban such medical devices, detain or seize adulterated or misbranded medical devices, order a recall, repair, replacement, or refund of payment of such devices, refuse to grant pending premarket approval applications, refuse to provide certificates to foreign governments for exports, and/or require us to notify healthcare professionals and others that the devices present unreasonable risks of substantial harm to the public health. The FDA may also impose operating restrictions including a ceasing of operations, on one or more facilities, enjoin and restrain certain violations of applicable law pertaining to medical devices and assess civil or criminal penalties against our officers, employees or us. The FDA could also issue a corporate warning letter, a recidivist warning letter or a consent decree of permanent injunction. The FDA may also recommend prosecution to the DOJ. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively manufacturing, marketing and

selling our products and could have a material adverse effect on our business, financial condition and results of operations.

In 2012, we received a warning letter from the FDA citing concerns relating to certain processes pertaining to products manufactured at our Ponce, Puerto Rico manufacturing facility. In June 2015, Biomet received a warning letter from the FDA that requested additional information to allow the FDA to evaluate the adequacy of Biomet's responses to certain Form 483 observations issued following an inspection of Biomet's Zhejiang, China manufacturing facility in January 2015. In May 2016, we received a warning letter from the FDA related to observed non-conformities with current good manufacturing practice requirements of the QSR at our facility in Montreal, Quebec, Canada. As of December 31, 2016, these warning letters remained pending. Until the violations are corrected, we may become subject to additional regulatory action by the FDA as described above, the FDA may refuse to grant premarket approval applications and/or the FDA may refuse to grant export certificates, any of which could have a material adverse effect on our business, financial condition and results of operations. Additional information regarding these and other FDA regulatory matters can be found in Note 20 to the consolidated financial statements.

Our products and operations are also often subject to the rules of industrial standards bodies, such as the International Standards Organization. If we fail to adequately address any of these regulations, our business could be harmed.

Interruption of our manufacturing operations could adversely affect our business, financial condition and results of operations.

We have manufacturing sites all over the world. In some instances, however, the manufacturing of certain of our product lines is concentrated in one or more of our plants. Damage to one or more of our facilities from weather or natural disaster-related events, or issues in our manufacturing arising from failure to follow specific internal protocols and procedures, compliance concerns relating to the QSR and Good Manufacturing Practice requirements, equipment breakdown or malfunction or other factors could adversely affect our ability to manufacture our products. In the event of an interruption in manufacturing, we may be unable to move quickly to alternate means of producing affected products or to meet customer demand. In the event of a significant interruption, for example, as a result of a failure to follow regulatory protocols and procedures, we may experience lengthy delays in resuming production of affected products due primarily to the need for regulatory approvals. As a result, we may experience loss of market share, which we may be unable to recapture, and harm to our reputation, which could adversely affect our business, financial condition and results of operations.

Our success depends on our ability to effectively develop and market our products against those of our competitors.

We operate in a highly competitive environment. Our present or future products could be rendered obsolete or uneconomical by technological advances by one or more of our present or future competitors or by other therapies, including biological therapies. To remain competitive, we must continue to develop and acquire new products and technologies. Competition is primarily on the basis of:

- technology;
- innovation;
- quality;
- reputation; and
- customer service.

In markets outside of the U.S., other factors influence competition as well, including:

- local distribution systems;
- complex regulatory environments; and
- differing medical philosophies and product preferences.

Our competitors may:

- have greater financial, marketing and other resources than us;
- respond more quickly to new or emerging technologies;
- undertake more extensive marketing campaigns;
- adopt more aggressive pricing policies; or
- be more successful in attracting potential customers, employees and strategic partners.

Any of these factors, alone or in combination, could cause us to have difficulty maintaining or increasing sales of our products.

If we fail to retain the independent agents and distributors upon whom we rely heavily to market our products, customers may not buy our products and our revenue and profitability may decline.

Our marketing success in the U.S. and abroad depends significantly upon our agents' and distributors' sales and service expertise in the marketplace. Many of these agents have developed professional relationships with existing and potential customers because of the agents' detailed knowledge of products and instruments. A loss of a significant number of our agents could have a material adverse effect on our business and results of operations.

If we do not introduce new products in a timely manner, our products may become obsolete over time, customers may not buy our products and our revenue and profitability may decline.

Demand for our products may change, in certain cases, in ways we may not anticipate because of:

- evolving customer needs;
- changing demographics;
- slowing industry growth rates;
- declines in the musculoskeletal implant market;
- the introduction of new products and technologies;
- evolving surgical philosophies; and
- evolving industry standards.

Without the timely introduction of new products and enhancements, our products may become obsolete over time. If that happens, our revenue and operating results would suffer. The success of our new product offerings will depend on several factors, including our ability to:

- properly identify and anticipate customer needs;
- commercialize new products in a timely manner;
- manufacture and deliver instruments and products in sufficient volumes on time;

- differentiate our offerings from competitors' offerings;
- achieve positive clinical outcomes for new products;
- satisfy the increased demands by healthcare payors, providers and patients for shorter hospital stays, faster post-operative recovery and lower-cost procedures;
- innovate and develop new materials, product designs and surgical techniques; and
- provide adequate medical education relating to new products.

In addition, new materials, product designs and surgical techniques that we develop may not be accepted quickly, in some or all markets, because of, among other factors:

- entrenched patterns of clinical practice;
- the need for regulatory clearance; and
- uncertainty with respect to third-party reimbursement.

Moreover, innovations generally require a substantial investment in research and development before we can determine their commercial viability and we may not have the financial resources necessary to fund the production. In addition, even if we are able to successfully develop enhancements or new generations of our products, these enhancements or new generations of products may not produce revenue in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or the introduction by our competitors of products embodying new technologies or features.

If third-party payors decline to reimburse our customers for our products or reduce reimbursement levels, the demand for our products may decline and our ability to sell our products profitably may be harmed.

We sell our products and services to hospitals, doctors, dentists and other healthcare providers, all of which receive reimbursement for the healthcare services provided to their patients from third-party payors, such as domestic and international government programs, private insurance plans and managed care programs. These third-party payors may deny reimbursement if they determine that a device used in a procedure was not in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Third-party payors may also decline to reimburse for experimental procedures and devices.

In addition, third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for medical products and services. If third-party payors reduce reimbursement levels to hospitals and other healthcare providers for our products, demand for our products may decline, or we may experience increased pressure to reduce the prices of our products, which could have a material adverse effect on our sales and results of operations.

We have also experienced downward pressure on product pricing and other effects of healthcare reform in our international markets. If key participants in government healthcare systems reduce the reimbursement levels for our products, our sales and results of operations may be adversely affected.

The ongoing cost-containment efforts of healthcare purchasing organizations may have a material adverse effect on our results of operations.

Many customers for our products have formed group purchasing organizations in an effort to contain costs. Group purchasing organizations negotiate pricing arrangements with medical supply manufacturers and distributors, and these negotiated prices are made available to a group purchasing organization's affiliated hospitals and other members. If we are not one of the providers selected by a group purchasing organization, affiliated hospitals and other members may be less likely to purchase our products, and, if the group purchasing organization has negotiated a strict compliance contract for another manufacturer's products, we may be precluded from making sales to members of the group purchasing organization for the duration of the contractual arrangement. Our failure to respond to the cost-containment efforts of group purchasing organizations may cause us to lose market share to our competitors and could have a material adverse effect on our sales and results of operations.

We conduct a significant amount of our sales activity outside of the U.S., which subjects us to additional business risks and may cause our profitability to decline due to increased costs.

We sell our products in more than 100 countries and derived nearly 40 percent of our net sales in 2016 from outside the U.S. We intend to continue to pursue growth opportunities in sales internationally, including in emerging markets, which could expose us to additional risks associated with international sales and operations. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement policies and programs;
- unexpected changes in foreign regulatory requirements;
- differing local product preferences and product requirements;
- fluctuations in foreign currency exchange rates;
- diminished protection of intellectual property in some countries outside of the U.S.;
- trade protection measures and import or export requirements that may prevent us from shipping products to a particular market and may increase our operating costs;
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.;
- complex data privacy requirements and labor relations laws;
- extraterritorial effects of U.S. laws such as the FCPA;
- effects of foreign anti-corruption laws, such as the UK Bribery Act;
- difficulty in staffing and managing foreign operations;
- labor force instability;
- potentially negative consequences from changes in tax laws; and
- political and economic instability.

Violations of foreign laws or regulations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation.

Disruptions in the supply of the materials and components used in manufacturing our products could adversely affect our results of operations and financial condition.

We purchase many of the materials and components used in manufacturing our products from third-party vendors and we outsource some key manufacturing activities. Certain of these materials and components and outsourced activities can only be obtained from a single source or a limited number of sources due to quality considerations, expertise, costs or constraints resulting from regulatory requirements. In certain cases, we may not be able to establish additional or replacement vendors for such materials or components or outsourced activities in a timely or cost effective manner, largely as a result of FDA regulations that require validation of materials and components prior to their use in our products and the complex nature of our and many of our vendors' manufacturing processes. A reduction or interruption in the supply of materials or components used in manufacturing our products; an inability to timely develop and validate alternative sources if required; or a significant increase in the price of such materials or components could adversely affect our financial condition and results of operations.

Moreover, we are subject to the SEC's rule regarding disclosure of the use of certain minerals, known as "conflict minerals" (tantalum, tin and tungsten (or their ores) and gold), which are mined from the Democratic Republic of the Congo and adjoining countries. This rule could adversely affect the sourcing, availability and pricing of materials used in the manufacture of our products, which could adversely affect our manufacturing operations and our profitability. In addition, we are incurring additional costs to comply with this rule, including costs related to determining the source of any relevant minerals and metals used in our products. We have a complex supply chain and we may not be able to sufficiently verify the origins of the minerals and metals used in our products through our due diligence procedures. As a result, we may face reputational challenges with our customers and other stakeholders.

We may have additional tax liabilities.

We are subject to income taxes in the U.S. and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We regularly are under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made.

We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds representing earnings of foreign subsidiaries may significantly impact our effective tax rates. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form this proposed legislation will pass, if enacted it could have a material adverse impact on our tax expense and cash flow.

We are subject to risks arising from currency exchange rate fluctuations, which can increase our costs, cause our profitability to decline and expose us to counterparty risks.

A substantial portion of our foreign revenues is generated in Europe and Japan. The U.S. Dollar value of our foreign-generated revenues varies with currency exchange rate fluctuations. Significant increases in the value of the U.S. Dollar relative to the Euro or the Japanese Yen, as well as other currencies, could have a material adverse effect on our results of operations. Although we address currency risk management through regular operating and financing activities, and, on a limited basis, through the use of derivative financial instruments, those actions may not prove to be fully effective.

Pending and future product liability claims and litigation could adversely impact our financial condition and results of operations and impair our reputation.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture and marketing of medical devices. In the ordinary course of business, we are the subject of product liability lawsuits alleging that component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information resulted in an unsafe condition or injury to patients. As discussed further in Note 20 to the consolidated financial statements, we are defending product liability lawsuits relating to the Durom® Acetabular Component ("Durom Cup"), certain products within the NexGen Knee System, and the M2a-Magnum™ hip system. The majority of the Durom Cup cases are pending in a federal Multidistrict Litigation ("MDL") in the District of New Jersey (*In Re: Zimmer Durom Hip Cup Products Liability Litigation*); the majority of the NexGen Knee System cases are pending in a federal MDL in the Northern District of Illinois (*In Re: Zimmer NexGen Knee Implant Products Liability Litigation*); and the majority of the M2a-Magnum hip system cases are pending in a federal MDL in the Northern District of Indiana (*In Re: Biomet M2a Magnum Hip Implant Products Liability Litigation*). We are also currently defending a number of other product liability lawsuits and claims related to various other products. Any product liability claim brought against us, with or without merit, can be costly to defend. Product liability lawsuits and claims, safety alerts or product recalls, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers.

Although we maintain third-party product liability insurance coverage, we have substantial self-insured retention amounts that we must pay in full before obtaining any insurance proceeds to satisfy a judgment or settlement. Furthermore, even if any product liability loss is covered by our insurance, it is possible that claims against us may exceed the coverage limits of our insurance policies and we would

have to pay the amount of any settlement or judgment that is in excess of our policy limits. Product liability claims in excess of applicable insurance could have a material adverse effect on our business, financial condition and results of operations.

We are substantially dependent on patent and other proprietary rights, and failing to protect such rights or to be successful in litigation related to our rights or the rights of others may result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and other proprietary rights against others.

Claims of intellectual property infringement and litigation regarding patent and other intellectual property rights are commonplace in our industry and are frequently time consuming and costly. At any given time, we may be involved as either plaintiff or defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. While it is not possible to predict the outcome of patent and other intellectual property litigation, such litigation could result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and proprietary rights against others, which could have a material adverse effect on our business and results of operations.

Patents and other proprietary rights are essential to our business. We rely on a combination of patents, trade secrets and non-disclosure and other agreements to protect our proprietary intellectual property, and we will continue to do so. While we intend to defend against any threats to our intellectual property, these patents, trade secrets and other agreements may not adequately protect our intellectual property. Further, our currently pending or future patent applications may not result in patents being issued to us, patents issued to or licensed by us in the past or in the future may be challenged or circumvented by competitors, and such patents may be found invalid, unenforceable or insufficiently broad to protect our technology or to provide us with any competitive advantage. Third parties could obtain patents that may require us to negotiate licenses to conduct our business, and the required licenses may not be available on reasonable terms or at all.

In addition, intellectual property rights may be unavailable or of limited effect in some foreign countries. If we do not obtain sufficient international protection for our intellectual property, our competitiveness in international markets could be impaired, which could limit our growth and revenue.

We also attempt to protect our trade secrets, proprietary know-how and continuing technological innovation with security measures, including the use of non-disclosure and other agreements with our employees, consultants and collaborators. We cannot be certain that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to our trade secrets or proprietary knowledge.

We are involved in legal proceedings that may result in adverse outcomes.

In addition to intellectual property and product liability claims and lawsuits, we are involved in various commercial and securities litigation and claims and other legal proceedings that arise from time to time in the ordinary course of our business. For example, as discussed further in Note 20 to the consolidated financial statements, we are defending a purported class action lawsuit, *Shah v. Zimmer Biomet Holdings, Inc. et al.,* filed against us and certain of our officers alleging violations of the securities laws related to our third quarter 2016 performance and 2016 forecasts. Although we believe we have substantial defenses in these matters, litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. Given the uncertain nature of legal proceedings generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome. We could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period.

We are increasingly dependent on sophisticated information technology and if we fail to effectively maintain or protect our information systems or data, including from data breaches, our business could be adversely affected.

We are increasingly dependent on sophisticated information technology for our products and infrastructure. As a result of technology initiatives, recently enacted regulations, changes in our system platforms and integration of new business acquisitions, including the Biomet merger, we have been consolidating and integrating the number of systems we operate and have upgraded and expanded our information systems capabilities. We also have outsourced elements of our operations to third parties, and, as a result, we manage a number of third-party vendors who may or could have access to our confidential information. Our information systems, and those of third-party vendors with whom we contract, require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information technology, evolving systems and regulatory standards and the increasing need to protect patient and customer information. In addition, given their size and complexity, these systems could be vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third-party vendors and/or business partners, or from cyber-attacks by malicious third parties attempting to gain unauthorized access to our products, systems or confidential information (including, but not limited to, intellectual property, proprietary business information and personal information). Cyber-attacks, such as those involving the deployment of malware, are increasing in their frequency, sophistication and intensity and have become increasingly difficult to detect. If we fail to maintain or protect our information systems and data integrity effectively, we could:

- lose existing customers;
- have difficulty attracting new customers;

- have problems in determining product cost estimates and establishing appropriate pricing;
- have difficulty preventing, detecting, and controlling fraud;
- have disputes with customers, physicians, and other healthcare professionals;
- have regulatory sanctions or penalties imposed;
- incur increased operating expenses;
- incur expenses or lose revenues as a result of a data privacy breach; or
- suffer other adverse consequences.

While we have invested heavily in the protection of our data and information technology, there can be no assurance that our activities related to consolidating the number of systems we operate, upgrading and expanding our information systems capabilities, protecting and enhancing our systems and implementing new systems will be successful. Despite our efforts, we cannot assure you that cyber-attacks or data breaches will not occur or that systems issues will not arise in the future. Any significant breakdown, intrusion, breach, interruption, corruption or destruction of these systems could have a material adverse effect on our business and reputation.

We have determined that a material weakness exists in our internal control over financial reporting which could, if not remediated, result in a material misstatement in our financial statements.

We are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(e) and 13a-15(f) under the Exchange Act. As discussed in Management's Report on Internal Control over Financial Reporting appearing under item 7A of this report, we identified a material weakness in our internal control over financial reporting as of December 31, 2016 related to management's controls over accounting for income taxes. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, our management concluded that our internal control over financial reporting was not effective, and our disclosure controls and procedures were not effective as of December 31, 2016. We are actively engaged in developing and implementing a remediation plan designed to address this material weakness. However, we cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts. If the remedial measures are insufficient to address the material weakness or if additional material weaknesses in internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Future material impairments in the carrying value of our intangible assets, including goodwill, would negatively affect our operating results.

Our assets include intangible assets, primarily goodwill. At December 31, 2016, we had $10.5 billion in goodwill. The goodwill results from our acquisition activity, including the Biomet merger, and represents the excess of the consideration transferred over the fair value of the net assets acquired. We assess at least annually whether events or changes in circumstances indicate that the carrying value of our intangible assets may not be recoverable. If the operating performance at one or more of our business units falls significantly below current levels, if competing or alternative technologies emerge, or if market conditions or future cash flow estimates for one or more of our businesses decline, we could be required, under current U.S. accounting rules, to record a non-cash charge to operating earnings for the amount of the impairment. Any write-off of a material portion of our unamortized intangible assets would negatively affect our results of operations.

Recent developments relating to the United Kingdom's referendum vote in favor of leaving the European Union could adversely affect us.

The United Kingdom (UK) held a referendum on June 23, 2016 in which voters approved the UK's voluntary exit from the European Union (EU), commonly referred to as "Brexit". The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar relative to other foreign currencies in which we conduct business. The effects of Brexit are expected to be far-reaching. Brexit and the perceptions as to its impact may adversely affect business activity and economic conditions in Europe and globally and could continue to contribute to instability in global financial and foreign exchange markets. Brexit could also have the effect of disrupting the free movement of goods, services and people between the UK and the EU; however, the full effects of Brexit are uncertain and will depend on any agreements the UK may make to retain access to EU markets. Brexit could also lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Also, as a result of Brexit, other European countries may seek to conduct referenda with respect to their continuing membership with the EU. Given these possibilities and others we may not anticipate, as well as the lack of comparable precedent, the full extent to which our business, results of operations and financial condition could be adversely affected by Brexit is uncertain.

Anti-takeover provisions in our organizational documents could delay or prevent a change of control.

Certain provisions of our Restated Certificate of Incorporation, our Restated By-Laws and the Delaware General Corporation Law may have an anti-takeover effect and may delay, defer or prevent a merger, acquisition, tender offer, takeover attempt or other change of control transaction that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders.

These provisions provide for, among other things:

- the ability of our board of directors to issue one or more series of preferred stock without further stockholder action;
- advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at our annual meetings;

- certain limitations on convening special stockholder meetings; and
- the prohibition on engaging in a "business combination" with an "interested stockholder" for three years after the time at which a person became an interested stockholder unless certain conditions are met, as set forth in Section 203 of the Delaware General Corporation Law.

These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many of our stockholders. As a result, our stockholders may be limited in their ability to obtain a premium for their shares.

Our Restated By-Laws designate certain Delaware courts as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our Restated By-Laws provide that, unless we consent in writing to the selection of an alternative forum, a state court located within the State of Delaware (or, if no state court located in the State of Delaware has jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for any stockholder (including any beneficial owner) to bring (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any of our directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law or our Restated Certificate of Incorporation or our Restated By-Laws, as either may be amended from time to time, or (iv) any action asserting a claim against us or any of our directors, officers or other employees governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have received notice of and consented to the foregoing provisions. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The following are our principal properties:

Location	Use	Owned / Leased	Square Feet
Warsaw, Indiana	Research & Development, Manufacturing, Warehousing, Marketing & Administration	Owned	1,900,000
Warsaw, Indiana	Corporate Headquarters & The Zimmer Institute	Owned	115,000
Warsaw, Indiana	Manufacturing & Warehousing	Leased	195,000
Broomfield, Colorado	Business Unit Headquarters	Leased	65,000
Jacksonville, Florida	Business Unit Headquarters & Manufacturing	Owned	85,000
Palm Beach Gardens, Florida	Business Unit Headquarters & Manufacturing	Owned	190,000
Palm Beach Gardens, Florida	Manufacturing	Leased	50,000
Southaven, Mississippi	Distribution Center	Leased	190,000
Parsippany, New Jersey	Office, Research & Development, Manufacturing, Warehousing & The Zimmer Institute	Leased	240,000
Dover, Ohio	Business Unit Headquarters & Manufacturing	Owned	140,000
Austin, Texas	Offices & Manufacturing	Leased	120,000
Beijing, China	Manufacturing	Leased	95,000
Changzhou, China	Manufacturing	Owned	75,000
Jinhua, China	Manufacturing	Owned	135,000
Valence, France	Manufacturing	Owned	120,000
Berlin, Germany	Manufacturing	Owned	50,000
Eschbach, Germany	Distribution Center	Owned	100,000
Galway, Ireland	Manufacturing	Owned	115,000
Shannon, Ireland	Offices & Manufacturing	Owned	125,000
Hazeldonk, The Netherlands	Distribution Center	Leased	195,000
Ponce, Puerto Rico	Offices, Manufacturing & Warehousing	Owned	225,000
Singapore	Regional Headquarters	Leased	30,000
Bridgend, South Wales	Manufacturing	Owned	185,000
Bridgend, South Wales	Manufacturing	Leased	100,000
Valencia, Spain	Manufacturing	Owned	70,000
Valencia, Spain	Manufacturing	Leased	10,000
Winterthur, Switzerland	Regional Headquarters, Offices, Research & Development & Manufacturing	Leased	485,000

In addition to the above, we maintain sales and administrative offices and warehouse and distribution facilities in more than 40 countries around the world. We believe that all of the facilities and equipment are in good condition, well maintained and able to operate at present levels. We believe the current facilities, including manufacturing, warehousing, research and development and office space, provide sufficient capacity to meet ongoing demands.

Item 3. Legal Proceedings

Information pertaining to legal proceedings in which we are involved can be found in Note 20 to our consolidated financial statements included in Part II, Item 8 of this report and is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange and the SIX Swiss Exchange under the symbol "ZBH." The high and low sales prices for our common stock on the New York Stock Exchange and the dividends declared for the calendar quarters of fiscal years 2016 and 2015 are as follows:

QUARTERLY HIGH-LOW SHARE PRICES AND DECLARED DIVIDENDS

	High	Low	Declared Dividends
Year Ended December 31, 2016:			
First Quarter	$107.22	$ 88.27	$0.24
Second Quarter	$123.43	$105.53	$0.24
Third Quarter	$133.19	$119.22	$0.24
Fourth Quarter	$133.21	$ 95.63	$0.24
Year Ended December 31, 2015:			
First Quarter	$121.84	$111.06	$0.22
Second Quarter	$119.10	$ 97.48	$0.22
Third Quarter	$111.35	$ 90.92	$0.22
Fourth Quarter	$108.99	$ 88.77	$0.22

We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted as business needs or market conditions change. As further discussed in Item 7 of this report, our debt facilities restrict the payment of dividends under certain circumstances.

As of February 23, 2017, there were approximately 24,000 registered holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares of record are held by banks, brokers and other financial institutions. On February 24, 2017, the closing price of our common stock, as reported on the New York Stock Exchange, was $116.92 per share.

The information required by this Item concerning equity compensation plans is incorporated herein by reference to Item 12 of this report.

Item 6. Selected Financial Data

The financial information for each of the past five years ended December 31 is set forth below (in millions, except per share amounts):

	2016	2015 [1]	2014	2013	2012
STATEMENT OF EARNINGS DATA					
Net sales	$ 7,683.9	$ 5,997.8	$4,673.3	$4,623.4	$4,471.7
Net earnings of Zimmer Biomet Holdings, Inc.	305.9	147.0	720.3	780.4	734.0
Earnings per common share					
Basic	$ 1.53	$ 0.78	$ 4.26	$ 4.60	$ 4.20
Diluted	1.51	0.77	4.20	4.54	4.17
Dividends declared per share of common stock	$ 0.96	$ 0.88	$ 0.88	$ 0.80	$ 0.54
Average common shares outstanding					
Basic	200.0	187.4	169.0	169.6	174.9
Diluted	202.4	189.8	171.7	171.8	176.0
BALANCE SHEET DATA					
Total assets	$26,684.4	$27,160.6	$9,658.0	$9,595.0	$8,995.6
Long-term debt	10,665.8	11,497.4	1,425.5	1,672.3	1,720.8
Other long-term obligations	3,967.2	4,155.9	656.8	583.6	568.2
Stockholders' equity	9,669.9	9,889.4	6,551.7	6,310.6	5,848.0

[1] Includes the results of Biomet starting on June 24, 2015 and Biomet balance sheet data as of December 31, 2015.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the corresponding notes included elsewhere in this Annual Report on Form 10-K. Certain percentages presented in this discussion and analysis are calculated from the underlying whole-dollar amounts and therefore may not recalculate from the rounded numbers used for disclosure purposes. Certain amounts in the 2015 and 2014 consolidated financial statements have been reclassified to conform to the 2016 presentation.

On June 24, 2015, we completed our merger with Biomet and its results of operations have been included in our results starting on that date. The Biomet merger was a transformational event for us and has had significant effects on all aspects of our business. Accordingly, our sales and expenses increased significantly in the years ended December 31, 2016 and 2015 when compared to prior years.

In portions of this discussion and analysis, we also present sales information on an unaudited, pro forma basis for the years ended December 31, 2015 and 2014. This pro forma information includes Zimmer and Biomet sales in those periods as if the merger occurred on January 1, 2014. Accordingly, the pro forma net sales information for periods prior to the Closing Date includes the net sales of Biomet, but does not include the impact of the divestiture of certain product line rights and assets. We believe this pro forma analysis is beneficial for investors because it represents how the merged companies may have performed on a combined basis in 2015 and 2014.

EXECUTIVE LEVEL OVERVIEW

2016 Results

In 2016, we made strategic internal and external investments to further broaden and diversify our musculoskeletal portfolio, including the acquisitions of LDR, which provided us with an immediate position in the growing cervical disc replacement market; Cayenne Medical, Inc. ("Cayenne Medical"), a sports medicine company; Compression Therapy Concepts, Inc. ("CTC"), a provider of non-invasive products for the prevention of deep vein thrombosis; CD Diagnostics, Inc. ("CD Diagnostics"), a medical diagnostic testing company; and MedTech SA ("MedTech"), a designer and manufacturer of robotic equipment for brain and spine surgeries. These commercial additions have both enhanced our core offerings and expanded our presence across the full continuum and episode of care.

We have also continued to make progress in our commercial and operational integration of Biomet across all geographies and functions. Despite this progress, sales in 2016 were below our expectations due in part to some temporary disruption in product supply in certain Knee, Hip, Upper Extremities, Sports Medicine and Trauma product lines in the second half of 2016 related to several factors, including implementation of operational and quality process enhancements that resulted in various shipment delays, and manufacturing forecasting constraints related to continued integration of our supply chain. In the second half of 2016, we saw increased demand for certain Knee, Hip and Upper Extremities products, particularly related to cross-selling various offerings across the combined Zimmer Biomet portfolio. The increased demand temporarily impacted our ability to effectively respond to this shifting product mix. In response, we accelerated work to enhance certain aspects of our supply chain infrastructure as we harmonize and optimize our sourcing, manufacturing and quality management systems. We are in the process of deploying new demand planning and production planning tools. We made progress on these enhancements in late 2016 and anticipate continued progress towards the replenishment of safety stocks on key cross-sell products throughout the first half of 2017.

Our 2016 results have been significantly impacted by the inclusion of Biomet sales and expenses for the entire year, including sales growth of 28.1 percent. On an unaudited pro forma basis, sales increased by 2.2 percent driven by volume/mix growth across all our regions in most of our product categories, including growth from our 2016 acquisitions, offset by the negative effects of changes in foreign currency exchange rates and continued, but stable, pricing pressure in all of our geographic regions.

Our net earnings increased in 2016 compared to 2015. The primary drivers of the improved earnings performance were the inclusion of Biomet earnings for the entire year and the absence in 2016 of significant expenses incurred in 2015 in connection with completing the Biomet merger. As a result of the merger, we recognized significant expenses in 2015 due to the acceleration of unvested LVB stock options and LVB stock-based awards, retention bonuses paid to Biomet employees and third-party sales agents who remained with Biomet through the Closing Date, severance expense, a loss related to a call premium on Biomet debt we redeemed, third party fees, and other acquisition and integration charges. While we did incur similar expenses in 2016 related to acquisitions, they were less significant.

2017 Outlook

We estimate our sales growth in 2017 over 2016 will be in a range of 2.2 to 3.2 percent. This estimate assumes foreign currency exchange rates will decrease sales by approximately 1.5 percent, continued pricing pressure will decrease sales by approximately 2 percent and the inclusion of LDR sales for the full year will increase sales by approximately 1.2 percent. As noted previously, we expect to make substantial progress in remediating supply constraints during the first half of this year as we prioritize production for key cross-sell brands, clear our back orders, and restore safety stocks.

Additionally, as part of our effort to implement certain regulatory compliance enhancements, we are making operational and quality process improvements in certain of our major production facilities. As such, affected products may experience temporary and occasional distribution delays while

we implement and validate these enhanced processes and generate the necessary supporting records. We believe that continued progress towards restoring full supply expected during the second quarter will enable our commercial teams to service existing customers and also resume executing against the full potential of our broad and diverse portfolio. As such, we expect volume/mix sales growth to improve as we progress through 2017.

Turning to cost of products sold, in 2016 we recognized significant expenses related to stepping up acquired Biomet inventory to fair value and for excess and obsolete inventory charges from our decision to discontinue certain products. Without these significant expenses, we expect cost of products sold will decrease in 2017. Additionally, due to the two year moratorium on the U.S. medical device excise tax, costs of products sold will decrease. However, we believe we will experience unfavorable effects on costs of products sold as a percentage of sales from declining selling prices, as well as from lower hedge gains expected to be recognized in 2017 when compared to 2016.

As it relates to other expenses, our intangible asset amortization expense is expected to increase as we recognize a full year of intangible asset amortization from the LDR merger and other 2016 acquisitions. We expect research and development ("R&D") expense for the year to be approximately 4.5 percent of sales. Selling, general and administrative ("SG&A") expense is expected to approximate 37.5 percent of sales, which is an improvement from 2016 as we expect to realize synergies from our acquisitions and leverage sales growth. We estimate special items expense will continue to be significant as we continue our integration activities as well as harmonize and optimize our supply chain and manufacturing and quality systems. However, we expect special items expense will be less in 2017 compared to 2016. We expect interest expense will decrease in 2017 compared to 2016 due to lower debt levels from planned debt repayments.

RESULTS OF OPERATIONS

We analyze sales by three geographies, the Americas, EMEA and Asia Pacific, and by the following product categories: Knees, Hips, S.E.T., Dental, Spine & CMF and Other. This sales analysis differs from our reportable operating segments, which are based upon our senior management organizational structure and how we allocate resources towards achieving operating profit goals. We analyze sales by geography because the underlying market trends in any particular geography tend to be similar across product categories and because we primarily sell the same products in all geographies.

Net Sales by Geography

The following tables present net sales by geography and the components of the percentage changes (dollars in millions):

	Year Ended December 31,					
	2016	2015	% Inc	Volume/ Mix	Price	Foreign Exchange
Americas	$4,802.2	$3,662.4	31.1%	33.4%	(2.1)%	(0.2)%
EMEA	1,730.4	1,417.8	22.0	26.1	(0.7)	(3.4)
Asia Pacific	1,151.3	917.6	25.5	24.5	(2.5)	3.5
Total	$7,683.9	$5,997.8	28.1	30.3	(1.8)	(0.4)

	Year Ended December 31,					
	2015	2014	% Inc	Volume/ Mix	Price	Foreign Exchange
Americas	$3,662.4	$2,594.2	41.2%	44.3%	(2.3)%	(0.8)%
EMEA	1,417.8	1,269.5	11.7	27.9	(1.1)	(15.1)
Asia Pacific	917.6	809.6	13.3	26.0	(2.2)	(10.5)
Total	$5,997.8	$4,673.3	28.3	36.7	(2.0)	(6.4)

"Foreign Exchange" used in the tables in this report represents the effect of changes in foreign currency exchange rates on sales.

The following tables present our 2016 net sales, and our 2015 and 2014 pro forma net sales, by geography and the components of the percentage changes (dollars in millions):

	Year Ended December 31,						
	2016	Pro Forma 2015	% Inc/(Dec)	Volume/ Mix	Price	Divestiture Impact	Foreign Exchange
Americas	$4,802.2	$4,685.2	2.5%	5.2%	(1.6)%	(0.9)%	(0.2)%
EMEA	1,730.4	1,767.9	(2.1)	1.9	(0.6)	(0.8)	(2.6)
Asia Pacific	1,151.3	1,064.7	8.1	8.0	(2.1)	(0.7)	2.9
Total	$7,683.9	$7,517.8	2.2	4.9	(1.5)	(0.9)	(0.3)

	Year Ended December 31,						
	Pro Forma 2015	Pro Forma 2014	% (Dec)	Volume/ Mix	Price	Divestiture Impact	Foreign Exchange
Americas	$4,685.2	$4,748.6	(1.3)%	1.6%	(1.5)%	(0.9)%	(0.5)%
EMEA	1,767.9	2,072.6	(14.7)	1.6	(1.0)	(0.5)	(14.8)
Asia Pacific	1,064.7	1,144.1	(6.9)	5.6	(1.9)	–	(10.6)
Total	$7,517.8	$7,965.3	(5.6)	2.3	(1.5)	(0.7)	(5.7)

Net Sales by Product Category

The following tables present net sales by product category and the components of the percentage changes (dollars in millions):

	Year Ended December 31,					
	2016	2015	% Inc	Volume/ Mix	Price	Foreign Exchange
Knees	$2,751.9	$2,276.8	20.9%	23.6%	(2.0)%	(0.7)%
Hips	1,867.9	1,533.0	21.8	24.6	(2.6)	(0.2)
S.E.T.	1,645.4	1,214.6	35.5	37.0	(1.4)	(0.1)
Dental	427.9	335.7	27.5	25.7	2.1	(0.3)
Spine & CMF	662.0	404.4	63.7	66.7	(2.9)	(0.1)
Other	328.8	233.3	40.9	43.2	(1.8)	(0.5)
Total	$7,683.9	$5,997.8	28.1	30.3	(1.8)	(0.4)

	Year Ended December 31,					
	2015	2014	% Inc	Volume/ Mix	Price	Foreign Exchange
Knees	$2,276.8	$1,895.2	20.1%	28.8%	(2.4)%	(6.3)%
Hips	1,533.0	1,326.4	15.6	25.8	(2.4)	(7.8)
S.E.T.	1,214.6	863.2	40.7	46.8	(0.7)	(5.4)
Dental	335.7	242.8	38.3	45.1	(1.1)	(5.7)
Spine & CMF	404.4	207.2	95.2	101.2	(1.6)	(4.4)
Other	233.3	138.5	68.4	73.5	(1.8)	(3.3)
Total	$5,997.8	$4,673.3	28.3	36.7	(2.0)	(6.4)

The following tables present our 2016 net sales, and our 2015 and 2014 pro forma net sales, by product category and the components of the percentage changes (dollars in millions):

	Year Ended December 31,						
	2016	Pro Forma 2015	% Inc/(Dec)	Volume/ Mix	Price	Divestiture Impact	Foreign Exchange
Knees	$2,751.9	$2,735.9	0.6%	4.2%	(1.6)%	(1.4)%	(0.6)%
Hips	1,867.9	1,842.6	1.4	3.7	(2.1)	–	(0.2)
S.E.T.	1,645.4	1,571.8	4.7	6.2	(1.1)	(0.4)	–
Dental	427.9	454.8	(5.9)	(7.2)	1.5	–	(0.2)
Spine & CMF	662.0	583.5	13.5	15.5	(2.0)	–	–
Other	328.8	329.2	(0.1)	7.6	(1.2)	(6.2)	(0.3)
Total	$7,683.9	$7,517.8	2.2	4.9	(1.5)	(0.9)	(0.3)

	Year Ended December 31,						
	Pro Forma 2015	Pro Forma 2014	% (Dec)	Volume/ Mix	Price	Divestiture Impact	Foreign Exchange
Knees	$2,735.9	$2,888.9	(5.3)%	3.7%	(1.9)%	(1.1)%	(6.0)%
Hips	1,842.6	1,984.3	(7.1)	2.2	(2.1)	–	(7.2)
S.E.T.	1,571.8	1,619.1	(2.9)	3.0	(0.7)	(0.3)	(4.9)
Dental	454.8	500.4	(9.1)	(3.5)	0.1	–	(5.7)
Spine & CMF	583.5	604.1	(3.4)	0.1	(0.7)	–	(2.8)
Other	329.2	368.5	(10.7)	(1.5)	(1.2)	(4.8)	(3.2)
Total	$7,517.8	$7,965.3	(5.6)	2.3	(1.5)	(0.7)	(5.7)

The following table presents net sales by product category by geography for our Knees and Hips product categories, which represent our most significant product categories (dollars in millions):

	Year Ended December 31,				
	2016	2015	2014	2016 vs. 2015 % Inc	2015 vs. 2014 % Inc
Knees					
Americas	$1,687.7	$1,391.5	$1,086.8	21.3%	28.0%
EMEA	637.8	535.2	498.6	19.2	7.3
Asia Pacific	426.4	350.1	309.8	21.8	13.0
Total	$2,751.9	$2,276.8	$1,895.2	20.9	20.1
Hips					
Americas	$ 987.5	$ 789.7	$ 607.8	25.0	29.9
EMEA	522.4	455.2	448.9	14.8	1.4
Asia Pacific	358.0	288.1	269.7	24.3	6.8
Total	$1,867.9	$1,533.0	$1,326.4	21.8	15.6

The following table presents our 2016 net sales, and our 2015 and 2014 pro forma net sales, by product category by geography for our Knees and Hips product categories, which represent our most significant product categories (dollars in millions):

	Year Ended December 31,				
	2016	Pro Forma 2015	Pro Forma 2014	2016 vs. 2015 % Inc/(Dec)	2015 vs. 2014 % Inc/(Dec)
Knees					
Americas	$1,687.7	$1,684.6	$1,708.4	0.2%	(1.4)%
EMEA	637.8	649.5	752.3	(1.8)	(13.7)
Asia Pacific	426.4	401.8	428.2	6.1	(6.2)
Total	$2,751.9	$2,735.9	$2,888.9	0.6	(5.3)
Hips					
Americas	$ 987.5	$ 980.3	$ 998.4	0.7	(1.8)
EMEA	522.4	537.2	625.9	(2.8)	(14.2)
Asia Pacific	358.0	325.1	360.0	10.1	(9.7)
Total	$1,867.9	$1,842.6	$1,984.3	1.4	(7.1)

As previously discussed, sales increased significantly in 2016 when compared to prior years due to the inclusion of Biomet sales for the entire year. Therefore, we analyze sales on a pro forma basis because it represents how the Zimmer and Biomet underlying businesses may have performed. Sales discussion in this management discussion and analysis focuses on sales trends on a pro forma basis since that is how we analyze our business.

Demand (Volume/Mix) Trends

Increased volume and changes in the mix of product sales contributed 4.9 percentage points of year-over-year sales growth during 2016 on a pro forma basis. Volume/mix growth was driven by recent product introductions, sales in key emerging markets, an aging population and 2016 acquisitions (including LDR, which contributed 1.1 percentage points of growth).

We believe long-term indicators point toward sustained growth driven by an aging global population, growth in emerging markets, obesity, proven clinical benefits, new material technologies, advances in surgical techniques and more active lifestyles, among other factors. In addition, demand for clinically proven premium products and patient specific devices are expected to continue to positively affect sales growth in markets that recognize the value of these advanced technologies.

Pricing Trends

Global selling prices had a negative effect of 1.5 percentage points on year-over-year sales during 2016 on a pro forma basis. The negative 1.5 percent effect on year-over-year sales was consistent with the range experienced over the past several years. The majority of countries in which we operate continue to experience pricing pressure from governmental healthcare cost containment efforts and from local hospitals and health systems.

Foreign Currency Exchange Rates

In 2016, changes in foreign currency exchange rates had a negative effect of 0.3 percentage points on year-over-year sales on a pro forma basis. We address currency risk through regular operating and financing activities and through the use of forward contracts and foreign currency options solely to manage foreign currency volatility and risk. Changes in foreign currency exchange rates affect sales growth, but due to offsetting gains/losses on hedge contracts and options, which

are recorded in cost of products sold, the effect on net earnings in the near term is reduced.

Sales by Product Category

Knees

On a pro forma basis, Knee sales experienced steady volume/mix growth in 2016 compared to 2015, primarily driven by recent product introductions, such as Persona The Personalized Knee System, cross-sell opportunities, and strong performance in our Asia Pacific operating segment. Volume/mix growth was partially offset by continued pricing pressure and the divestiture of certain product line rights and assets.

Hips

On a pro forma basis, Hips sales experienced steady volume/mix growth in 2016 compared to 2015, primarily driven by recent product introductions, such as the G7 Acetabular System, and strong performance in our Asia Pacific operating segment. Volume/mix growth was partially offset by continued pricing pressure.

S.E.T.

On a pro forma basis, our S.E.T. sales have continued positive volume/mix trends in 2016 compared to 2015, primarily driven by a growing emphasis on sales force specialization, strong performance by key brands and 2016 acquisitions. This product category's sub-categories all experienced growth in 2016 despite continued pricing pressure.

Dental

On a pro forma basis, dental sales have continued to decline. In the second half of 2015, we experienced a supply disruption related to a voluntary field action in response to a packaging issue which we were not able to remediate until 2016, which affected our sales. Looking forward, we must improve our commercial execution to get back to market growth rates.

Spine & CMF

On a pro forma basis, Spine and CMF sales increased in 2016 compared to 2015 due to the LDR merger and continued strong performance of our CMF products.

The following table presents estimated* 2016 global market size and market share information (dollars in billions):

	Global Market Size	Global Market % Growth**	Zimmer Biomet Market Share	Zimmer Biomet Market Position
Knees	$ 7.7	4%	36%	1
Hips	6.2	2	30	1
S.E.T.	15.2	5	11	5
Dental	4.2	5	10	4
Spine & CMF	10.5	2	6	5

* Estimates are not precise and are based on competitor annual filings, Wall Street equity research and Company estimates

** Excludes the effect of changes in foreign currency exchange rates on sales growth

Expenses as a Percent of Net Sales

	Year Ended December 31,				
	2016	2015	2014	2016 vs. 2015 Inc/(Dec)	2015 vs. 2014 Inc/(Dec)
Cost of products sold, excluding intangible asset amortization	31.0%	30.0%	26.6%	1.0	3.4
Intangible asset amortization	7.4	5.6	2.0	1.8	3.6
Research and development	4.8	4.5	4.0	0.3	0.5
Selling, general and administrative	38.2	38.1	37.5	0.1	0.6
Certain claims	–	0.1	0.5	(0.1)	(0.4)
Special items	8.0	13.9	7.3	(5.9)	6.6
Operating Profit	10.7	7.8	22.2	2.9	(14.4)

Cost of Products Sold and Intangible Asset Amortization

The following table sets forth the factors that contributed to the gross margin changes in each of 2016 and 2015 compared to the prior year:

	Year Ended December 31,	
	2016	2015
Prior year gross margin	64.4%	71.4%
Lower average selling prices	(0.6)	(0.6)
Average cost per unit	(0.7)	1.3
Excess and obsolete inventory	0.4	(0.8)
Discontinued products and other certain excess and obsolete inventory charges	(1.0)	–
Certain inventory and manufacturing related charges related to quality	–	0.2
Foreign currency hedges	(0.9)	1.3
Inventory step-up	1.2	(5.1)
U.S. medical device excise tax	0.3	–
Intangible asset amortization	(1.6)	(3.5)
Other	0.1	0.2
Current year gross margin	61.6%	64.4%

The decrease in gross margin percentage in 2016 compared to 2015 was primarily due to increased intangible asset amortization from the 2016 acquisitions, excess and obsolete inventory charges for certain product lines we intend to discontinue, lower average selling prices and lower hedge gains in 2016 from our foreign currency hedging program compared to 2015. Under the hedging program, for derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged items affect earnings. These unfavorable items were partially offset by lower inventory step-up charges from the Biomet merger and lower expense from the U.S. medical device excise tax, in each case in 2016 compared to 2015.

In 2015, we experienced a decrease in gross margin percentage compared to 2014 primarily due to increased inventory step-up charges and intangible asset amortization from the Biomet merger.

Operating Expenses

R&D expenses and R&D as a percentage of sales have increased over the last three years, driven primarily by the Biomet merger and 2016 acquisitions. The combination of our R&D functions subsequent to the merger allow us to allocate a greater portion of the combined R&D spending towards innovation efforts to address unmet clinical needs and create new market adjacencies. Additionally, most of our R&D activities occur in the U.S., so expenses do not decrease proportionally to changes in net sales when there are significant changes in foreign currency exchange rates, which contributes to an increase in R&D as a percentage of sales. We expect R&D spending in 2017 to stay consistent and be approximately 4.5 percent of sales.

SG&A expenses and SG&A as a percentage of sales have increased over the last three years, driven primarily by the Biomet merger and 2016 acquisitions. We expect that SG&A as a percentage of sales will continue to be higher than prior to these mergers and acquisitions until we can realize synergy benefits of the transactions and further leverage sales growth. In 2017, we expect to make additional progress in our synergy programs with SG&A as a percentage of sales estimated to be approximately 37.5 percent of sales.

"Certain claims" expense is for estimated liabilities to Durom Cup patients undergoing revision surgeries. Since 2008, we have recognized $479.4 million for these claims. For more information regarding these claims, see Note 20 to the consolidated financial statements.

We recognize expenses resulting directly from our business combinations, employee termination benefits, certain R&D agreements, certain contract terminations, consulting and professional fees and asset impairment or loss on disposal charges connected with global restructuring, quality and operational excellence initiatives, and other items as "Special items" in our consolidated statement of earnings. We recognized significant expenses in 2015 due to Biomet merger-related expenses, such as the acceleration of unvested LVB stock options and LVB stock-based awards, retention bonuses paid to Biomet employees and third-party sales agents who remained with Biomet through the Closing Date, severance expense and contract terminations. Expenses declined in 2016 due to the absence of certain of these expenses. See Note 2 to the consolidated financial statements for more information regarding "Special items" charges.

Other Expense, Interest Income, Interest Expense, and Income Taxes

In 2016, other expense, net, primarily included a $53.3 million loss on debt extinguishment. It also included losses on the sale of certain assets and the net expense related to remeasuring monetary assets and liabilities denominated in a foreign currency other than an entity's functional currency, offset by foreign currency forward exchange contracts we enter into to mitigate any gain or loss. In 2015, other expense, net, included a $22.0 million loss on debt extinguishment, debt issuance costs that we recognized for a bridge credit agreement that we entered into in May 2014 in connection with the Biomet merger, the net expense related to remeasuring monetary assets and liabilities, partially offset by a gain related to selling certain product line rights and assets. In 2014, other expense, net, only included debt issuance costs that we recognized for the bridge credit agreement and the net expense related to remeasuring monetary assets and liabilities.

Net interest expense has increased due to the issuance of the debt in connection with the LDR merger in July 2016 and Biomet merger in March 2015.

Our effective tax rate ("ETR") on earnings before income taxes for the years ended December 31, 2016, 2015 and 2014 was 23.8 percent, 4.6 percent and 23.4 percent, respectively. We have incurred significant expenses associated with the Biomet merger and other acquisitions which were generally recognized in higher income tax jurisdictions. Accordingly, this reduced our ETR as our earnings were lower in these higher income tax jurisdictions. Additionally, other discrete adjustments have occurred that have significantly affected our ETR. In 2016, we recognized $40.6 million of tax benefits from the favorable resolution of certain tax matters with taxing authorities. These benefits were partially offset by $27.6 million of additional tax provisions related to finalizing the tax accounts of the Biomet merger. The low 2015 tax rate resulted from operating losses in the U.S. caused by significant expenses incurred in connection with the merger. Our ETR in future periods could potentially be impacted by changes in our mix of pre-tax earnings; changes in tax rates, tax laws or their interpretation, including the European Union rules on state aid; the outcome of various federal, state and foreign audits; and the expiration of certain statutes of limitations. Currently, we cannot reasonably estimate the impact of these items on our financial results.

Segment Operating Profit

Similar to our consolidated results, our segment operating profit has been significantly impacted by the addition of Biomet sales and expenses to these segments. In the Americas, operating profit as a percentage of sales increased due to synergies from the Biomet merger and a two year moratorium on the U.S. medical device excise tax for the calendar years of 2016 and 2017. Under the applicable accounting rules that we applied to the U.S. medical device excise tax, we still had a portion of the tax paid prior to the moratorium included in the cost of inventory and continued to recognize expense, albeit at a lower level than in 2015, related to the tax through the fourth quarter of 2016. In 2017, we intend to invest the savings from the medical device excise tax moratorium into our business in areas such as R&D, sales force specialization and medical training and education.

In EMEA, operating profit as a percentage of sales declined due to the increased expenses related to the Biomet merger, lower average selling prices and a reduced impact of hedge gains. In EMEA, even though our integration plans are on schedule, it will take longer to realize the full synergies of the merger compared to other segments due to the multiple

countries in which we operate and the complexities in those countries.

In Asia Pacific, operating profit as a percentage of sales declined due to the increased expenses related to the Biomet merger, lower average selling prices and a reduced impact of hedge gains.

Non-GAAP Operating Performance Measures

We use financial measures that differ from financial measures determined in accordance with GAAP to evaluate our operating performance. These non-GAAP financial measures exclude the impact of inventory step-up; certain inventory and manufacturing-related charges connected to discontinuing certain product lines, quality enhancement and remediation efforts; intangible asset amortization; "Special items;" "Certain claims;" financing and other expenses/gains related to the Biomet merger and other acquisitions; debt extinguishment; the interest expense incurred on the senior notes issued in connection with the Biomet merger during the period prior to the consummation of the Biomet merger; any related effects on our income tax provision associated with these items and other certain tax adjustments. Other certain tax adjustments primarily include internal restructuring transactions to integrate Biomet operations and facilitate access to offshore earnings, resolution of certain matters with taxing authorities, adjustments to deferred tax liabilities recognized as part of acquisition-related accounting, the resolution of unrecognized tax positions established through goodwill as part of acquisition accounting that had not previously been recognized in the earnings of the acquired company and any tax item that would otherwise be distortive to the expected future tax rate. We use these non-GAAP financial measures internally to evaluate the performance of the business and believe they are useful measures that provide meaningful supplemental information to investors to consider when evaluating our performance. We believe these measures offer the ability to make period-to-period comparisons that are not impacted by certain items that can cause dramatic changes in reported operating results, to perform trend analysis, to better identify operating trends that may otherwise be masked or distorted by these types of items and to provide additional transparency of certain items. In addition, certain of these non-GAAP financial measures are used as performance metrics in our incentive compensation programs.

Our non-GAAP adjusted net earnings used for internal management purposes for the years ended December 31, 2016, 2015 and 2014 were $1,610.8 million, $1,310.5 million, and $1,098.0 million, respectively, and our non-GAAP adjusted diluted earnings per share were $7.96, $6.90, and $6.40, respectively.

The following are reconciliations from our GAAP net earnings and diluted earnings per share to our non-GAAP adjusted net earnings and non-GAAP adjusted diluted earnings per share used for internal management purposes (in millions, except per share amounts).

	Year ended December 31,		
	2016	2015	2014
Net Earnings of Zimmer Biomet Holdings, Inc.	$ 305.9	$ 147.0	$ 720.3
Inventory step-up and other inventory and manufacturing related charges	469.1	348.8	36.3
Certain claims	–	7.7	21.5
Intangible asset amortization	565.9	337.4	92.5
Special items			
Biomet merger-related	487.3	619.1	61.9
Other special items	124.5	212.7	279.2
Merger-related and other expense in other (expense) income, net	3.6	1.0	39.6
Debt extinguishment cost	53.3	22.0	–
Interest expense on Biomet merger financing	–	70.0	–
Taxes on above items[1]	(449.0)	(487.6)	(153.3)
Biomet merger-related measurement period tax adjustments[2]	52.7	–	–
Other certain tax adjustments[3]	(2.5)	32.4	–
Adjusted Net Earnings	$1,610.8	$1,310.5	$1,098.0

[1] The tax effect for the U.S. jurisdiction is calculated based on an effective rate considering federal and state taxes, as well as permanent items. For jurisdictions outside the U.S., the tax effect is calculated based upon the statutory rates where the items were incurred.
[2] The 2016 period includes negative effects from finalizing the tax accounts for the Biomet merger. Under the applicable U.S. GAAP rules, these measurement period adjustments are recognized on a prospective basis in the period of change.
[3] Other certain tax adjustments primarily include internal restructuring transactions to integrate Biomet operations and facilitate access to offshore earnings, partially offset by resolution of certain matters with taxing authorities and adjustments to deferred tax liabilities recognized as part of acquisition-related accounting.

	Year ended December 31,		
	2016	2015	2014
Diluted EPS	$ 1.51	$ 0.77	$ 4.20
Inventory step-up and other inventory and manufacturing related charges	2.32	1.84	0.21
Certain claims	–	0.04	0.13
Intangible asset amortization	2.80	1.78	0.54
Special items			
Biomet merger-related	2.40	3.26	0.36
Other special items	0.62	1.12	1.63
Merger-related and other expense in other (expense) income, net	0.02	–	0.23
Debt extinguishment cost	0.26	0.12	–
Interest expense on Biomet merger financing	–	0.37	–
Taxes on above items[1]	(2.22)	(2.57)	(0.90)
Biomet merger-related measurement period tax adjustments[2]	0.26	–	–
Other certain tax adjustments[3]	(0.01)	0.17	–
Adjusted Diluted EPS	$ 7.96	$ 6.90	$ 6.40

(1) The tax effect for the U.S. jurisdiction is calculated based on an effective rate considering federal and state taxes, as well as permanent items. For jurisdictions outside the U.S., the tax effect is calculated based upon the statutory rates where the items were incurred.
(2) The 2016 period includes negative effects from finalizing the tax accounts for the Biomet merger. Under the applicable U.S. GAAP rules, these measurement period adjustments are recognized on a prospective basis in the period of change.
(3) Other certain tax adjustments primarily include internal restructuring transactions to integrate Biomet operations and facilitate access to offshore earnings, partially offset by resolution of certain matters with taxing authorities and adjustments to deferred tax liabilities recognized as part of acquisition-related accounting.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows provided by operating activities increased to $1,632.2 million in 2016 compared to $849.8 million and $1,060.5 million in 2015 and 2014, respectively. The increased operating cash flows in 2016 were primarily from the inclusion of Biomet cash flows for the entire year. We also sold $103.1 million of our accounts receivable in certain countries in 2016, which improved operating cash flows. Conversely, in 2015 we had various significant cash outflows, including a $97.6 million loss on our forward starting interest rate swaps we settled and expenses related to completing the Biomet merger. In 2017, we expect operating cash flows to be in a range of $1,750.0 million to $1,900.0 million.

Cash flows used in investing activities were $1,691.5 million in 2016 compared to $7,557.9 million and $469.4 million in 2015 and 2014, respectively. Instrument and property, plant and equipment additions increased due to the Biomet merger as we continue to invest in the combined company product portfolio and optimize our manufacturing and logistics network. Purchases and sales of investments in debt securities declined because as investments matured, we used the cash to pay off debt and repurchase shares of our common stock. In the 2016 period, we also invested in the Cayenne, CTC, LDR, CD Diagnostics and MedTech acquisitions and other various assets. In 2017, we expect to spend approximately $330.0 million on instruments and $170.0 million on property, plant and equipment to support the ongoing business.

Cash flows used in financing activities were $743.2 million in 2016. This reflected approximately $1,010.0 million of net principal repayments on the senior notes and term loan we issued in 2015 for the Biomet merger. We also borrowed $750.0 million in 2016 for the LDR merger.

In February, May, July and December 2016, our Board of Directors declared cash dividends of $0.24 per share. We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted as business needs or market conditions change. As further discussed below, our debt facilities restrict the payment of dividends in certain circumstances.

In February 2016, our Board of Directors authorized a new $1.0 billion share repurchase program effective March 1, 2016, with no expiration date. The previous program expired on February 29, 2016. As of December 31, 2016, all $1.0 billion remained authorized for repurchase under the program.

We will continue to exercise disciplined capital allocation designed to drive stockholder value creation. We intend to use available cash for reinvestment in the business, debt repayment, dividends and opportunistic share repurchases. If the right opportunities arise, we may also use available cash to pursue business development opportunities.

In order to achieve operational synergies, we expect cash outlays related to our integration plans to be approximately $310.0 million in 2017. These cash outlays are necessary to achieve our integration goals of net annual pre-tax operating profit synergies of $350.0 million by mid-2018.

As discussed in Note 16 to our consolidated financial statements, the Internal Revenue Service ("IRS") has issued proposed adjustments for years 2005 through 2009 reallocating profits between certain of our U.S. and foreign subsidiaries. We have disputed these proposed adjustments and continue to pursue resolution with the IRS. Although the ultimate timing for resolution of the disputed tax issues is uncertain, future payments may be significant to our operating cash flows.

As discussed in Note 20 to our consolidated financial statements, as of December 31, 2016, a short-term liability of $75.0 million and long-term liability of $218.6 million related to Durom Cup product liability claims was recorded on our consolidated balance sheet. We expect to continue paying these claims over the next few years. We expect to be reimbursed a portion of these payments for product liability claims from insurance carriers. As of December 31, 2016, we have received a portion of the insurance proceeds we estimate we will recover. We have a long-term receivable of $95.3 million remaining for future expected reimbursements from our insurance carriers. We also had a short-term liability of $57.4 million related to Biomet metal-on-metal hip implant claims.

At December 31, 2016, we had twelve tranches of senior notes outstanding as follows (dollars in millions):

Principal	Interest Rate	Maturity Date
$ 500.0	1.450%	April 1, 2017
1,150.0	2.000	April 1, 2018
500.0	4.625	November 30, 2019
1,500.0	2.700	April 1, 2020
300.0	3.375	November 30, 2021
750.0	3.150	April 1, 2022
2,000.0	3.550	April 1, 2025
253.4	4.250	August 15, 2035
317.8	5.750	November 30, 2039
395.4	4.450	August 15, 2045
527.4*	1.414	December 13, 2022
527.4*	2.425	December 13, 2026

* Euro denominated debt securities

We also had three term loans with total principal of $2,549.6 million outstanding as of December 31, 2016.

We have a five-year unsecured multicurrency revolving facility of $1.5 billion (the "Multicurrency Revolving Facility")

that will mature on September 30, 2021. There were no outstanding borrowings on this facility as of December 31, 2016. We also have other available uncommitted credit facilities totaling $47.1 million.

For additional information on our debt, see Note 12 to our consolidated financial statements.

We place our cash and cash equivalents in highly-rated financial institutions and limit the amount of credit exposure to any one entity. We invest only in high-quality financial instruments in accordance with our internal investment policy.

As of December 31, 2016, $408.6 million of our cash and cash equivalents were held in jurisdictions outside of the U.S. Of this amount, $77.8 million is denominated in U.S. Dollars and, therefore, bears no foreign currency translation risk. The balance of these assets is denominated in currencies of the various countries where we operate.

In light of our commitments under various credit facilities, as well as our expectation for continued business development, we have plans to repatriate a significant portion of our offshore earnings to the U.S. In particular, as a result of the Biomet merger, we have unremitted foreign earnings of $3,658.7 million, which we plan to repatriate to the U.S. in future periods. We have estimated a long-term deferred tax liability of $1,190.7 million for the estimated tax impact of this repatriation.

Management believes that cash flows from operations and available borrowings under the Multicurrency Revolving Facility are sufficient to meet our working capital, capital expenditure and debt service needs, as well as to return cash to stockholders in the form of dividends and share repurchases. Should additional investment opportunities arise, we believe that our earnings, balance sheet and cash flows will allow us to obtain additional capital, if necessary.

CONTRACTUAL OBLIGATIONS

We have entered into contracts with various third parties in the normal course of business that will require future payments. The following table illustrates our contractual obligations (in millions):

Contractual Obligations	Total	2017	2018 and 2019	2020 and 2021	2022 and Thereafter
Long-term debt	$11,275.8	$ 575.6	$2,891.3	$3,037.5	$4,771.4
Interest payments	2,501.4	315.5	578.2	374.0	1,233.7
Operating leases	331.8	69.5	106.3	67.3	88.7
Purchase obligations	315.3	140.9	132.5	41.9	–
Other long-term liabilities	368.3	–	172.3	108.3	87.7
Total contractual obligations	$14,792.6	$1,101.5	$3,880.6	$3,629.0	$6,181.5

$82.2 million of the other long-term liabilities on our balance sheet as of December 31, 2016 are liabilities related to defined benefit pension plans. Defined benefit plan liabilities are based upon the underfunded status of the respective plans; they are not based upon future contributions. Due to uncertainties regarding future plan asset performance, changes in interest rates and our intentions with respect to voluntary contributions, we are unable to reasonably estimate future contributions beyond 2016. Therefore, this table does not include any amounts related to future contributions to our plans. See Note 15 to our consolidated financial statements for further information on our defined benefit plans.

Also included in other long-term liabilities on our balance sheet are liabilities related to unrecognized tax benefits and corresponding interest and penalties thereon. Due to the uncertainties inherent in these liabilities, such as the ultimate timing and resolution of tax audits, we are unable to reasonably estimate the amount or period in which potential tax payments related to these positions will be made. Therefore, this table does not include any obligations related to unrecognized tax benefits. We have also excluded long-term deferred tax liabilities from this table, as they do not represent liabilities that will be settled in cash. See Note 16 to our consolidated financial statements for further information on these tax-related accounts.

We have entered into various agreements that may result in future payments dependent upon various events such as the achievement of certain product R&D milestones, sales milestones, or, at our discretion, to maintain exclusive rights to distribute a product. Since there is uncertainty on the timing or whether such payments will have to be made, we have not included them in this table. These payments could range from $0 to $57 million.

CRITICAL ACCOUNTING ESTIMATES

Our financial results are affected by the selection and application of accounting policies and methods. Significant accounting policies which require management's judgment are discussed below.

Excess Inventory and Instruments – We must determine as of each balance sheet date how much, if any, of our inventory may ultimately prove to be unsaleable or unsaleable at our carrying cost. Similarly, we must also determine if instruments on hand will be put to productive use or remain undeployed as a result of excess supply. Accordingly, inventory and instruments are written down to their net realizable value. To determine the appropriate net realizable value, we evaluate current stock levels in relation to historical and expected patterns of demand for all of our products and instrument systems and components. The basis for the determination is generally the same for all inventory and instrument items and categories except for work-in-process inventory, which is recorded at cost. Obsolete or discontinued items are generally destroyed and completely written off. Management evaluates the need for changes to inventory and instruments net realizable values based on market conditions, competitive offerings and other factors on a regular basis.

Income Taxes – Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits

reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

We estimate income tax expense and income tax liabilities and assets by taxable jurisdiction. Realization of deferred tax assets in each taxable jurisdiction is dependent on our ability to generate future taxable income sufficient to realize the benefits. We evaluate deferred tax assets on an ongoing basis and provide valuation allowances unless we determine it is "more likely than not" that the deferred tax benefit will be realized. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the U.S.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. We are subject to regulatory review or audit in virtually all of those jurisdictions and those reviews and audits may require extended periods of time to resolve. We record our income tax provisions based on our knowledge of all relevant facts and circumstances, including existing tax laws, our experience with previous settlement agreements, the status of current examinations and our understanding of how the tax authorities view certain relevant industry and commercial matters.

We recognize tax liabilities in accordance with the Financial Accounting Standards Board's ("FASB") guidance on income taxes and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Commitments and Contingencies – Accruals for product liability and other claims are established with the assistance of internal and external legal counsel based on current information and historical settlement information for claims, related legal fees and for claims incurred but not reported. We use an actuarial model to assist management in determining an appropriate level of accruals for product liability claims. Historical patterns of claim loss development over time are statistically analyzed to arrive at factors which are then applied to loss estimates in the actuarial model.

In addition to our general product liability, we have recorded provisions totaling $479.4 million related to the Durom Cup. See Note 20 to our consolidated financial statements for further discussion of the Durom Cup litigation.

Goodwill and Intangible Assets – We evaluate the carrying value of goodwill and indefinite life intangible assets annually, or whenever events or circumstances indicate the carrying value may not be recoverable. We evaluate the carrying value of finite life intangible assets whenever events or circumstances indicate the carrying value may not be recoverable. Significant assumptions are required to estimate the fair value of goodwill and intangible assets, most notably estimated future cash flows generated by these assets. As such, these fair value measurements use significant unobservable inputs. Changes to these assumptions could require us to record impairment charges on these assets.

We have seven reporting units with goodwill assigned to them. In our 2016 impairment test, our EMEA reporting unit's estimated fair value only exceeded the carrying value of its net assets by 8 percent, or approximately $240 million. The goodwill balance of the EMEA reporting unit at the time of the impairment test was $1,326.0 million. This reporting unit's estimated fair value continues to be lower than in past years due to the weakening of the Euro against the U.S. Dollar. We estimated the fair value of this reporting unit by using a combination of income and market approaches. Fair value under the income approach was determined by discounting to present value the estimated future cash flows of the reporting unit. Fair value under the market approach utilized the guideline public company methodology, which uses valuation indicators determined from other businesses that are similar to the reporting unit. In estimating the future cash flows of the reporting unit, we utilized a combination of market and company-specific inputs that a market participant would use in assessing the fair value of the reporting unit. The primary market input was revenue growth rates. These rates were based on historical trends and estimated future growth drivers such as an aging population, obesity and more active lifestyles. Significant company-specific inputs included assumptions regarding how the reporting unit could leverage operating expenses as revenue grows and the impact any new products will have on revenues. Discount rates used to determine the present value of the estimated future cash flows considered the weighted average cost of capital of other comparable companies and the country risk of our reporting unit. Under the guideline public company methodology, we took into consideration differences between the reporting unit and the comparable companies.

The EMEA reporting unit remains sensitive to changes in market conditions. If estimated cash flows for this reporting unit decrease, we may be required to record impairment charges in the future. The cash flows used in our annual impairment test are estimates and therefore involve uncertainty. Factors that could result in our actual cash flows being lower than our current estimates include: 1) decreased revenues caused by unforeseen changes in these areas of the healthcare market, our inability to generate new product revenue from our research and development activities, or macroeconomic factors that may affect consumers' ability to pay for these products and 2) our inability to achieve the estimated operating margins for these reporting units' forecasts due to unforeseen factors. Additionally, changes in the broader economic environment could cause changes to our estimated discount rates or comparable company valuation indicators, which may impact our estimated fair values.

For our other six reporting units, their estimated fair value exceeded their carrying value by more than 15 percent.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to our consolidated financial statements for information on how recent accounting pronouncements have affected or may affect our financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in foreign currency exchange rates, interest rates and commodity prices that could affect our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We use derivative financial instruments solely as risk management tools and not for speculative investment purposes.

FOREIGN CURRENCY EXCHANGE RISK

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Swiss Francs, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, Indian Rupees, Turkish Lira, Polish Zloty, Danish Krone, and Norwegian Krone. We manage the foreign currency exposure centrally, on a combined basis, which allows us to net exposures and to take advantage of any natural offsets. To reduce the uncertainty of foreign currency exchange rate movements on transactions denominated in foreign currencies, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts and options with major financial institutions. These forward contracts and options are designed to hedge anticipated foreign currency transactions, primarily intercompany sale and purchase transactions, for periods consistent with commitments. Realized and unrealized gains and losses on these contracts and options that qualify as cash flow hedges are temporarily recorded in other comprehensive income, then recognized in cost of products sold when the hedged item affects net earnings.

For contracts outstanding at December 31, 2016, we had obligations to purchase U.S. Dollars and sell Euros, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, Indian Rupees, Turkish Lira, Polish Zloty, Danish Krone, and Norwegian Krone and purchase Swiss Francs and sell U.S. Dollars at set maturity dates ranging from January 2017 through June 2019. The notional amounts of outstanding forward contracts entered into with third parties to purchase U.S. Dollars at December 31, 2016 were $1,512.6 million. The notional amounts of outstanding forward contracts entered into with third parties to purchase Swiss Francs at December 31, 2016 were $315.7 million. The weighted average contract rates outstanding at December 31, 2016 were Euro:USD 1.15, USD:Swiss Franc 0.94, USD:Japanese Yen 108.35, British Pound:USD 1.52, USD:Canadian Dollar 1.29, Australian Dollar:USD 0.74, USD:Korean Won 1,153, USD:Swedish Krona 8.27, USD:Czech Koruna 23.65, USD:Thai Baht 36.05, USD:Taiwan Dollar 32.14, USD:South African Rand 15.56, USD:Russian Ruble 69.92, USD:Indian Ruppee 71.77, USD:Turkish Lira 3.20, USD:Polish Zloty 3.91, USD:Danish Krone 6.56, and USD:Norwegian Krone 8.31.

We maintain written policies and procedures governing our risk management activities. Our policy requires that critical terms of hedging instruments be the same as hedged forecasted transactions. On this basis, with respect to cash flow hedges, changes in cash flows attributable to hedged transactions are generally expected to be completely offset by changes in the fair value of hedge instruments. As part of our risk management program, we also perform sensitivity analyses to assess potential changes in revenue, operating results, cash flows and financial position relating to hypothetical movements in currency exchange rates. A sensitivity analysis of changes in the fair value of foreign currency exchange forward contracts outstanding at December 31, 2016 indicated that, if the U.S. Dollar uniformly changed in value by 10 percent relative to the various currencies, with no change in the interest differentials, the fair value of those contracts would increase or decrease earnings before income taxes in periods through June 2018, depending on the direction of the change, by the following average approximate amounts (in millions):

Currency	Average Amount
Euro	$51.9
Swiss Franc	32.7
Japanese Yen	39.6
British Pound	6.6
Canadian Dollar	15.1
Australian Dollar	18.7
Korean Won	3.1
Swedish Krona	2.6
Czech Koruna	0.7
Thai Baht	0.6
Taiwan Dollars	3.3
South African Rand	0.5
Russian Rubles	1.1
Indian Rupees	1.5
Turkish Lira	0.5
Polish Zloty	0.7
Danish Krone	3.6
Norwegian Krone	1.9

Any change in the fair value of foreign currency exchange forward contracts as a result of a fluctuation in a currency exchange rate is expected to be largely offset by a change in the value of the hedged transaction. Consequently, foreign currency exchange contracts would not subject us to material risk due to exchange rate movements because gains and losses on these contracts offset gains and losses on the assets, liabilities and transactions being hedged.

We had net assets, excluding goodwill, in legal entities with non-U.S. Dollar functional currencies of $2,935.8 million at December 31, 2016, primarily in Euros, Japanese Yen and Australian Dollars.

We enter into foreign currency forward exchange contracts with terms of one month to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity's functional currency. As a result, foreign currency remeasurement gains/losses recognized in earnings are generally offset with gains/losses on the foreign currency forward exchange contracts in the same reporting period.

For details about these and other financial instruments, including fair value methodologies, see Note 14 to our consolidated financial statements.

COMMODITY PRICE RISK

We purchase raw material commodities such as cobalt chrome, titanium, tantalum, polymer and sterile packaging. We enter into supply contracts generally with terms of 12 to 24 months, where available, on these commodities to alleviate the effect of market fluctuation in prices. As part of our risk management program, we perform sensitivity analyses related to potential commodity price changes. A 10 percent price change across all these commodities would not have a material effect on our consolidated financial position, results of operations or cash flows.

INTEREST RATE RISK

In the normal course of business, we are exposed to market risk from changes in interest rates that could affect our results of operations and financial condition. We manage our exposure to interest rate risks through our regular operations and financing activities.

We invest our cash and cash equivalents primarily in highly-rated corporate commercial paper and bank deposits. The primary investment objective is to ensure capital preservation. Currently, we do not use derivative financial instruments in our investment portfolio.

We are exposed to interest rate risk on our debt obligations and our cash and cash equivalents.

We have multiple variable-to-fixed interest rate swap agreements that we have designated as cash flow hedges of the variable interest rate obligations on our Term Loan B. The total notional amount is $375.0 million. The interest rate swaps minimize the exposure to changes in the LIBOR interest rates while the variable-rate debt is outstanding. The weighted average fixed interest rate for all of the outstanding interest rate swap agreements is approximately 0.82 percent through September 30, 2019.

The interest rate swap agreements are intended to manage our exposure to interest rate movements by converting variable-rate debt into fixed-rate debt. The objective of the instruments is to limit exposure to interest rate movements.

For details about these and other financial instruments, including fair value methodologies, see Note 14 to our consolidated financial statements.

Based upon our overall interest rate exposure as of December 31, 2016, a change of 10 percent in interest rates, assuming the principal amount outstanding remains constant, would not have a material effect on net interest expense. This analysis does not consider the effect of the change in the level of overall economic activity that could exist in such an environment.

CREDIT RISK

Financial instruments, which potentially subject us to concentrations of credit risk, are primarily cash and cash equivalents, derivative instruments, counterparty transactions and accounts receivable.

We place our investments in highly-rated financial institutions or highly-rated debt securities and limit the amount of credit exposure to any one entity. We believe we do not have any significant credit risk on our cash and cash equivalents.

We are exposed to credit loss if the financial institutions or counterparties issuing the debt security fail to perform. However, this loss is limited to the amounts, if any, by which the obligations of the counterparty to the financial instrument contract exceed our obligation. We also minimize exposure to credit risk by dealing with a diversified group of major financial institutions. We manage credit risk by monitoring the financial condition of our counterparties using standard credit guidelines. We do not anticipate any nonperformance by any of the counterparties.

Our concentrations of credit risks with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across a number of geographic areas and by frequent monitoring of the creditworthiness of the customers to whom credit is granted in the normal course of business. Substantially all of our trade receivables are concentrated in the public and private hospital and healthcare industry in the U.S. and internationally or with distributors or dealers who operate in international markets and, accordingly, are exposed to their respective business, economic and country specific variables.

Our ability to collect accounts receivable in some countries depends in part upon the financial stability of these hospital and healthcare sectors and the respective countries' national economic and healthcare systems. Most notably, in Europe healthcare is typically sponsored by the government. Since we sell products to public hospitals in those countries, we are indirectly exposed to government budget constraints.

The ongoing financial uncertainties in the Euro zone impact the indirect credit exposure we have to those governments through their public hospitals. As of December 31, 2016, in Greece, Italy, Portugal and Spain, countries that have been widely recognized as presenting the highest risk, our gross short-term and long-term trade accounts receivable combined were $193.8 million. With allowances for doubtful accounts of $16.6 million recorded in those countries, the net balance was $177.2 million, representing 12 percent of our total consolidated short-term and long-term trade accounts receivable balance, net. Italy and Spain accounted for $159.7 million of that net amount. We are actively monitoring the situations in these countries. We maintain contact with customers in these countries on a regular basis. We continue to receive payments, albeit at a slower rate than in the past. We believe our allowance for doubtful accounts is adequate in these countries, as ultimately we believe the governments in these countries will be able to pay. To the extent the respective governments' ability to fund their public hospital programs deteriorates, we may have to record significant bad debt expenses in the future.

While we are exposed to risks from the broader healthcare industry in Europe and around the world, there is no significant net exposure due to any individual customer. Exposure to credit risk is controlled through credit approvals, credit limits and monitoring procedures, and we believe that reserves for losses are adequate.

Management's Report on Internal Control Over Financial Reporting

The management of Zimmer Biomet Holdings, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. 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
- 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on their assessment, management concluded that the Company did not maintain effective controls over its accounting for income taxes. Specifically, the Company did not maintain the appropriate complement of resources in its tax department commensurate with the increased volume and complexity of accounting for income taxes subsequent to the Biomet merger. This material weakness did not result in a material misstatement to the Company's financial statements or disclosures, but did result in out-of-period adjustments in the Company's provision for income taxes and deferred tax liabilities that were individually and in aggregate immaterial. Additionally, this control deficiency could result in misstatements of income tax related accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, the Company's management has determined that this control deficiency constitutes a material weakness.

Because of this material weakness, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2016.

The Company's independent registered public accounting firm has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, as stated in its report which appears in Item 8 of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Zimmer Biomet Holdings, Inc.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Zimmer Biomet Holdings, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Zimmer Biomet Holdings, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to a lack of an appropriate complement of resources in the Company's tax department existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under item 7A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the December 31, 2016 consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
March 1, 2017

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)

	For the Years Ended December 31,		
	2016	2015	2014
Net Sales	$7,683.9	$5,997.8	$4,673.3
Cost of products sold, excluding intangible asset amortization	2,381.8	1,800.6	1,242.8
Intangible asset amortization	565.9	337.4	92.5
Research and development	365.6	268.8	187.4
Selling, general and administrative	2,932.9	2,284.2	1,750.7
Certain claims (Note 20)	–	7.7	21.5
Special items (Note 2)	611.8	831.8	341.1
Operating expenses	6,858.0	5,530.5	3,636.0
Operating Profit	825.9	467.3	1,037.3
Other expense, net	(71.3)	(36.9)	(46.7)
Interest income	2.9	9.4	11.9
Interest expense	(357.9)	(286.6)	(63.1)
Earnings before income taxes	399.6	153.2	939.4
Provision for income taxes	95.0	7.0	220.2
Net earnings	304.6	146.2	719.2
Less: Net loss attributable to noncontrolling interest	(1.3)	(0.8)	(1.1)
Net Earnings of Zimmer Biomet Holdings, Inc.	$ 305.9	$ 147.0	$ 720.3
Earnings Per Common Share – Basic	$ 1.53	$ 0.78	$ 4.26
Earnings Per Common Share – Diluted	$ 1.51	$ 0.77	$ 4.20
Weighted Average Common Shares Outstanding			
Basic	200.0	187.4	169.0
Diluted	202.4	189.8	171.7
Cash Dividends Declared Per Common Share	$ 0.96	$ 0.88	$ 0.88

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	For the Years Ended December 31,		
	2016	2015	2014
Net Earnings	$ 304.6	$ 146.2	$ 719.2
Other Comprehensive Income (Loss):			
Foreign currency cumulative translation adjustments, net of tax	(130.0)	(305.2)	(223.1)
Unrealized cash flow hedge gains, net of tax	28.3	52.7	55.9
Reclassification adjustments on cash flow hedges, net of tax	(25.8)	(93.0)	(18.9)
Unrealized gains/(losses) on securities, net of tax	0.5	(0.2)	(0.5)
Reclassification adjustments on securities, net of tax	–	–	(0.4)
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	22.0	(21.4)	(75.8)
Total Other Comprehensive (Loss)	(105.0)	(367.1)	(262.8)
Comprehensive Income (Loss)	199.6	(220.9)	456.4
Comprehensive Loss Attributable to Noncontrolling Interest	(0.5)	(0.3)	(1.0)
Comprehensive Income (Loss) Attributable to Zimmer Biomet Holdings, Inc.	$ 200.1	$(220.6)	$ 457.4

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(in millions)

	As of December 31,	
	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 634.1	$ 1,459.3
Short-term investments	–	164.6
Accounts receivable, less allowance for doubtful accounts	1,604.4	1,446.5
Inventories	1,959.4	2,254.1
Prepaid expenses and other current assets	465.7	529.2
Total Current Assets	4,663.6	5,853.7
Property, plant and equipment, net	2,037.9	2,062.6
Goodwill	10,643.9	9,934.2
Intangible assets, net	8,785.4	8,746.3
Other assets	553.6	563.8
Total Assets	$26,684.4	$27,160.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 364.5	$ 284.8
Income taxes payable	183.5	147.2
Other current liabilities	1,257.9	1,185.9
Current portion of long-term debt	575.6	–
Total Current Liabilities	2,381.5	1,617.9
Deferred income taxes	3,030.9	3,150.2
Other long-term liabilities	936.3	1,005.7
Long-term debt	10,665.8	11,497.4
Total Liabilities	17,014.5	17,271.2
Commitments and Contingencies (Note 20)		
Stockholders' Equity:		
Common stock, $0.01 par value, one billion shares authorized, 304.7 million (302.7 million in 2015) issued	3.1	3.0
Paid-in capital	8,368.5	8,195.3
Retained earnings	8,467.1	8,347.7
Accumulated other comprehensive loss	(434.0)	(329.0)
Treasury stock, 104.1 million shares (100.0 million shares in 2015)	(6,735.8)	(6,329.1)
Total Zimmer Biomet Holdings, Inc. stockholders' equity	9,668.9	9,887.9
Noncontrolling interest	1.0	1.5
Total Stockholders' Equity	9,669.9	9,889.4
Total Liabilities and Stockholders' Equity	$26,684.4	$27,160.6

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions)

	Zimmer Biomet Holdings, Inc. Stockholders								
	Common Shares		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares		Noncontrolling Interest	Total Stockholders' Equity
	Number	Amount				Number	Amount		
Balance January 1, 2014	264.3	$2.6	$4,000.6	$7,789.4	$ 300.9	(94.5)	$(5,785.7)	$ 2.8	$6,310.6
Net earnings	–	–	–	720.3	–	–	–	(1.1)	719.2
Other comprehensive income	–	–	–	–	(262.8)	–	–	0.1	(262.7)
Cash dividends declared	–	–	–	(148.6)	–	–	–	–	(148.6)
Stock compensation plans	4.1	0.1	330.1	1.0	–	–	2.5	–	333.7
Share repurchases	–	–	–	–	–	(4.2)	(400.5)	–	(400.5)
Balance December 31, 2014	268.4	2.7	4,330.7	8,362.1	38.1	(98.7)	(6,183.7)	1.8	6,551.7
Net earnings	–	–	–	147.0	–	–	–	(0.8)	146.2
Other comprehensive loss	–	–	–	–	(367.1)	–	–	0.5	(366.6)
Cash dividends declared	–	–	–	(164.4)	–	–	–	–	(164.4)
Stock compensation plans	1.6	–	142.2	3.0	–	0.1	4.6	–	149.8
Share repurchases	–	–	–	–	–	(1.4)	(150.0)	–	(150.0)
Biomet merger consideration	32.7	0.3	3,722.4	–	–	–	–	–	3,722.7
Balance December 31, 2015	302.7	3.0	8,195.3	8,347.7	(329.0)	(100.0)	(6,329.1)	1.5	9,889.4
Net earnings	–	–	–	305.9	–	–	–	(1.3)	304.6
Other comprehensive loss	–	–	–	–	(105.0)	–	–	0.8	(104.2)
Cash dividends declared	–	–	–	(191.9)	–	–	–	–	(191.9)
Stock compensation plans	2.0	0.1	173.2	5.4	–	0.1	8.8	–	187.5
Share repurchases	–	–	–	–	–	(4.2)	(415.5)	–	(415.5)
Balance December 31, 2016	304.7	$3.1	$8,368.5	$8,467.1	$(434.0)	(104.1)	$(6,735.8)	$ 1.0	$9,669.9

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	For the Years Ended December 31,		
	2016	2015	2014
Cash flows provided by (used in) operating activities:			
Net earnings	$ 304.6	$ 146.2	$ 719.2
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,039.3	712.4	375.8
Biomet merger consideration compensation expense	–	90.4	–
Intangible asset impairment	30.0	–	–
Share-based compensation	57.3	46.4	49.4
Excess income tax benefit from stock option exercises	–	(11.8)	(11.1)
Inventory step-up	323.3	317.8	5.4
Gain on divestiture of assets	–	(19.0)	–
Debt extinguishment	53.3	22.0	–
Deferred income tax provision	(153.2)	(164.0)	(90.5)
Changes in operating assets and liabilities, net of acquired assets and liabilities			
Income taxes	(10.9)	244.7	(13.2)
Receivables	(137.8)	(56.1)	(40.4)
Inventories	76.4	(205.4)	(164.6)
Accounts payable and accrued liabilities	28.7	(252.0)	116.1
Other assets and liabilities	21.2	(21.8)	114.4
Net cash provided by operating activities	1,632.2	849.8	1,060.5
Cash flows provided by (used in) investing activities:			
Additions to instruments	(345.5)	(266.4)	(197.4)
Additions to other property, plant and equipment	(184.7)	(167.7)	(144.9)
Purchases of investments	(1.5)	(214.8)	(1,350.9)
Sales of investments	286.2	802.9	1,282.2
Proceeds from divestiture of assets	–	69.9	–
Biomet acquisition, net of acquired cash	–	(7,760.1)	–
LDR acquisition, net of acquired cash	(1,021.1)	–	–
Business combination investments, net of acquired cash	(421.9)	–	(54.3)
Investments in other assets	(3.0)	(21.7)	(4.1)
Net cash used in investing activities	(1,691.5)	(7,557.9)	(469.4)
Cash flows provided by (used in) financing activities:			
Proceeds from (payments on) senior notes	1,073.5	7,628.2	(250.0)
Proceeds from term loan	750.0	3,000.0	–
Redemption of senior notes	(1,250.0)	(2,762.0)	–
Payments on term loan	(800.0)	(500.0)	–
Net proceeds (payments) under revolving credit facilities	(33.1)	0.1	2.3
Dividends paid to stockholders	(188.4)	(157.1)	(145.5)
Proceeds from employee stock compensation plans	136.6	105.2	284.7
Restricted stock withholdings	(6.3)	(11.1)	(7.7)
Excess income tax benefit from stock option exercises	–	11.8	11.1
Debt issuance costs	(10.0)	(58.4)	(64.1)
Repurchase of common stock	(415.5)	(150.0)	(400.9)
Net cash (used in) provided by financing activities	(743.2)	7,106.7	(570.1)
Effect of exchange rates on cash and cash equivalents	(22.7)	(22.6)	(18.3)
(Decrease) increase in cash and cash equivalents	(825.2)	376.0	2.7
Cash and cash equivalents, beginning of year	1,459.3	1,083.3	1,080.6
Cash and cash equivalents, end of period	$ 634.1	$ 1,459.3	$ 1,083.3

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business

We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; office based technologies; spine, craniomaxillofacial and thoracic products; dental implants; and related surgical products. We collaborate with healthcare professionals around the globe to advance the pace of innovation. Our products and solutions help treat patients suffering from disorders of, or injuries to, bones, joints or supporting soft tissues. Together with healthcare professionals, we help millions of people live better lives.

On June 24, 2015 (the "Closing Date"), pursuant to an agreement and plan of merger dated April 24, 2014, we acquired LVB Acquisition, Inc. ("LVB"), the parent company of Biomet, Inc. ("Biomet"), and LVB and Biomet became our wholly-owned subsidiaries (sometimes hereinafter referred to as the "Biomet merger" or the "merger"). For more information on the merger, see Note 3. In connection with the merger, we changed our name from Zimmer Holdings, Inc. to Zimmer Biomet Holdings, Inc.

The words "Zimmer Biomet," "we," "us," "our," "the Company" and similar words refer to Zimmer Biomet Holdings, Inc. and its subsidiaries. "Zimmer Biomet Holdings" refers to the parent company only. "Zimmer" used alone refers to the business or information of us and our subsidiaries on a stand-alone basis without inclusion of the business or information of LVB or any of its subsidiaries.

2. Significant Accounting Policies

Basis of Presentation – The consolidated financial statements include the accounts of Zimmer Biomet Holdings and its subsidiaries in which it holds a controlling financial interest. All significant intercompany accounts and transactions are eliminated. Certain amounts in the 2015 and 2014 consolidated financial statements have been reclassified to conform to the 2016 presentation.

Use of Estimates – The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the U.S. which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation – The financial statements of our foreign subsidiaries are translated into U.S. Dollars using period-end exchange rates for assets and liabilities and average exchange rates for operating results. Unrealized translation gains and losses are included in accumulated other comprehensive income in stockholders' equity. When a transaction is denominated in a currency other than the subsidiary's functional currency, we recognize a transaction gain or loss when the transaction is settled. Foreign currency transaction gains and losses included in net earnings for the years ended December 31, 2016, 2015 and 2014 were not significant.

Revenue Recognition – We sell product through three principal channels: 1) direct to healthcare institutions, referred to as direct channel accounts; 2) through stocking distributors and healthcare dealers; and 3) directly to dental practices and dental laboratories. The direct channel accounts represented approximately 80 percent of our net sales in 2016. Through this channel, inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. No revenue is recognized upon the placement of inventory into consignment as we retain title and maintain the inventory on our balance sheet. Upon implantation, we issue an invoice and revenue is recognized. Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer healthcare institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts may increase.

Sales to stocking distributors, healthcare dealers, dental practices and dental laboratories accounted for approximately 20 percent of our net sales in 2016. With these types of sales, revenue is recognized when title to product passes, either upon shipment of the product or in some cases upon implantation of the product. Product is generally sold at contractually fixed prices for specified periods. Payment terms vary by customer, but are typically less than 90 days.

If sales incentives are earned by a customer for purchasing a specified amount of our product, we estimate whether such incentives will be achieved and, if so, recognize these incentives as a reduction in revenue in the same period the underlying revenue transaction is recognized. Occasionally, products are returned and, accordingly, we maintain an estimated sales return reserve that is recorded as a reduction in revenue. Product returns were not significant for the years ended December 31, 2016, 2015 and 2014.

Taxes collected from customers and remitted to governmental authorities are presented on a net basis and excluded from revenues.

Shipping and Handling – Amounts billed to customers for shipping and handling of products are reflected in net sales and are not significant. Expenses incurred related to shipping and handling of products are reflected in selling, general and administrative expenses and were $231.7 million, $214.2 million and $181.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Research and Development – We expense all research and development ("R&D") costs as incurred except when there is alternative future use for the R&D. R&D costs include salaries, prototypes, depreciation of equipment used in R&D, consultant fees and service fees paid to collaborative partners.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Where contingent milestone payments are due to third parties under R&D arrangements, the milestone payment obligations are expensed when the milestone results are achieved.

Litigation – We record a liability for contingent losses, including future legal costs, settlements and judgments, when we consider it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Special Items – We recognize expenses resulting directly from our business combinations, employee termination benefits, certain R&D agreements, certain contract terminations, consulting and professional fees and asset impairment or loss on disposal charges connected with global restructuring, quality and operational excellence initiatives, and other items as "Special items" in our consolidated statement of earnings. "Special items" included (in millions):

	For the Years Ended December 31,		
	2016	2015	2014
Biomet-related			
Merger consideration compensation expense	$ –	$ 90.4	$ –
Retention plans	–	73.0	–
Consulting and professional fees	220.4	167.4	61.5
Employee termination benefits	50.8	101.0	–
Dedicated project personnel	79.8	62.3	0.4
Relocated facilities	19.1	5.6	–
Certain litigation matters	2.5	–	–
Contract terminations	39.9	95.0	–
Information technology integration	14.3	5.2	–
Intangible asset impairment	30.0	–	–
Loss/impairment on assets	13.0	–	–
Other	17.5	19.2	–
Total Biomet-related	487.3	619.1	61.9
Other			
Consulting and professional fees	33.0	114.8	115.2
Employee termination benefits	7.0	1.9	0.9
Dedicated project personnel	17.3	31.8	50.4
Relocated facilities	0.2	–	0.7
Certain litigation matters	30.8	31.2	70.0
Contract terminations	2.9	–	1.8
Information technology integration	1.3	1.8	–
Intangible asset impairment	1.1	–	24.0
Loss/impairment on assets	–	3.8	6.0
LDR merger consideration compensation expense	24.1	–	–
Contingent consideration adjustments	–	2.4	0.6
Certain R&D agreements	–	–	4.5
Distributor acquisitions	–	–	0.6
Other	6.8	25.0	4.5
Total Other	124.5	212.7	279.2
Special items	$611.8	$831.8	$341.1

Pursuant to the Biomet merger agreement, all outstanding LVB stock options and LVB stock-based awards vested immediately prior to the effective time of the merger, and holders of these options and awards received a portion of the aggregate merger consideration. Some of these options and awards were already vested under the terms of LVB's equity incentive plans. We accounted for the fair value of the consideration we paid in exchange for previously vested options and awards as consideration to complete the merger. As part of the merger agreement terms, all previously unvested options and awards vested immediately prior to the effective time of the merger. Under LVB's equity incentive plans, unvested options and awards would have otherwise been forfeited. We have concluded that the discretionary accelerated vesting of these unvested options and awards was for the economic benefit of the combined company, and, therefore, we classified the fair value of the merger consideration we paid to holders of such unvested options and awards of $90.4 million as compensation expense in 2015. Under similar terms, a portion of LDR Holding Corporation ("LDR") stock options and LDR stock-based awards vested immediately before the LDR merger and we recognized compensation expense of $24.1 million in 2016.

Pursuant to the LVB merger agreement, retention plans were established for certain Biomet employees and third-party sales agents. Retention payments were earned by employees and third-party sales agents who remained with Biomet through the Closing Date. We recognized $73.0 million of expense resulting from these retention plans in 2015.

Consulting and professional fees relate to third-party integration consulting performed in a variety of areas such as tax, compliance, logistics and human resources for our business combinations and merger with Biomet; legal fees related to the consummation of mergers and acquisitions and certain litigation and compliance matters; third-party consulting and professional fees and contract labor related to our quality and operational excellence initiatives; third-party fees related to severance and termination benefits matters; and third-party consulting fees related to certain information system integrations.

After the closing date of the Biomet merger, we started to implement our integration plans to drive operational synergies. Our Biomet integration plans are expected to run through 2018. Part of these integration plans included termination of employees and certain contracts. Expenses attributable to these integration plans that were recognized in the years ended December 31, 2016 and 2015 as part of "Special items" related to employee termination benefits and contract termination expense associated with agreements with independent agents, distributors, suppliers and lessors. We expect to incur a total of $170 million for employee termination benefits and $140 million for contract termination expense. As of December 31, 2016, we have incurred a cumulative total of $151.8 million for employee termination benefits and $134.9 million for contract termination expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Accordingly, our integration plans with respect to employee termination benefits and contract termination expenses are substantially complete. The following table summarizes the liabilities related to these integration plans (in millions):

	Employee Termination Benefits	Contract Terminations	Total
Balance, December 31, 2015	$ 46.8	$ 56.0	$ 102.8
Additions	50.8	39.9	90.7
Cash payments	(58.4)	(60.6)	(119.0)
Foreign currency exchange rate changes	(1.1)	(0.2)	(1.3)
Balance, December 31, 2016	$ 38.1	$ 35.1	$ 73.2

We have also recognized other employee termination benefits related to LDR, other acquisitions and our operational excellence initiatives.

Dedicated project personnel expenses include the salary, benefits, travel expenses and other costs directly associated with employees who are 100 percent dedicated to our quality and operational excellence initiatives or integration of acquired businesses.

Relocated facilities expenses are the moving costs and the lease expenses incurred during the relocation period in connection with relocating certain facilities.

Certain litigation matters relate to net expenses recognized during the year for the estimated or actual settlement of certain pending litigation and similar claims, including matters where we recognized income from a settlement on more favorable terms than our previous estimate, or we reduced our estimate of a previously recorded contingent liability. These litigation matters have included royalty disputes, patent litigation matters, product liability litigation matters and commercial litigation matters.

Contract termination costs relate to terminated agreements in connection with the integration of acquired companies and changes to our distribution model as part of business restructuring and operational excellence initiatives. The terminated contracts primarily relate to sales agents and distribution agreements.

Information technology integration costs are non-capitalizable costs incurred related to integrating information technology platforms of acquired companies or other significant software implementations as part of our quality and operational excellence initiatives.

As part of the Biomet merger, we recognized $209.0 million of intangible assets for in-process research and development ("IPR&D") projects. During 2016, we recorded an impairment loss of $30.0 million related to these IPR&D intangible assets. The impairment was primarily due to the termination of certain IPR&D projects.

Loss/impairment on disposal of assets relates to assets that we have sold or intend to sell, or for which the economic useful life of the asset has been significantly reduced due to integration or our quality and operational excellence initiatives.

Contingent consideration adjustments represent the changes in the fair value of contingent consideration obligations to be paid to the prior owners of acquired businesses.

Certain R&D agreements relate to agreements with upfront payments to obtain intellectual property to be used in R&D projects that have no alternative future use in other projects.

Over the past few years we have acquired a number of U.S. and foreign-based distributors. We have incurred various costs related to the consummation and integration of those businesses.

Cash and Cash Equivalents – We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents are valued at cost, which approximates their fair value.

Investments – We invest our excess cash and cash equivalents in debt securities. Our investments include corporate debt securities, U.S. government and agency debt securities, foreign government debt securities, commercial paper and certificates of deposit, and are classified and accounted for as available-for-sale. Available-for-sale debt securities are recorded at fair value on our consolidated balance sheet. Investments with a contractual maturity of less than one year are classified as short-term investments on our consolidated balance sheet, or in other non-current assets if the contractual maturity is greater than one year. Changes in fair value for available-for-sale securities are recorded, net of taxes, as a component of accumulated other comprehensive loss on our consolidated balance sheet. We review our investments for other-than-temporary impairment at each reporting period. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the consolidated statement of earnings in the period the determination is made. See Note 7 for more information regarding our investments.

Accounts Receivable – Accounts receivable consists of trade and other miscellaneous receivables. We grant credit to customers in the normal course of business and maintain an allowance for doubtful accounts for potential credit losses. We determine the allowance for doubtful accounts by geographic market and take into consideration historical credit experience, creditworthiness of the customer and other pertinent information. We make concerted efforts to collect all accounts receivable, but sometimes we have to write-off the account against the allowance when we determine the account is uncollectible. The allowance for doubtful accounts was $51.6 million and $34.1 million as of December 31, 2016 and 2015, respectively.

Inventories – Inventories are stated at the lower of cost or market, with cost determined on a first-in first-out basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Property, Plant and Equipment – Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of ten to forty years for buildings and improvements and three to eight years for machinery and equipment. Maintenance and repairs are expensed as incurred. We review property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated future undiscounted cash flows relating to the asset are less than its carrying amount. An impairment loss is measured as the amount by which the carrying amount of an asset exceeds its fair value.

Software Costs – We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs generally include external direct costs of materials and services utilized in developing or obtaining computer software and compensation and related benefits for employees who are directly associated with the software project. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line or weighted average estimated user basis when the software is ready for its intended use over the estimated useful lives of the software, which approximate three to fifteen years.

Instruments – Instruments are hand-held devices used by surgeons during total joint replacement and other surgical procedures. Instruments are recognized as long-lived assets and are included in property, plant and equipment. Undeployed instruments are carried at cost or realizable value. Instruments in the field are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on average estimated useful lives, determined principally in reference to associated product life cycles, primarily five years. We review instruments for impairment whenever events or changes in circumstances indicate that the carrying value of an instrument may not be recoverable. Depreciation of instruments is recognized as selling, general and administrative expense.

Goodwill – Goodwill is not amortized but is subject to annual impairment tests. Goodwill has been assigned to reporting units. We perform annual impairment tests by either comparing a reporting unit's estimated fair value to its carrying amount or doing a qualitative assessment of a reporting unit's fair value from the last quantitative assessment to determine if there is potential impairment. We may do a qualitative assessment when the results of the previous quantitative test indicated the reporting unit's estimated fair value was significantly in excess of the carrying value of its net assets and we do not believe there have been significant changes in the reporting unit's operations that would significantly decrease its estimated fair value or significantly increase its net assets. If a quantitative assessment is performed, the fair value of the reporting unit and the implied fair value of goodwill are determined based upon a discounted cash flow analysis and/or use of a market approach by looking at market values of comparable companies. Significant assumptions are incorporated into our discounted cash flow analyses such as estimated growth rates and risk-adjusted discount rates. We perform this test in the fourth quarter of the year or whenever events or changes in circumstances indicate that the carrying value of the reporting unit's assets may not be recoverable. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit goodwill is less than the carrying value of the reporting unit goodwill. See Note 10 for more information regarding goodwill.

Intangible Assets – Intangible assets are initially measured at their fair value. We have determined the fair value of our intangible assets either by the fair value of the consideration exchanged for the intangible asset or the estimated after-tax discounted cash flows expected to be generated from the intangible asset. Intangible assets with an indefinite life, including certain trademarks and trade names, are not amortized. Indefinite life intangible assets are assessed annually to determine whether events and circumstances continue to support an indefinite life. Intangible assets with a finite life, including core and developed technology, certain trademarks and trade names, customer-related intangibles, intellectual property rights and patents and licenses are amortized on a straight-line basis over their estimated useful life, ranging from less than one year to 20 years. Intangible assets with a finite life are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Intangible assets with an indefinite life are tested for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the estimated fair value of the asset. The amount of the impairment loss to be recorded would be determined based upon the excess of the asset's carrying value over its fair value. The fair values of indefinite lived intangible assets are determined based upon a discounted cash flow analysis using the relief from royalty method or a qualitative assessment may be performed for any changes to the asset's fair value from the last quantitative assessment. The relief from royalty method estimates the cost savings associated with owning, rather than licensing, assets. Significant assumptions are incorporated into these discounted cash flow analyses such as estimated growth rates, royalty rates and risk-adjusted discount rates. We may do a qualitative assessment when the results of the previous quantitative test indicated that the asset's fair value was significantly in excess of its carrying value.

In determining the useful lives of intangible assets, we consider the expected use of the assets and the effects of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

obsolescence, demand, competition, anticipated technological advances, changes in surgical techniques, market influences and other economic factors. For technology-based intangible assets, we consider the expected life cycles of products, absent unforeseen technological advances, which incorporate the corresponding technology. Trademarks and trade names that do not have a wasting characteristic (i.e., there are no legal, regulatory, contractual, competitive, economic or other factors which limit the useful life) are assigned an indefinite life. Trademarks and trade names that are related to products expected to be phased out are assigned lives consistent with the period in which the products bearing each brand are expected to be sold. For customer relationship intangible assets, we assign useful lives based upon historical levels of customer attrition. Intellectual property rights are assigned useful lives that approximate the contractual life of any related patent or the period for which we maintain exclusivity over the intellectual property.

Income Taxes – We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the new tax rate is enacted.

We reduce our deferred tax assets by a valuation allowance if it is more likely than not that we will not realize some portion or all of the deferred tax assets. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the U.S.

We operate on a global basis and are subject to numerous and complex tax laws and regulations. Our income tax filings are regularly under audit in multiple federal, state and foreign jurisdictions. Income tax audits may require an extended period of time to reach resolution and may result in significant income tax adjustments when interpretation of tax laws or allocation of company profits is disputed. Because income tax adjustments in certain jurisdictions can be significant, we record accruals representing management's best estimate of the probable resolution of these matters. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Derivative Financial Instruments – We measure all derivative instruments at fair value and report them on our consolidated balance sheet as assets or liabilities. We maintain written policies and procedures that permit, under appropriate circumstances and subject to proper authorization, the use of derivative financial instruments solely for risk management purposes. The use of derivative financial instruments for trading or speculative purposes is prohibited by our policy. See Note 14 for more information regarding our derivative and hedging activities.

Other Comprehensive Income (Loss) – Other comprehensive income (loss) ("OCI") refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net earnings as these amounts are recorded directly as an adjustment to stockholders' equity. Our OCI is comprised of foreign currency translation adjustments, unrealized gains and losses on cash flow hedges, unrealized gains and losses on available-for-sale securities and amortization of prior service costs and unrecognized gains and losses in actuarial assumptions.

Treasury Stock – We account for repurchases of common stock under the cost method and present treasury stock as a reduction of stockholders' equity. We reissue common stock held in treasury only for limited purposes.

Noncontrolling Interest – We have an investment in another company in which we have a controlling financial interest, but not 100 percent of the equity. Further information related to the noncontrolling interests of that investment has not been provided as it is not significant to our consolidated financial statements.

Accounting Pronouncements – In April 2015, the FASB issued Accounting Standard Update ("ASU") 2015-03 – Simplifying the Presentation of Debt Issuance Costs. This ASU requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. This ASU does not affect the measurement and recognition of debt issuance costs in our statement of earnings. We adopted ASU 2015-03 in 2016 on a retrospective basis. Accordingly, we reclassified the debt issuance costs on our December 31, 2015 consolidated balance sheet, which decreased long-term debt by $58.9 million, other current assets by $9.2 million and other assets by $49.7 million.

In March 2016, the FASB issued ASU 2016-09 – Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for employee share-based payments, including the accounting for employer tax withholding on share-based compensation, forfeitures and the financial statement presentation of excess tax benefits and deficiencies. The ASU also clarifies the statement of cash flows presentation for certain components of share-based awards.

We elected to early adopt ASU 2016-09 in 2016. As a result of the adoption, we are required to recognize excess tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

benefits in our provision for income taxes, rather than paid-in capital. The ASU required prospective application of this provision and therefore 2015 and 2014 have not been restated.

Additionally, ASU 2016-09 requires us to amend the presentation of employee shared-based payment-related items in our statement of cash flows as follows: (i) excess tax benefits are presented as an operating activity (such cash flows were previously included in cash flows from financing activities), and (ii) cash paid for employee taxes on withheld shares from equity awards is presented as a financing activity (such cash flows were previously included in cash flows from operating activities). We elected to apply the change in cash flow classification for excess tax benefits on a prospective basis. Further, we applied the change in cash flow classification for cash paid for withheld shares on a retrospective basis, as required.

We also elected to continue to estimate the number of forfeitures related to share-based payments, rather than account for forfeitures as they occur.

We recognized excess tax benefits of $13.3 million in our provision for income taxes rather than paid-in capital for the year ended December 31, 2016. The retrospective application of cash paid for withheld shares resulted in an $11.1 million and $7.7 million reclassification of these cash outflows from net cash provided by operating activities to net cash (used in) provided by financing activities on our consolidated statement of cash flows for the years ended December 31, 2015 and 2014, respectively.

In August 2016 the FASB issued ASU 2016-15 – Classification of Certain Cash Receipts and Cash Payments. This ASU provided guidance on eight issues which were not specifically addressed under previous GAAP. The only issue of significance to us provided guidance that cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows from financing activities. We early adopted this ASU in 2016, and as a result, classified $38.5 million of early tender debt premium costs as cash outflows from financing activities. The ASU required a retrospective transition method, which resulted in a reclassification of $22.0 million of debt extinguishment cash outflows from net cash provided by operating activities to net cash (used in) provided by financing activities in the year ended December 31, 2015.

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers (Topic 606). This ASU provides a five-step model for revenue recognition that all industries will apply to recognize revenue when a customer obtains control of a good or service. The ASU will be effective for us beginning January 1, 2018. Entities are permitted to apply the standard and related amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application.

During the fourth quarter of 2016, we commenced an initial evaluation of the new standard and a related assessment and review of a representative sample of existing revenue contracts with our customers. We are currently unable to estimate the impact, if any, of the new standard on the timing and pattern of our revenue recognition. It is likely we will be required to provide additional disclosures in the notes to the consolidated financial statements upon adoption. We have not yet determined the effect of the ASU on our internal control over financial reporting or other changes in business practices and processes but will do so in the design and implementation phase to occur over the next year. We continue to evaluate the available adoption methods. Our evaluation of ASU 2014-09 is ongoing and not complete.

In February 2016, the FASB issued ASU 2016-02 – Leases. This ASU requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet. This ASU will be effective for us beginning January 1, 2019. Early adoption is permitted. The ASU must be adopted using a modified retrospective transition approach at the beginning of the earliest comparative period in the consolidated financial statements. We own most of our manufacturing facilities, but lease various office space throughout the world. We are currently evaluating the impact this ASU will have on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16 – Intra-Entity Asset Transfers of Assets Other than Inventory. The ASU changes the accounting for the tax effects of intra-entity asset transfers/sales. Under current GAAP, the tax effects of intra-entity asset transfers/sales are deferred until the transferred asset is sold to a third party or otherwise recovered through use. Under the new guidance, the tax expense from the sale of the asset in the seller's tax jurisdiction is recognized when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. The new guidance does not apply to intra-entity transfers/sales of inventory. In the past, we have transferred intellectual property intra-entity which, under current GAAP, resulted in deferring the tax impact on the selling entity. We are still assessing the impact this ASU may have on us. The ASU will be effective for us on January 1, 2018, with early adoption permitted. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption for intra-entity transfers/sales executed prior to that date.

There are no other recently issued accounting pronouncements that we have not yet adopted that are expected to have a material effect on our financial position, results of operations or cash flows.

3. Business Combinations

Biomet Merger

We completed our merger with LVB, the parent company of Biomet, on June 24, 2015. We paid $12,030.3 million in cash

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

and stock and assumed Biomet's senior notes. The total amount of merger consideration utilized for the acquisition method of accounting, as reduced by the merger consideration paid to holders of unvested LVB stock options and LVB stock-based awards of $90.4 million, was $11,939.9 million.

In the three month period ended June 30, 2016, we finalized our valuation of the assets acquired and liabilities assumed in the Biomet merger. The measurement period adjustments in 2016 primarily related to refinements to intangible assets for certain less significant brands, the finalization of tax accounts, including the allocation of acquired intangible assets and goodwill on a jurisdictional basis, and finalizing the estimation of certain contingent liabilities. All other adjustments were not significant. Under GAAP, measurement period adjustments are recognized on a prospective basis in the period of change, instead of restating prior periods. With respect to intangible asset amortization expense, the adjustments resulted in a decrease of $6.7 million in the year ended December 31, 2016, which related to the year ended December 31, 2015 on a retrospective basis. With respect to inventory fair value, an adjustment was made which decreased cost of products sold, excluding intangible asset amortization, by $4.6 million in the year ended December 31, 2016, which related to the year ended December 31, 2015 on a retrospective basis. Through the finalization of tax accounts, we recognized an increase in our provision for income taxes of $52.7 million in the year ended December 31, 2016, which related to the year ended December 31, 2015 on a retrospective basis.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the closing date of the Biomet merger (in millions):

	Final Values
Cash	$ 494.8
Accounts receivable, net	527.9
Inventory	1,224.1
Other current assets	25.4
Property, plant and equipment	775.3
Intangible assets not subject to amortization:	
Trademarks and trade names	479.0
In-process research and development (IPR&D)	209.0
Intangible assets subject to amortization:	
Technology	2,332.1
Customer relationships	4,961.0
Trademarks and trade names	360.0
Other assets	42.6
Goodwill	7,433.2
Total assets acquired	18,864.4
Current liabilities	584.0
Long-term debt	2,740.0
Deferred taxes	3,497.6
Other long-term liabilities	102.9
Total liabilities assumed	6,924.5
Net assets acquired	$11,939.9

This table does not reflect $139.9 million of net adjustments to the assets acquired and liabilities assumed that were recognized after the measurement period. We have evaluated the effect of these out-of-period adjustments and concluded for both quantitative and qualitative reasons that these adjustments were not material to any of the periods affected.

The following table sets forth unaudited pro forma financial information derived from (i) the audited financial statements of Zimmer for the years ended December 31, 2015 and 2014; and (ii) the unaudited financial statements of LVB for the period January 1, 2015 to June 23, 2015 and for the year ended December 31, 2014. The pro forma financial information has been adjusted to give effect to the merger as if it had occurred on January 1, 2014.

Pro Forma Financial Information
(Unaudited)

	Year Ended December 31,	
	2015	2014
	(in millions)	
Net Sales	$7,517.7	$7,965.2
Net Earnings	$ 330.2	$ 320.3

These unaudited pro forma results have been prepared for comparative purposes only and include adjustments such as inventory step-up, amortization of acquired intangible assets and interest expense on debt incurred to finance the merger. Material, nonrecurring pro forma adjustments directly attributable to the Biomet merger include:

- The $90.4 million of merger compensation expense for unvested LVB stock options and LVB stock-based awards was removed from net earnings for the year ended December 31, 2015 and recognized as an expense in the year ended December 31, 2014.
- The $73.0 million of retention plan expense was removed from net earnings for the year ended December 31, 2015 and recognized as an expense in the year ended December 31, 2014.
- Transaction costs of $17.7 million were removed from net earnings for the year ended December 31, 2015 and recognized as an expense in the year ended December 31, 2014.

LDR Merger

On July 13, 2016, we completed our merger with LDR. We paid cash of $1,138.0 million. The total amount of merger consideration utilized for the acquisition method of accounting, as reduced by the merger consideration paid to holders of unvested LDR stock options and LDR stock-based awards of $24.1 million, was $1,113.9 million.

The addition of LDR provides us with an immediate position in the growing cervical disc replacement ("CDR") market. The combination positions us to accelerate the growth of our Spine business through the incremental revenues associated with entry into the CDR market and cross-portfolio selling opportunities to both Zimmer Biomet and LDR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

customer bases. The goodwill is generated from the operational synergies and cross-selling opportunities we expect to achieve from our combined operations. None of the goodwill is expected to be deductible for tax purposes.

The purchase price allocation as of December 31, 2016 is preliminary. The primary tasks to be completed related to our purchase price accounting are finalizing tax accounts, including, but not limited to, the allocation of acquired intangible assets and goodwill on a jurisdictional basis. There may be differences between the preliminary estimates of fair value and the final acquisition accounting, which differences could be material. The final estimates of fair value are expected to be completed as soon as possible, but no later than July 13, 2017.

The following table summarizes the preliminary estimates of fair value of the assets acquired and liabilities assumed in the LDR merger (in millions):

	July 13, 2016 (initial)	Adjustments	July 13, 2016 (as adjusted)
Cash	$ 92.8	$ –	$ 92.8
Accounts receivable, net	31.2	–	31.2
Inventory	86.5	13.1	99.6
Other current assets	5.6	–	5.6
Property, plant and equipment	24.7	–	24.7
Intangible assets not subject to amortization:			
In-process research and development (IPR&D)	2.0	–	2.0
Intangible assets subject to amortization:			
Technology	431.0	21.0	452.0
Customer relationships	132.0	(14.0)	118.0
Trademarks and trade names	77.0	(6.0)	71.0
Other assets	17.4	59.4	76.8
Goodwill	527.1	(44.7)	482.4
Total assets acquired	1,427.3	28.8	1,456.1
Current liabilities	53.3	22.6	75.9
Long-term debt	0.5	–	0.5
Deferred taxes	259.1	6.4	265.5
Other long-term liabilities	0.5	(0.2)	0.3
Total liabilities assumed	313.4	28.8	342.2
Net assets acquired	$1,113.9	$ –	$1,113.9

The weighted average amortization period selected for trademarks and trade names, technology and customer relationship intangible assets was 18 years, 18 years and 20 years, respectively.

We have not included pro forma information and certain other information under GAAP for the LDR merger because it did not have a material impact on our financial position or results of operations.

Other 2016 Acquisitions

In 2016, we made a number of individually immaterial acquisitions of companies including Cayenne Medical, Inc. ("Cayenne Medical"), a sports medicine company, Compression Therapy Concepts, Inc. ("CTC"), a provider of non-invasive products for the prevention of deep vein thrombosis, CD Diagnostics, Inc. ("CD Diagnostics"), a medical diagnostic testing company, and MedTech SA ("MedTech"), a designer and manufacturer of robotic equipment for brain and spine surgeries. The total aggregate cash consideration was $441.7 million. These acquisitions were completed primarily to expand our product offerings. We have assigned a preliminary fair value of $61.6 million for settlement of preexisting relationships and additional payments related to these acquisitions that are contingent on the respective acquired companies' product sales, commercial milestones and certain cost savings. The estimated fair value of the aggregate contingent payment liabilities was calculated based on the probability of achieving the specified sales growth, cost savings and commercial milestones and discounting to present value the estimated payments. The goodwill is generated from the operational synergies and cross-selling opportunities we expect to achieve from the technologies acquired. None of the goodwill related to these acquisitions is expected to be deductible for tax purposes.

The purchase price allocations as of December 31, 2016 are preliminary. The primary tasks to be completed related to our purchase price accounting are refinements to certain intangible assets, finalizing tax accounts, including, but not limited to, the allocation of acquired intangible assets and goodwill on a jurisdictional basis, and finalizing the estimated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

fair values of contingent liabilities. There may be differences between the preliminary estimates of fair value and the final acquisition accounting. The final estimates of fair value are expected to be completed as soon as possible, but no later than one year after the respective acquisition dates.

The following table summarizes the aggregate preliminary estimates of fair value of the assets acquired and liabilities assumed related to the Cayenne Medical, CTC, CD Diagnostics, MedTech, and other immaterial acquisitions that occurred during 2016 (in millions):

Current assets	$ 64.2
Property, plant and equipment	3.9
Intangible assets	211.3
Goodwill	340.0
Other assets	7.9
Total assets acquired	627.3
Current liabilities	13.6
Long-term liabilities	110.4
Total liabilities assumed	124.0
Net assets acquired	$503.3

The weighted average amortization period selected for the intangible assets is 9.9 years.

We have not included pro forma information and certain other information under GAAP for these acquisitions because they did not have a material impact on our financial position or results of operations.

4. Share-Based Compensation

Our share-based payments primarily consist of stock options and restricted stock units ("RSUs"). Share-based compensation expense was as follows (in millions):

	For the Years Ended December 31,		
	2016	2015	2014
Total expense, pre-tax	57.3	46.4	49.4
Tax benefit related to awards	(31.5)	(14.5)	(15.5)
Total expense, net of tax	$ 25.8	$ 31.9	$ 33.9

Stock Options

We had two equity compensation plans in effect at December 31, 2016: the 2009 Stock Incentive Plan ("2009 Plan") and the Stock Plan for Non-Employee Directors. The 2009 Plan succeeded the 2006 Stock Incentive Plan ("2006 Plan") and the TeamShare Stock Option Plan ("TeamShare Plan"). No further awards have been granted under the 2006 Plan or under the TeamShare Plan since May 2009, and shares remaining available for grant under those plans have been merged into the 2009 Plan. Vested stock options previously granted under the 2006 Plan and the TeamShare Plan remained outstanding as of December 31, 2016. We have reserved the maximum number of shares of common stock available for award under the terms of each of these plans. We have registered 61.6 million shares of common stock and expect to register an additional 10.0 million shares of common stock under these plans. The 2009 Plan provides for the grant of nonqualified stock options and incentive stock options, long-term performance awards in the form of performance shares or units, restricted stock, RSUs and stock appreciation rights. The Compensation and Management Development Committee of the Board of Directors determines the grant date for annual grants under our equity compensation plans. The date for annual grants under the 2009 Plan to our executive officers is expected to occur in the first quarter of each year following the earnings announcements for the previous quarter and full year. The Stock Plan for Non-Employee Directors provides for awards of stock options, restricted stock and RSUs to non-employee directors. It has been our practice to issue shares of common stock upon exercise of stock options from previously unissued shares, except in limited circumstances where they are issued from treasury stock. The total number of awards which may be granted in a given year and/or over the life of the plan under each of our equity compensation plans is limited. At December 31, 2016, an aggregate of 13.1 million shares were available for future grants and awards under these plans.

Stock options granted to date under our plans vest over four years and have a maximum contractual life of 10 years. As established under our equity compensation plans, vesting may accelerate upon retirement after the first anniversary date of the award if certain criteria are met. We recognize expense related to stock options on a straight-line basis over the requisite service period, less awards expected to be forfeited using estimated forfeiture rates. Due to the accelerated retirement provisions, the requisite service period of our stock options range from one to four years. Stock options are granted with an exercise price equal to the market price of our common stock on the date of grant, except in limited circumstances where local law may dictate otherwise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

A summary of stock option activity for the year ended December 31, 2016 is as follows (options in thousands):

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value (in millions)
Outstanding at January 1, 2016	7,931	$ 78.73		
Options granted	2,109	105.97		
Options exercised	(1,786)	73.37		
Options forfeited	(312)	104.58		
Options expired	(41)	83.00		
Outstanding at December 31, 2016	7,901	$ 86.21	6.2	$149.6
Vested or expected to vest as of December 31, 2016	7,377	$ 84.90	6.0	$148.4
Exercisable at December 31, 2016	4,316	$ 72.23	4.1	$136.6

We use a Black-Scholes option-pricing model to determine the fair value of our stock options. Expected volatility was derived from a combination of historical volatility and implied volatility because the traded options that were actively traded around the grant date of our stock options did not have maturities of over one year. The expected term of the stock options has been derived from historical employee exercise behavior. The risk-free interest rate was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term approximating the expected life of the options. The dividend yield was determined by using an estimated annual dividend and dividing it by the market price of our stock on the grant date.

The following table presents information regarding the weighted average fair value of stock options granted, the assumptions used to determine fair value, and the intrinsic value of options exercised in the indicated year:

	For the Years Ended December 31,		
	2016	2015	2014
Dividend yield	0.9%	0.8%	0.9%
Volatility	21.9%	22.2%	25.2%
Risk-free interest rate	1.4%	1.7%	1.8%
Expected life (years)	5.3	5.3	5.5
Weighted average fair value of options granted	$21.30	$22.30	$22.59
Intrinsic value of options exercised (in millions)	$ 73.0	$ 49.4	$ 99.6

As of December 31, 2016, there was $53.0 million of unrecognized share-based payment expense related to nonvested stock options granted under our plans. That expense is expected to be recognized over a weighted average period of 2.9 years.

RSUs

We have awarded RSUs to certain of our employees. The terms of the awards have been two to four years. Some of the awards have only service conditions while some have performance and market conditions in addition to service conditions. The service condition-only awards vest ratably on the anniversary date of the award. The awards that have performance and market conditions vest all at once on the third anniversary date. Future service conditions may be waived if an employee retires after the first anniversary date of the award, but performance and market conditions continue to apply. Accordingly, the requisite service period used for share-based payment expense on our RSUs range from one to four years.

A summary of nonvested RSU activity for the year ended December 31, 2016 is as follows (RSUs in thousands):

	RSUs	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016	1,300	$ 91.64
Granted	623	107.90
Vested	(236)	77.79
Forfeited	(293)	88.49
Outstanding at December 31, 2016	1,394	102.04

For the RSUs with service conditions only, the fair value of the awards was determined based upon the fair market value of our common stock on the date of grant. For the RSUs with market conditions, a Monte Carlo valuation technique was used to simulate the market conditions of the awards. The outcome of the simulation was used to determine the fair value of the awards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We are required to estimate the number of RSUs that will vest and recognize share-based payment expense on a straight-line basis over the requisite service period. As of December 31, 2016, we estimate that approximately 1,044,000 outstanding RSUs will vest. If our estimate were to change in the future, the cumulative effect of the change in estimate will be recorded in that period. Based upon the number of RSUs that we expect to vest, the unrecognized share-based payment expense as of December 31, 2016 was $49.4 million and is expected to be recognized over a weighted-average period of 2.5 years. The fair value of RSUs vesting during the years ended December 31, 2016, 2015 and 2014 based upon our stock price on the date of vesting was $25.5 million, $40.6 million, and $29.3 million, respectively.

5. Inventories

Inventories consisted of the following (in millions):

	As of December 31,	
	2016	2015
Finished goods	$1,556.9	$1,827.9
Work in progress	141.7	146.1
Raw materials	260.8	280.1
Inventories	$1,959.4	$2,254.1

Finished goods inventory as of December 31, 2016 and 2015 includes $35.3 million and $284.4 million, respectively, to step-up acquired inventory to fair value.

Amounts charged to the consolidated statement of earnings for excess and obsolete inventory in the years ended December 31, 2016, 2015 and 2014 were $195.4 million, $118.4 million, and $51.8 million, respectively. The increase in the 2016 period primarily resulted from our decision to discontinue certain products.

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following (in millions):

	As of December 31,	
	2016	2015
Land	$ 37.0	$ 39.6
Building and equipment	1,789.9	1,789.3
Capitalized software costs	397.2	330.1
Instruments	2,347.6	2,160.5
Construction in progress	99.8	108.4
	4,671.5	4,427.9
Accumulated depreciation	(2,633.6)	(2,365.3)
Property, plant and equipment, net	$ 2,037.9	$ 2,062.6

Depreciation expense was $466.7 million, $375.0 million, and $268.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

7. Investments

Information regarding our investments is as follows (in millions):

		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair value
As of December 31, 2015				
Corporate debt securities	$245.7	$0.1	$(0.4)	$245.4
U.S. government and agency debt securities	21.6	–	(0.1)	21.5
Commercial paper	4.2	–	–	4.2
Certificates of deposit	2.0	–	–	2.0
Total short and long-term investments	$273.5	$0.1	$(0.5)	$273.1

In 2016, we either sold or allowed our investments to mature and did not reinvest the cash.

8. Transfers of Financial Assets

In 2016, we executed receivables purchase arrangements to liquidate portions of our accounts receivable balance with unrelated third parties for factoring of specific accounts receivable. The factorings were treated as sales of our accounts receivable in accordance with FASB ASC 860, *Transfers and Servicing*.

Proceeds from the transfers reflect either the face value of the account or the face value less factoring fees. Interest charged on the transferred account balance and factoring fees are recorded as a charge to interest expense in our consolidated statements of earnings in the period the expenses are incurred. We act as the collection agent on behalf of the third party for portions of the arrangements, but have no significant retained interests or servicing liabilities related to the accounts receivable sold. In order to mitigate credit risk related to portions of our factoring of accounts receivable, we purchased credit insurance for the factored accounts receivable. The result is our risk of loss being limited to the factored accounts receivable not covered by the insurance, which we do not believe to be significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Funds received from the transfers are recorded as an increase to cash and a reduction to accounts receivable outstanding in the consolidated balance sheets. We report the cash flows attributable to the sale of receivables to third parties and the cash receipts from collections made on behalf of and paid to third parties as trade accounts receivables in cash flows from operating activities in our consolidated statements of cash flows.

In the year ended December 31, 2016, the Company factored approximately $103.1 million of accounts receivable pursuant to the arrangements. For the year ended December 31, 2016, the Company incurred minimal expenses related to the factoring.

9. Fair Value Measurements of Assets and Liabilities

The following financial assets and liabilities are recorded at fair value on a recurring basis (in millions):

	As of December 31, 2016			
		Fair Value Measurements at Reporting Date Using:		
Description	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Derivatives, current and long-term				
Foreign currency forward contracts	$65.3	$–	$65.3	$ –
Interest rate swaps	4.0	–	4.0	–
	$69.3	$–	$69.3	$ –
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts	$ 0.3	$–	$ 0.3	$ –
Contingent payments related to acquisitions	62.8	–	–	62.8
	$63.1	$–	$ 0.3	$62.8

	As of December 31, 2015			
		Fair Value Measurements at Reporting Date Using:		
Description	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities				
Corporate debt securities	$245.4	$–	$245.4	$–
U.S. government and agency debt securities	21.5	–	21.5	–
Commercial paper	4.2	–	4.2	–
Certificates of deposit	2.0	–	2.0	–
Total available-for-sale securities	273.1	–	273.1	–
Derivatives, current and long-term				
Foreign currency forward contracts	96.9	–	96.9	–
Interest rate swaps	26.8	–	26.8	–
	$396.8	$–	$396.8	$–
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts	1.6	–	1.6	–
	$ 1.6	$–	$ 1.6	$–

We value our available-for-sale securities using a market approach based on broker prices for identical assets in over-the-counter markets and we perform ongoing assessments of counterparty credit risk.

We value our foreign currency forward contracts and foreign currency options using a market approach based on foreign currency exchange rates obtained from active markets and we perform ongoing assessments of counterparty credit risk.

We value our interest rate swaps using a market approach based on publicly available market yield curves and the terms of our swaps and we perform ongoing assessments of counterparty credit risk.

Contingent payments related to acquisitions consist of commercial milestone, cost savings and sales-based payments, and are valued using discounted cash flow techniques. The fair value of commercial milestone payments reflects management's expectations of probability of payment, and increases as the probability of payment increases or expectation of timing of payments is accelerated. The fair value of cost savings and sales-based payments is based upon probability-weighted future cost savings and revenue estimates, and increases as cost savings and revenue estimates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

increase, probability weighting of higher cost savings and revenue scenarios increase or expectation of timing of payment is accelerated. The majority of these contingent payments are related to acquisitions that have occurred in 2016 for which the acquisition method of accounting is preliminary. Therefore, we recognized minimal gains and losses related to these contingent payments in our consolidated statement of earnings for the year ended December 31, 2016.

10. Goodwill and Other Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill (in millions):

	Americas	EMEA	Asia Pacific	Immaterial Product Category Operating Segments	Total
Balance at January 1, 2015					
Goodwill	$ 931.1	$1,157.3	$148.2	$ 650.6	$ 2,887.2
Accumulated impairment losses	–	–	–	(373.0)	(373.0)
	931.1	1,157.3	148.2	277.6	2,514.2
Biomet Merger	6,445.2	225.6	408.1	495.0	7,573.9
Currency translation	(48.3)	(91.9)	(7.4)	(6.3)	(153.9)
Balance at December 31, 2015					
Goodwill	7,328.0	1,291.0	548.9	1,139.3	10,307.2
Accumulated impairment losses	–	–	–	(373.0)	(373.0)
	7,328.0	1,291.0	548.9	766.3	9,934.2
Biomet purchase accounting adjustments	31.9	(8.0)	(61.3)	(8.3)	(45.7)
LDR purchase accounting	–	–	–	482.4	482.4
Other acquisitions	284.8	34.3	–	20.9	340.0
Currency translation	(10.2)	(53.6)	(0.3)	(2.9)	(67.0)
Balance at December 31, 2016					
Goodwill	7,634.5	1,263.7	487.3	1,631.4	11,016.9
Accumulated impairment losses	–	–	–	(373.0)	(373.0)
	$7,634.5	$1,263.7	$487.3	$1,258.4	$10,643.9

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The components of identifiable intangible assets were as follows (in millions):

	Technology	Intellectual Property Rights	Trademarks and Trade Names	Customer Relationships	IPR&D	Other	Total
As of December 31, 2016:							
Intangible assets subject to amortization:							
Gross carrying amount	$3,599.4	$ 181.6	$ 626.1	$5,303.5	$ –	$135.7	$ 9,846.3
Accumulated amortization	(806.8)	(172.3)	(80.8)	(566.0)	–	(70.4)	(1,696.3)
Intangible assets not subject to amortization:							
Gross carrying amount	–	–	475.1	–	160.3	–	635.4
Total identifiable intangible assets	$2,792.6	$ 9.3	$1,020.4	$4,737.5	$160.3	$ 65.3	$ 8,785.4
As of December 31, 2015:							
Intangible assets subject to amortization:							
Gross carrying amount	$3,161.6	$ 181.0	$ 583.3	$5,133.0	$ –	$101.8	$ 9,160.7
Accumulated amortization	(591.9)	(164.8)	(50.9)	(269.6)	–	(64.8)	(1,142.0)
Intangible assets not subject to amortization:							
Gross carrying amount	–	–	479.0	–	248.6	–	727.6
Total identifiable intangible assets	$2,569.7	$ 16.2	$1,011.4	$4,863.4	$248.6	$ 37.0	$ 8,746.3

Estimated annual amortization expense based upon intangible assets recognized as of December 31, 2016 for the years ending December 31, 2017 through 2021 is (in millions):

For the Years Ending December 31,	
2017	$587.4
2018	568.2
2019	554.0
2020	552.3
2021	546.8

11. Other Current and Long-term Liabilities

Other current and long-term liabilities consisted of the following (in millions):

	As of December 31, 2016	2015
Other current liabilities:		
License and service agreements	$ 168.0	$ 144.1
Certain claims accrual (Note 20)	75.0	50.0
Salaries, wages and benefits	225.8	265.9
Accrued liabilities	789.1	725.9
Total other current liabilities	$1,257.9	$1,185.9
Other long-term liabilities:		
Certain claims accrual (Note 20)	218.6	264.6
Other long-term liabilities	717.7	741.1
Total other long-term liabilities	$ 936.3	$1,005.7

12. Debt

Our debt consisted of the following (in millions):

	As of December 31, 2016	2015
Current portion of long-term debt		
1.450% Senior Notes due 2017	$ 500.0	$ –
U.S. Term Loan B	75.0	–
Other short-term debt	0.6	–
Total short-term debt	$ 575.6	$ –
Long-term debt		
1.450% Senior Notes due 2017	$ –	$ 500.0
2.000% Senior Notes due 2018	1,150.0	1,150.0
4.625% Senior Notes due 2019	500.0	500.0
2.700% Senior Notes due 2020	1,500.0	1,500.0
3.375% Senior Notes due 2021	300.0	300.0
3.150% Senior Notes due 2022	750.0	750.0
3.550% Senior Notes due 2025	2,000.0	2,000.0
4.250% Senior Notes due 2035	253.4	500.0
5.750% Senior Notes due 2039	317.8	500.0
4.450% Senior Notes due 2045	395.4	1,250.0
1.414% Euro Notes due 2022	527.4	–
2.425% Euro Notes due 2026	527.4	–
U.S. Term Loan A	1,700.0	2,500.0
U.S. Term Loan B	675.0	–
Japan Term Loan	99.6	96.8
Other long-term debt	4.2	4.6
Debt discount and issuance costs	(65.8)	(80.8)
Adjustment related to interest rate swaps	31.4	26.8
Total long-term debt	$10,665.8	$11,497.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

At December 31, 2016, our total debt consisted of $7.67 billion aggregate principal amount of our U.S dollar-denominated senior notes ("senior notes"), $1.7 billion outstanding under a U.S. term loan ("U.S. Term Loan A"), $750 million outstanding under a U.S. term loan ("U.S. Term Loan B"), $1.1 billion aggregate principal amount of our Euro-denominated senior notes ("Euro notes"), an 11.7 billion Japanese Yen term loan agreement ("Japan Term Loan") that will mature on May 31, 2018, and other debt and fair value adjustments totaling $36.2 million, partially offset by debt discount and issuance costs of $65.8 million.

On December 13, 2016, we completed the offering of €500 million aggregate principal amount of our 1.414% Euro notes due December 13, 2022 and €500 million aggregate principal amount of our 2.425% Euro notes due December 13, 2026. Interest is payable on each series of Euro notes on December 13 of each year until maturity. We received net proceeds of $1,073.5 million. These proceeds were used to repay the following portions of the Merger Notes: $246.6 million of the 4.250% Senior Notes due 2035, $182.2 million of the 5.750% Senior Notes due 2039, and $854.6 million of the 4.450% Senior Notes due 2045.

As a result, we recorded a loss on the extinguishment of debt in the amount of $53.3 million in our consolidated statement of earnings for the year ended December 31, 2016 in other expense, net. The components of this loss were $66.4 million from portions of the pre-issuance hedge losses related to the Senior Notes due 2045 and $20.3 million from portions of the original debt issuance costs and debt discount offset by the gain of $33.4 million, calculated as the difference between the net carrying amount of the debt of $1,283.4 million and the reacquisition price of $1,250.0 million.

On September 30, 2016, we entered into a revolving credit and term loan agreement (the "2016 Credit Agreement") and a first amendment to our credit agreement entered into on May 29, 2014 (the "2014 Credit Agreement"). The 2016 Credit Agreement contains the U.S. Term Loan B, which is a three-year unsecured term loan facility of $750.0 million, and a five-year unsecured multicurrency revolving facility of $1.5 billion (the "Multicurrency Revolving Facility"). The Multicurrency Revolving Facility replaced the previous multicurrency revolving facility under the 2014 Credit Agreement. On September 30, 2016, we borrowed $750.0 million under the U.S. Term Loan B and utilized those borrowings to repay outstanding borrowings under the previous multicurrency revolving facility incurred in connection with the acquisition of LDR. The previous multicurrency revolving facility was terminated effective September 30, 2016. The 2014 Credit Agreement also provided for the U.S. Term Loan A, which is a 5-year unsecured term loan facility in the original principal amount of $3.0 billion, which term loan facility remains in effect.

The Multicurrency Revolving Facility will mature on September 30, 2021, with two available one-year extensions at our discretion. Borrowings under the Multicurrency Revolving Facility will be used for general corporate purposes. Borrowings under the 2014 and 2016 Credit Agreements bear interest at floating rates based upon indices determined by the currency of the borrowing, or at an alternate base rate, in each case, plus an applicable margin determined by reference to our senior unsecured long-term credit rating, or, in the case of borrowings under the Multicurrency Revolving Facility only, at a fixed rate determined through a competitive bid process. We pay a facility fee on the aggregate amount of the Multicurrency Revolving Facility at a rate determined by reference to our senior unsecured long-term credit rating.

The 2016 Credit Agreement and 2014 Credit Agreement, as amended, contain customary affirmative and negative covenants and events of default for unsecured financing arrangements, including, among other things, limitations on consolidations, mergers and sales of assets. Financial covenants under the 2016 and 2014 Credit Agreements include a consolidated indebtedness to consolidated EBITDA ratio of no greater than 5.0 to 1.0 through June 30, 2017, and no greater than 4.5 to 1.0 thereafter. If our credit rating falls below investment grade, additional restrictions would result, including restrictions on investments and payment of dividends. We were in compliance with all covenants under the 2016 and 2014 Credit Agreements as of December 31, 2016.

On June 24, 2015, we borrowed $3.0 billion under U.S. Term Loan A to fund a portion of the Biomet merger. Under the terms of U.S. Term Loan A, starting September 30, 2015, principal payments are due as follows: $75.0 million on a quarterly basis during the first three years, $112.5 million on a quarterly basis during the fourth year, and $412.5 million on a quarterly basis during the fifth year. We have paid $1.3 billion in principal under U.S. Term Loan A, resulting in $1.7 billion in outstanding borrowings as of December 31, 2016. The interest rate at December 31, 2016 was 2.1 percent on Term Loan A.

On September 30, 2016, we borrowed $750.0 million under U.S. Term Loan B to repay borrowings under the previous multicurrency revolving facility incurred to fund a portion of the LDR merger. Under the terms of U.S. Term Loan B, starting September 30, 2017, principal payments are due as follows: $75.0 million on each of the first two anniversaries of the U.S. Term Loan B effective date, with the remaining balance due on the U.S. Term Loan B maturity date of September 30, 2019.

Borrowings under the Multicurrency Revolving Facility may be used for general corporate purposes. There were no borrowings outstanding under the Multicurrency Revolving Facility as of December 31, 2016.

Of the total $7.67 billion aggregate principal amount of senior notes outstanding at December 31, 2016, we issued $6.55 billion of this amount in March 2015 (the "Merger Notes"), the proceeds of which were used to finance a portion of the cash consideration payable in the Biomet merger, pay merger related fees and expenses and pay a portion of Biomet's funded debt. The Merger Notes consist of the following seven tranches: the 1.450% Senior Notes due 2017,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

the 2.000% Senior Notes due 2018, the 2.700% Senior Notes due 2020, the 3.150% Senior Notes due 2022, the 3.550% Senior Notes due 2025, the 4.250% Senior Notes due 2035 and the 4.450% Senior Notes due 2045.

We may, at our option, redeem our senior notes, in whole or in part, at any time upon payment of the principal, any applicable make-whole premium, and accrued and unpaid interest to the date of redemption. In addition, the Merger Notes and the 3.375% Senior Notes due 2021 may be redeemed at our option without any make-whole premium at specified dates ranging from one month to six months in advance of the scheduled maturity date.

Between the Closing Date and June 30, 2015, we repaid the Biomet senior notes we assumed in the merger. The fair value of the principal amount plus interest was $2,798.6 million. These senior notes required us to pay a call premium in excess of the fair value of the notes when they were repaid. As a result, we recognized $22.0 million in non-operating other expense in 2015 related to this call premium.

The estimated fair value of our senior notes as of December 31, 2016, based on quoted prices for the specific securities from transactions in over-the-counter markets (Level 2), was $8,722.5 million. The estimated fair value of the Japan Term Loan as of December 31, 2016, based upon publicly available market yield curves and the terms of the debt (Level 2), was $99.2 million. The carrying value of U.S. Term Loan A and U.S. Term Loan B approximate fair value as they bear interest at short-term variable market rates.

We have entered into interest rate swap agreements which we designated as fair value hedges of underlying fixed-rate obligations on our senior notes due 2019 and 2021. In August 2016, we settled these instruments for $36.9 million. In September 2016, we entered into various variable-to-fixed interest rate swap agreements that were accounted for as cash flow hedges of Term Loan B. See Note 14 for additional information regarding the interest rate swap agreements.

We also have available uncommitted credit facilities totaling $47.1 million.

At December 31, 2016 and 2015, the weighted average interest rate for our long-term borrowings was 2.8 percent and 2.9 percent, respectively. We paid $363.1 million, $207.1 million, and $67.5 million in interest during 2016, 2015, and 2014, respectively.

13. Accumulated Other Comprehensive (Loss) Income

OCI refers to certain gains and losses that under GAAP are included in comprehensive income but are excluded from net earnings as these amounts are initially recorded as an adjustment to stockholders' equity. Amounts in OCI may be reclassified to net earnings upon the occurrence of certain events.

Our OCI is comprised of foreign currency translation adjustments, unrealized gains and losses on cash flow hedges, unrealized gains and losses on available-for-sale securities, and amortization of prior service costs and unrecognized gains and losses in actuarial assumptions on our defined benefit plans. Foreign currency translation adjustments are reclassified to net earnings upon sale or upon a complete or substantially complete liquidation of an investment in a foreign entity. Unrealized gains and losses on cash flow hedges are reclassified to net earnings when the hedged item affects net earnings. Unrealized gains and losses on available-for-sale securities are reclassified to net earnings if we sell the security before maturity or if the unrealized loss is considered to be other-than-temporary. Amounts related to defined benefit plans that are in OCI are reclassified over the service periods of employees in the plan. The reclassification amounts are allocated to all employees in the plans and, therefore, the reclassified amounts may become part of inventory to the extent they are considered direct labor costs. See Note 15 for more information on our defined benefit plans.

The following table shows the changes in the components of OCI, net of tax (in millions):

	Foreign Currency Translation	Cash Flow Hedges	Unrealized Gains (Losses) on Securities	Defined Benefit Plan Items
Balance December 31, 2015	$(193.4)	$ 29.8	$(0.6)	$(164.8)
OCI before reclassifications	(130.0)	28.3	0.5	12.1
Reclassifications	–	(25.8)	–	9.9
Balance December 31, 2016	$(323.4)	$ 32.3	$(0.1)	$(142.8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The following table shows the reclassification adjustments from OCI (in millions):

	Amount of Gain / (Loss) Reclassified from OCI			
	For the Years Ended December 31,			
Component of OCI	2016	2015	2014	Location on Statement of Earnings
Cash flow hedges				
Foreign exchange forward contracts	$ 87.7	$122.3	$ 33.3	Cost of products sold
Forward starting interest rate swaps	(66.4)	–	–	Other expense
Forward starting interest rate swaps	(1.7)	(1.3)	–	Interest expense
	19.6	121.0	33.3	Total before tax
	(6.2)	28.0	14.4	Provision for income taxes
	$ 25.8	$ 93.0	$ 18.9	Net of tax
Investments				
Realized gains on securities	$ –	$ –	$ 0.4	Interest income
	–	–	0.4	Total before tax
	–	–	–	Provision for income taxes
	$ –	$ –	$ 0.4	Net of tax
Defined benefit plans				
Prior service cost	$ 7.8	$ 5.6	$ 3.9	*
Unrecognized actuarial (loss)	(22.9)	(20.1)	(11.1)	*
	(15.1)	(14.5)	(7.2)	Total before tax
	(5.2)	(5.3)	(3.0)	Provision for income taxes
	$ (9.9)	$ (9.2)	$ (4.2)	Net of tax
Total reclassifications	$ 15.9	$ 83.8	$ 15.1	Net of tax

* These OCI components are included in the computation of net periodic pension expense (see Note 15).

The following table shows the tax effects on each component of OCI recognized in our consolidated statements of comprehensive income (loss) (in millions):

	For the Years Ended December 31,								
	Before Tax			Tax			Net of Tax		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Foreign currency cumulative translation adjustments	$(128.2)	$(305.2)	$(223.1)	$ 1.8	$ –	$ –	$(130.0)	$(305.2)	$(223.1)
Unrealized cash flow hedge gains	29.7	59.1	60.5	1.4	6.4	4.6	28.3	52.7	55.9
Reclassification adjustments on foreign currency hedges	(19.6)	(121.0)	(33.3)	6.2	(28.0)	(14.4)	(25.8)	(93.0)	(18.9)
Reclassification adjustments on securities	–	–	(0.4)	–	–	–	–	–	(0.4)
Unrealized gains/(losses) on securities	0.5	(0.2)	(0.5)	–	–	–	0.5	(0.2)	(0.5)
Adjustments to prior service cost and unrecognized actuarial assumptions	27.3	(25.0)	(104.8)	5.3	(3.6)	(29.0)	22.0	(21.4)	(75.8)
Total Other Comprehensive (Loss) Income	$ (90.3)	$(392.3)	$(301.6)	$14.7	$(25.2)	$(38.8)	$(105.0)	$(367.1)	$(262.8)

14. Derivative Instruments and Hedging Activities

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency exchange rate risk, commodity price risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risks that we manage through the use of derivative instruments are interest rate risk and foreign currency exchange rate risk.

Interest Rate Risk

Derivatives Designated as Fair Value Hedges

In prior years, we entered into various fixed-to-variable interest rate swap agreements that were accounted for as fair value hedges of a portion of the Senior Notes due 2019 and all of the Senior Notes due 2021. In August 2016, we received cash for these interest rate swap assets by terminating the hedging instruments with the counterparties. The asset value, including accrued interest through the date of termination, was $36.9 million and the amount being amortized as a reduction of interest expense over the remaining terms of the hedged debt instruments was $34.3 million, of which the unamortized balance as of December 31, 2016 was $31.4 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Derivatives Designated as Cash Flow Hedges

In 2014, we entered into forward starting interest rate swaps that were designated as cash flow hedges of the thirty year tranche of senior notes (the 4.450% Senior Notes due 2045) we expected to issue in 2015. The forward starting interest rate swaps mitigated the risk of changes in interest rates prior to the completion of the Merger Notes offering. The total notional amounts of the forward starting interest rate swaps were $1 billion and settled in March 2015 at a loss of $97.6 million. This loss will be recognized using the effective interest rate method over the maturity period of the 4.450% Senior Notes due 2045. With the issuance of the Euro notes, we extinguished a portion of the 4.450% Senior Notes due 2045 and recognized $66.4 million as part of our debt extinguishment loss. The remaining loss to be recognized at December 31, 2016 was $28.2 million.

In September 2016, we entered into various variable-to-fixed interest rate swap agreements with a notional amount of $375 million that were accounted for as cash flow hedges of Term Loan B. The interest rate swaps minimize the exposure to changes in the LIBOR interest rates while the variable-rate debt is outstanding. The weighted average fixed interest rate for all of the outstanding interest rate swap agreements is approximately 0.82 percent through September 30, 2019.

Foreign Currency Exchange Rate Risk

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions. We also designated our Euro notes and other foreign currency exchange forward contracts as net investment hedges of investments in foreign subsidiaries. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Swiss Francs, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, Indian Rupees, Turkish Lira, Polish Zloty, Danish Krone, and Norwegian Krone. We do not use derivative financial instruments for trading or speculative purposes.

Derivatives Designated as Net Investment Hedges

We are exposed to the impact of foreign exchange rate fluctuations in the investments in our wholly-owned foreign subsidiaries that are denominated in currencies other than the U.S. dollar. In order to mitigate the volatility in foreign exchange rates, we issued Euro notes in December 2016, as discussed in Note 12, and designated 100 percent of the Euro notes to hedge our net investment in certain wholly-owned foreign subsidiaries that have a functional currency of Euro. All changes in the fair value of the hedging instrument designated as a net investment hedge are recorded as a component of accumulated other comprehensive loss in the consolidated balance sheet.

We also entered into a foreign currency exchange forward contract in anticipation of the Euro notes issuance and designated it as a net investment hedge.

In the year ended December 31, 2016, we recognized a foreign exchange gain of $18.8 million in OCI on our net investment hedges. We recognized no ineffectiveness from our net investment hedges for the year ended December 31, 2016.

Derivatives Designated as Cash Flow Hedges

Our revenues are generated in various currencies throughout the world. However, a significant amount of our inventory is produced in U.S. Dollars. Therefore, movements in foreign currency exchange rates may have different proportional effects on our revenues compared to our cost of products sold. To minimize the effects of foreign currency exchange rate movements on cash flows, we hedge intercompany sales of inventory expected to occur within the next 30 months with foreign currency exchange forward contracts and options. We designate these derivative instruments as cash flow hedges.

We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default. For derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged item affects net earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately reported in cost of products sold. On our consolidated statement of cash flows, the settlements of these cash flow hedges are recognized in operating cash flows.

For foreign currency exchange forward contracts and options outstanding at December 31, 2016, we had obligations to purchase U.S. Dollars and sell Euros, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles, Indian Rupees, Turkish Lira, Polish Zloty, Danish Krone, and Norwegian Krone and obligations to purchase Swiss Francs and sell U.S. Dollars. These derivatives mature at dates ranging from January 2017 through June 2019. As of December 31, 2016, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were $1,512.6 million. As of December 31, 2016, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase Swiss Francs were $315.7 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts with terms of one month to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity's functional currency. As a result, any foreign currency re-measurement gains/losses recognized in earnings are generally offset with gains/losses on the foreign currency forward exchange contracts in the same reporting period. These contracts are settled on the last day of each reporting period. Therefore, there is no outstanding balance related to these contracts recorded on the balance sheet as of the end of the reporting period. The notional amounts of these contracts are typically in a range of $1.75 billion to $2.25 billion per quarter.

Income Statement Presentation

Derivatives Designated as Fair Value Hedges

Derivative instruments designated as fair value hedges had the following effects on our consolidated statements of earnings (in millions):

		Gain / (Loss) on Instrument			Gain / (Loss) on Hedged Item		
		Year Ended December 31,			Year Ended December 31,		
Derivative Instrument	Location on Statement of Earnings	2016	2015	2014	2016	2015	2014
Interest rate swaps	Interest expense	$7.5	$2.8	$14.7	$(7.5)	$(2.8)	$(14.7)

We had no ineffective fair value hedging instruments nor any amounts excluded from the assessment of hedge effectiveness during the years ended December 31, 2016, 2015 and 2014.

Derivatives Designated as Cash Flow Hedges

Derivative instruments designated as cash flow hedges had the following effects, before taxes, on OCI and net earnings on our consolidated statements of earnings, consolidated statements of comprehensive income and consolidated balance sheets (in millions):

	Amount of Gain / (Loss) Recognized in OCI				Amount of Gain / (Loss) Reclassified from OCI		
	Year Ended December 31,				Year Ended December 31,		
Derivative Instrument	2016	2015	2014	Location on Statement of Earnings	2016	2015	2014
Foreign exchange forward contracts	$25.7	$ 97.4	$119.8	Cost of products sold	$ 87.7	$122.3	$33.3
Interest rate swaps	4.0	–	–	Interest expense	–	–	–
Forward starting interest rate swaps	–	(38.3)	(59.3)	Interest expense	(1.7)	(1.3)	–
Forward starting interest rate swaps	–	–	–	Other expense, net	(66.4)	–	–
	$29.7	$ 59.1	$ 60.5		$ 19.6	$121.0	$33.3

The net amount recognized in earnings during the years ended December 31, 2016, 2015 and 2014 due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness were not significant.

The fair value of outstanding derivative instruments designated as cash flow hedges and recorded on the balance sheet at December 31, 2016, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized gain of $32.2 million, or $28.2 million after taxes, which is deferred in accumulated other comprehensive income. Of the net unrealized gain, $34.4 million, or $28.0 million after taxes, is expected to be reclassified to earnings in cost of products sold and a loss of $0.5 million, or $0.3 million after taxes, is expected to be reclassified to earnings in interest expense over the next twelve months.

Derivatives Not Designated as Hedging Instruments

The following gains from these derivative instruments were recognized on our consolidated statements of earnings (in millions):

		Year Ended December 31,		
Derivative Instrument	Location on Statement of Earnings	2016	2015	2014
Foreign exchange forward contracts	Other expense, net	$2.5	$28.8	$15.3

This impact does not include any offsetting gains/losses recognized in earnings as a result of foreign currency remeasurement of monetary assets and liabilities denominated in a currency other than an entity's functional currency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Balance Sheet Presentation

As of December 31, 2016 and December 31, 2015, all derivative instruments designated as fair value hedges and cash flow hedges are recorded at fair value on the balance sheet. On our consolidated balance sheets, we recognize individual forward contracts and options with the same counterparty on a net asset/liability basis if we have a master netting agreement with the counterparty. Under these master netting agreements, we are able to settle derivative instrument assets and liabilities with the same counterparty in a single transaction, instead of settling each derivative instrument separately. We have master netting agreements with all of our counterparties.

The fair value of derivative instruments on a gross basis is as follows (in millions):

	As of December 31, 2016		As of December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives				
Foreign exchange forward contracts	Other current assets	$57.9	Other current assets	$100.5
Foreign exchange forward contracts	Other assets	34.9	Other assets	19.8
Interest rate swaps	Other assets	4.0	Other assets	26.8
Total asset derivatives		$96.8		$147.1
Liability Derivatives				
Foreign exchange forward contracts	Other current liabilities	$20.9	Other current liabilities	$ 16.7
Forward starting interest rate swaps	Other current liabilities	–	Other current liabilities	–
Foreign exchange forward contracts	Other long-term liabilities	6.9	Other long-term liabilities	8.3
Total liability derivatives		$27.8		$ 25.0

The table below presents the effects of our master netting agreements on our consolidated balance sheets (in millions):

		As of December 31, 2016			As of December 31, 2015		
Description	Location	Gross Amount	Offset	Net Amount in Balance Sheet	Gross Amount	Offset	Net Amount in Balance Sheet
Asset Derivatives							
Cash flow hedges	Other current assets	$57.9	$20.6	$37.3	$100.5	$16.3	$84.2
Cash flow hedges	Other assets	34.9	6.8	28.1	19.8	7.1	12.7
Liability Derivatives							
Cash flow hedges	Other current liabilities	20.9	20.6	0.3	16.7	16.3	0.4
Cash flow hedges	Other long-term liabilities	6.9	6.8	0.1	8.3	7.1	1.2

The following net investment hedge gains were recognized on our consolidated statements of comprehensive income (in millions):

	Amount of Gain / (Loss) Recognized in OCI		
	Year Ended December 31,		
Derivative Instrument	2016	2015	2014
Euro Notes	$ 9.4	$–	$–
Foreign exchange forward contracts	9.4	–	–
	$18.8	$–	$–

15. Retirement Benefit Plans

We have defined benefit pension plans covering certain U.S. and Puerto Rico employees. The employees who are not participating in the defined benefit plans receive additional benefits under our defined contribution plans. Plan benefits are primarily based on years of credited service and the participant's average eligible compensation. In addition to the U.S. and Puerto Rico defined benefit pension plans, we sponsor various foreign pension arrangements, including retirement and termination benefit plans required by local law or coordinated with government sponsored plans.

We use a December 31 measurement date for our benefit plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Defined Benefit Plans

The components of net pension expense for our defined benefit retirement plans were as follows (in millions):

	For the Years Ended December 31,					
	U.S. and Puerto Rico			Foreign		
	2016	2015	2014	2016	2015	2014
Service cost	$ 9.6	$ 11.8	$ 10.9	$ 19.0	$ 18.9	$ 14.7
Interest cost	13.8	15.8	15.5	10.0	8.8	9.2
Expected return on plan assets	(32.2)	(31.8)	(30.8)	(13.7)	(13.9)	(11.0)
Curtailment gain	–	–	–	(0.5)	–	–
Settlements	2.6	–	–	–	–	–
Amortization of prior service cost	(5.9)	(3.7)	(2.6)	(1.9)	(1.9)	(1.3)
Amortization of unrecognized actuarial loss	16.5	17.4	10.6	6.4	2.7	0.5
Net periodic benefit cost	$ 4.4	$ 9.5	$ 3.6	$ 19.3	$ 14.6	$ 12.1

The weighted average actuarial assumptions used to determine net pension expense for our defined benefit retirement plans were as follows:

	For the Years Ended December 31,					
	U.S. and Puerto Rico			Foreign		
	2016	2015	2014	2016	2015	2014
Discount rate	4.32%	4.56%	4.98%	1.41%	1.94%	2.46%
Rate of compensation increase	3.29%	3.29%	3.29%	2.08%	2.00%	1.48%
Expected long-term rate of return on plan assets	7.75%	7.75%	7.75%	2.40%	3.05%	2.88%

The expected long-term rate of return on plan assets is based on the historical and estimated future rates of return on the different asset classes held in the plans. The expected long-term rate of return is the weighted average of the target asset allocation of each individual asset class. We believe that historical asset results approximate expected market returns applicable to the funding of a long-term benefit obligation.

Discount rates were determined for each of our defined benefit retirement plans at their measurement date to reflect the yield of a portfolio of high quality bonds matched against the timing and amounts of projected future benefit payments. Beginning in 2016, we changed the method used to estimate the service and interest costs for pension and postretirement benefits. The new method utilizes a full yield curve approach to estimate service and interest costs by applying specific spot rates along the yield curve used to determine the benefit obligation of relevant projected cash outflows. Historically, we utilized a single weighted-average discount rate applied to projected cash outflows. We made the change to provide a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rate on the yield curve. The change did not impact the measurement of the plan's obligations. We accounted for this change as a change in accounting estimate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Changes in projected benefit obligations and plan assets were (in millions):

	For the Years Ended December 31,			
	U.S. and Puerto Rico		Foreign	
	2016	2015	2016	2015
Projected benefit obligation – beginning of year	$375.1	$386.6	$568.6	$423.7
Obligation assumed from Biomet	–	–	–	159.4
Service cost	9.6	11.8	19.0	18.9
Interest cost	13.8	15.8	10.0	8.8
Plan amendments	–	(21.9)	(23.4)	–
Employee contributions	–	–	23.6	16.9
Benefits paid	(14.3)	(12.3)	(31.6)	(24.1)
Actuarial (gain) loss	(1.6)	(4.9)	46.7	(18.9)
Expenses paid	–	–	(0.2)	(0.3)
Settlement	(5.7)	–	–	(0.2)
Translation gain	–	–	(44.1)	(15.6)
Projected benefit obligation – end of year	$376.9	$375.1	$568.6	$568.6

	For the Years Ended December 31,			
	U.S. and Puerto Rico		Foreign	
	2016	2015	2016	2015
Plan assets at fair market value – beginning of year	$374.1	$402.2	$505.6	$385.4
Assets contributed by Biomet	–	–	–	129.4
Actual return on plan assets	29.5	(16.6)	34.1	(4.0)
Employer contributions	5.8	0.8	15.9	14.8
Employee contributions	–	–	23.6	16.9
Settlements	(5.7)	–	–	–
Plan amendments	–	–	–	(0.2)
Benefits paid	(14.3)	(12.3)	(31.6)	(24.1)
Expenses paid	–	–	(0.2)	(0.3)
Translation loss	–	–	(40.4)	(12.3)
Plan assets at fair market value – end of year	$389.4	$374.1	$507.0	$505.6
Funded status	$ 12.5	$ (1.0)	$(61.6)	$(63.0)

	For the Years Ended December 31,			
	U.S. and Puerto Rico		Foreign	
	2016	2015	2016	2015
Amounts recognized in consolidated balance sheet:				
Prepaid pension	$ 24.0	$ 14.6	$ 10.2	$ 16.5
Short-term accrued benefit liability	(0.4)	(1.0)	(0.7)	(0.6)
Long-term accrued benefit liability	(11.1)	(14.6)	(71.1)	(78.9)
Net amount recognized	$ 12.5	$ (1.0)	$(61.6)	$(63.0)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We estimate the following amounts recorded as part of accumulated other comprehensive income will be recognized as part of our net pension expense during 2017 (in millions):

	U.S. and Puerto Rico	Foreign
Unrecognized prior service cost	$ (5.9)	$ (4.2)
Unrecognized actuarial loss	16.4	3.8
	$10.5	$(0.4)

The weighted average actuarial assumptions used to determine the projected benefit obligation for our defined benefit retirement plans were as follows:

	For the Years Ended December 31,					
	U.S. and Puerto Rico			Foreign		
	2016	2015	2014	2016	2015	2014
Discount rate	4.32%	4.36%	4.10%	1.41%	1.86%	1.38%
Rate of compensation increase	3.29%	3.29%	3.29%	2.08%	2.02%	1.43%

Plans with projected benefit obligations in excess of plan assets were as follows (in millions):

	As of December 31,			
	U.S. and Puerto Rico		Foreign	
	2016	2015	2016	2015
Projected benefit obligation	$51.3	$53.8	$545.7	$393.4
Plan assets at fair market value	39.8	38.2	480.2	319.6

Total accumulated benefit obligations and plans with accumulated benefit obligations in excess of plan assets were as follows (in millions):

	As of December 31,			
	U.S. and Puerto Rico		Foreign	
	2016	2015	2016	2015
Total accumulated benefit obligations	$364.8	$354.6	$556.4	$556.8
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation	32.0	34.8	530.1	380.1
Plan assets at fair market value	21.8	20.6	475.3	314.9

The benefits expected to be paid out in each of the next five years and for the five years combined thereafter are as follows (in millions):

For the Years Ending December 31,	U.S. and Puerto Rico	Foreign
2017	$ 15.7	$ 23.3
2018	16.3	23.2
2019	17.5	23.6
2020	18.3	24.0
2021	19.0	23.9
2022-2026	104.9	128.3

The U.S. and Puerto Rico defined benefit retirement plans' overall investment strategy is to maximize total returns by emphasizing long-term growth of capital while mitigating risk. We have established target ranges of assets held by the plans of 40 to 45 percent for equity securities, 30 to 35 percent for debt securities and 20 to 25 percent in non-traditional investments. The plans strive to have sufficiently diversified assets so that adverse or unexpected results from one asset class will not have an unduly detrimental impact on the entire portfolio. We regularly review the investments in the plans and we may rebalance them from time-to-time based upon the target asset allocation of the plans.

For the U.S. and Puerto Rico plans, we maintain an investment policy statement that guides the investment allocation in the plans. The investment policy statement describes the target asset allocation positions described above. Our benefits committee, along with our investment advisor, monitor compliance with and administer the investment policy statement and the plans' assets and oversee the general investment strategy and objectives of the plans. Our benefits committee generally meets quarterly to review performance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

and to ensure that the current investment allocation is within the parameters of the investment policy statement.

The investment strategies of foreign based plans vary according to the plan provisions and local laws. The majority of the assets in foreign based plans are located in Switzerland-based plans. These assets are held in trusts and are commingled with the assets of other Swiss companies with representatives of all the companies making the investment decisions. The overall strategy is to maximize total returns while avoiding risk. The trustees of the assets have established target ranges of assets held by the plans of 30 to 50 percent in debt securities, 20 to 37 percent in equity securities, 15 to 24 percent in real estate, 3 to 15 percent in cash funds and 0 to 12 percent in other funds.

The fair value of our U.S. and Puerto Rico pension plan assets by asset category was as follows (in millions):

	As of December 31, 2016			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2.7	$2.7	$ –	$–
Equity securities:				
U.S. large-cap	87.4	–	87.4	–
U.S. small-cap	34.4	–	34.4	–
International	111.1	–	111.1	–
Real estate	14.4	–	14.4	–
Commodity-linked mutual funds	–	–	–	–
Intermediate fixed income securities	139.4	–	139.4	–
Total	$389.4	$2.7	$386.7	$–

	As of December 31, 2015			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2.5	$2.5	$ –	$–
Equity securities:				
U.S. large-cap	79.2	–	79.2	–
U.S. small-cap	25.6	–	25.6	–
International	93.2	–	93.2	–
Real estate	27.0	–	27.0	–
Commodity-linked mutual funds	16.4	–	16.4	–
Intermediate fixed income securities	130.2	–	130.2	–
Total	$374.1	$2.5	$371.6	$–

The fair value of our foreign pension plan assets was as follows (in millions):

	As of December 31, 2016			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 37.8	$ 37.8	$ –	$ –
Equity securities:				
Energy	3.2	3.2	–	–
Materials	8.6	8.6	–	–
Industrials	9.3	9.3	–	–
Consumer discretionary	5.8	5.8	–	–
Consumer staples	8.4	8.4	–	–
Healthcare	10.3	10.3	–	–
Financials	16.8	16.8	–	–
Information technology	5.2	5.2	–	–
Telecommunication services	2.1	2.1	–	–
Utilities	3.3	3.3	–	–
Other	71.7	68.3	3.4	–
Fixed income securities:				
Government bonds	113.9	–	113.9	–
Corporate bonds	68.2	–	68.2	–
Asset-backed securities	9.9	–	9.9	–
Other debt	11.1	–	11.1	–
Other types of investments:				
Mortgage loans	10.8	–	10.8	–
Insurance contracts	5.8	–	5.8	–
Other investments	16.9	–	16.9	–
Real estate	87.9	–	9.2	78.7
Total	$507.0	$179.1	$249.2	$78.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

	As of December 31, 2015			
		Fair Value Measurements at Reporting Date Using:		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 34.0	$ 34.0	$ –	$ –
Equity securities:				
Energy	4.7	4.7	–	–
Materials	6.7	6.7	–	–
Industrials	8.2	8.2	–	–
Consumer discretionary	6.3	6.3	–	–
Consumer staples	8.5	8.5	–	–
Healthcare	8.6	8.6	–	–
Financials	17.4	17.4	–	–
Information technology	5.7	5.7	–	–
Telecommunication services	2.0	2.0	–	–
Utilities	3.3	3.3	–	–
Other	80.7	40.6	40.1	–
Fixed income securities:				
Government bonds	104.0	–	104.0	–
Corporate bonds	74.5	–	74.5	–
Asset-backed securities	14.8	–	14.8	–
Other debt	11.3	–	11.3	–
Other types of investments:				
Mortgage loans	9.8	–	9.8	–
Insurance contracts	5.8	–	5.8	–
Other investments	14.7	–	14.7	–
Real estate	84.6	–	10.7	73.9
Total	$505.6	$146.0	$285.7	$73.9

As of December 31, 2016 and 2015, our defined benefit pension plans' assets did not hold any direct investment in Zimmer Biomet Holdings common stock.

Equity securities are valued using a market approach, based on quoted prices for the specific security from transactions in active exchange markets (Level 1), or in some cases where we are invested in mutual or collective funds, based upon the net asset value per unit of the fund which is determined from quoted market prices of the underlying securities in the fund's portfolio (Level 2). Fixed income securities are valued using a market approach, based upon quoted prices for the specific security or from institutional bid evaluations. Real estate is valued by discounting to present value the cash flows expected to be generated by the specific properties.

The following table provides a reconciliation of the beginning and ending balances of our foreign pension plan assets measured at fair value that used significant unobservable inputs (Level 3) (in millions):

	December 31, 2016
Beginning Balance	$73.9
Gains on assets sold	0.1
Change in fair value of assets	2.7
Net purchases and sales	5.0
Translation loss	(3.0)
Ending Balance	$78.7

We expect that we will have no legally required minimum funding requirements in 2017 for the qualified U.S. and Puerto Rico defined benefit retirement plans, nor do we expect to voluntarily contribute to these plans during 2017. Contributions to foreign defined benefit plans are estimated to be $14.9 million in 2017. We do not expect the assets in any of our plans to be returned to us in the next year.

Defined Contribution Plans

We also sponsor defined contribution plans for substantially all of the U.S. and Puerto Rico employees and certain employees in other countries. The benefits offered under these plans are reflective of local customs and practices in the countries concerned. We expensed $42.5 million, $40.2 million and $32.8 million related to these plans for the years ended December 31, 2016, 2015 and 2014, respectively.

16. Income Taxes

The components of earnings before income taxes consisted of the following (in millions):

	For the Years Ended December 31,		
	2016	2015	2014
United States operations	$(251.8)	$(246.2)	$403.3
Foreign operations	651.4	399.4	536.1
Total	$ 399.6	$ 153.2	$939.4

The provision for income taxes and the income taxes paid consisted of the following (in millions):

Current:			
Federal	$ 134.2	$ 55.8	$178.2
State	12.4	18.9	16.5
Foreign	101.6	96.3	116.0
	248.2	171.0	310.7
Deferred:			
Federal	(108.5)	(120.6)	(54.8)
State	2.3	(20.0)	(6.6)
Foreign	(47.0)	(23.4)	(29.1)
	(153.2)	(164.0)	(90.5)
Provision for income taxes	$ 95.0	$ 7.0	$220.2
Income taxes paid	$ 269.6	$ 193.6	$340.1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

A reconciliation of the U.S. statutory income tax rate to our effective tax rate is as follows:

	For the Years Ended December 31,		
	2016	2015	2014
U.S. statutory income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal deduction	2.0	(1.7)	0.8
Tax impact of foreign operations, including foreign tax credits	(11.0)	(62.3)	(14.2)
Change in valuation allowance	–	(3.7)	–
Non-deductible expenses	0.9	2.4	–
Tax impact of certain significant transactions	1.6	21.6	1.4
Tax benefit relating to U.S. manufacturer's deduction and export sales	(4.7)	(6.2)	(1.9)
R&D credit	(1.9)	(4.2)	(0.2)
Share based compensation	(2.9)	1.1	0.2
Net uncertain tax positions, including interest and penalties	4.2	22.9	2.2
Other	0.6	(0.3)	0.1
Effective income tax rate	23.8%	4.6%	23.4%

Our operations in Puerto Rico and Switzerland benefit from various tax incentive grants. These grants expire between fiscal years 2019 and 2029.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are recorded to reduce deferred income tax assets when it is more likely than not that an income tax benefit will not be realized.

The components of deferred taxes consisted of the following (in millions):

	As of December 31,	
	2016	2015
Deferred tax assets:		
Inventory	$ 260.3	$ 159.7
Net operating loss carryover	181.3	117.4
Tax credit carryover	110.4	207.8
Capital loss carryover	2.3	4.2
Accrued liabilities	182.2	190.2
Share-based compensation	60.3	59.0
Accounts receivable	22.3	23.7
Other	101.9	133.6
Total deferred tax assets	921.0	895.6
Less: Valuation allowances	(88.3)	(72.7)
Total deferred tax assets after valuation allowances	832.7	822.9
Deferred tax liabilities:		
Fixed assets	$ 138.7	$ 144.6
Intangible assets	2,343.7	2,337.2
Unremitted earnings of foreign subsidiaries	1,159.4	1,374.8
Other	–	4.3
Total deferred tax liabilities	3,641.8	3,860.9
Total net deferred income taxes	$(2,809.1)	$(3,038.0)

Net operating loss carryovers are available to reduce future federal, state and foreign taxable earnings. At December 31, 2016, $157.1 million of these net operating loss carryovers generally expire within a period of 1 to 20 years and $24.2 million of these net operating loss carryovers have an indefinite life. Valuation allowances for net operating loss carryovers have been established in the amount of $70.8 million and $47.0 million at December 31, 2016 and 2015, respectively.

Deferred tax assets related to tax credit carryovers are available to offset future federal, state and foreign tax liabilities. At December 31, 2016, the Company's total tax credit carryovers of $110.4 million generally expire within a period of 1 to 10 years. Valuation allowances for certain tax credit carryovers have been established in the amount of $11.9 million and $14.4 million at December 31, 2016 and 2015, respectively.

Deferred tax assets related to capital loss carryovers are also available to reduce future federal capital gains. At December 31, 2016, the Company's capital loss carryovers of $2.3 million generally expire within a period of 2 to 4 years. Valuation allowances for certain capital loss carryovers have been established in the amount of $0.2 million and $4.2 million at December 31, 2016 and 2015, respectively. The remaining valuation allowances booked against deferred tax assets of $5.4 million and $7.1 million at December 31, 2016 and 2015,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

respectively, relate primarily to intangible assets and potential capital losses that management believes, more likely than not, will not be realized.

At December 31, 2016, we had an aggregate of approximately $4,677.0 million of unremitted earnings of foreign subsidiaries that have been, or are intended to be, indefinitely reinvested for continued use in foreign operations. If the total undistributed earnings of foreign subsidiaries were remitted, a portion of the additional tax would be offset by the allowable foreign tax credits. It is not practical for us to determine the additional tax related to remitting these earnings.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in millions):

	For the Years Ended December 31,		
	2016	2015	2014
Balance at January 1	$591.9	$321.7	$311.0
Increases related to business combinations*	70.2	247.6	–
Increases related to prior periods	36.7	1.3	0.9
Decreases related to prior periods	(94.7)	–	(3.8)
Increases related to current period	53.0	25.7	18.3
Decreases related to settlements with taxing authorities	(3.2)	(1.4)	(3.0)
Decreases related to lapse of statute of limitations	(4.6)	(3.0)	(1.7)
Balance at December 31	$649.3	$591.9	$321.7
Amounts impacting effective tax rate, if recognized balance at December 31*	$511.5	$443.7	$186.3

* Subject to change during measurement period of business combinations.

We recognize accrued interest and penalties related to unrecognized tax benefits as income tax expense. During 2016, we accrued interest and penalties of $19.3 million, and as of December 31, 2016, had a recognized liability for interest and penalties of $110.8 million, which included a $8.6 million increase from December 31, 2015 related to the Biomet merger.

During 2015, we accrued interest and penalties of $4.8 million, and as of December 31, 2015, had recognized a liability for interest and penalties of $82.9 million, which included an increase of $29.8 million from December 31, 2014 related to the Biomet merger. During 2014, we accrued interest and penalties of $5.9 million, and as of December 31, 2014, had recognized a liability for interest and penalties of $48.3 million.

We operate on a global basis and are subject to numerous and complex tax laws and regulations. Additionally, tax laws have and continue to undergo rapid changes in both application and interpretation by various countries, including state aid interpretations and the Organization for Economic Cooperation and Development led initiatives. Our income tax filings are subject to examinations by taxing authorities throughout the world. Income tax audits may require an extended period of time to reach resolution and may result in significant income tax adjustments when interpretation of tax laws or allocation of company profits is disputed.

Our U.S. Federal income tax returns have been audited through 2009 and are currently under audit for years 2010-2014. The IRS has proposed adjustments for years 2005-2009, reallocating profits between certain of our U.S. and foreign subsidiaries. We have disputed these adjustments and intend to continue to vigorously defend our positions. For years 2005-2007, we have filed a petition with the U.S. Tax Court. For years 2008-2009, we are pursuing resolution through the IRS Administrative Appeals Process. The U.S. federal income tax returns of the acquired Biomet consolidated group have been audited through fiscal year 2008.

State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state impact of any federal changes generally remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax return positions in the process of examination, administrative appeals or litigation.

In other major jurisdictions, open years are generally 2009 or later.

Although ultimate timing is uncertain, the net amount of tax liability for unrecognized tax benefits may change within the next twelve months due to changes in audit status, expiration of statutes of limitations, settlements of tax assessments and other events. Management's best estimate of such change is within the range of $300 million decrease to $50 million increase.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

17. Capital Stock and Earnings per Share

We are authorized to issue 250.0 million shares of preferred stock, none of which were issued or outstanding as of December 31, 2016.

The numerator for both basic and diluted earnings per share is net earnings available to common stockholders. The denominator for basic earnings per share is the weighted average number of common shares outstanding during the period. The denominator for diluted earnings per share is weighted average shares outstanding adjusted for the effect of dilutive stock options and other equity awards. The following is a reconciliation of weighted average shares for the basic and diluted share computations (in millions):

	For the Years Ended December 31,		
	2016	2015	2014
Weighted average shares outstanding for basic net earnings per share	200.0	187.4	169.0
Effect of dilutive stock options and other equity awards	2.4	2.4	2.7
Weighted average shares outstanding for diluted net earnings per share	202.4	189.8	171.7

For the years ended December 31, 2016 and 2015, an average of 0.9 million and 0.5 million options, respectively, to purchase shares of common stock were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common stock. In the year ended December 31, 2014, all outstanding options to purchase shares of common stock were included in the computation of diluted earnings per share as the exercise prices of all options were less than the average market price of the common stock.

During 2016, we repurchased 4.2 million shares of our common stock at an average price of $98.50 per share for a total cash outlay of $415.5 million, including commissions.

18. Segment Data

We design, manufacture and market orthopaedic reconstructive products; sports medicine, biologics, extremities and trauma products; office based technologies; spine, craniomaxillofacial and thoracic products ("CMF"); dental implants; and related surgical products. We allocate resources to achieve our operating profit goals through seven operating segments. Our operating segments are comprised of both geographic and product category business units. The geographic operating segments are the Americas, which is comprised principally of the U.S. and includes other North, Central and South American markets; EMEA, which is comprised principally of Europe and includes the Middle East and African markets; and Asia Pacific, which is comprised primarily of Japan and includes other Asian and Pacific markets. The product category operating segments are Americas Spine, Office Based Technologies, CMF and Dental. The geographic operating segments include results from all of our product categories except those in the product category operating segments. The Office Based Technologies, CMF and Dental product category operating segments reflect those respective product category results from all regions, whereas the Americas Spine operating segment only includes product results from the Americas.

As it relates to the geographic operating segments, management evaluates performance based upon segment operating profit exclusive of operating expenses pertaining to inventory step-up and certain other inventory and manufacturing related charges, "Certain claims," goodwill impairment, intangible asset amortization, "Special items," and global operations and corporate functions. Global operations and corporate functions include research, development engineering, medical education, brand management, corporate legal, finance and human resource functions, manufacturing operations and logistics and share-based payment expense. As it relates to each product category operating segment, research, development engineering, medical education, brand management and other various costs that are specific to the product category operating segment's operations are reflected in its operating profit results. Due to these additional costs included in the product category operating segments, profitability metrics between the geographic operating segments and product category operating segments are not comparable. Intercompany transactions have been eliminated from segment operating profit.

Management does not review asset information by operating segment. Instead, management reviews cash flow and other financial ratios by operating segment.

These seven operating segments are the basis for our reportable segment information provided below. The four product category operating segments are individually insignificant to our consolidated results and therefore do not constitute a reporting segment either individually or combined. For presentation purposes, these product category operating segments have been aggregated. Prior period reportable segment financial information has been restated to conform to the current period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Net sales and other information by segment is as follows (in millions):

	Americas	EMEA	Asia Pacific	Immaterial Product Category Operating Segments	Global Operations and Corporate Functions	Total
As of and for the Year Ended December 31, 2016						
Net sales	$3,947.6	$1,566.1	$1,092.2	$1,078.0	$ –	$7,683.9
Depreciation and amortization	135.6	70.7	51.6	34.7	746.7	1,039.3
Segment operating profit	2,134.4	503.3	440.8	249.1	(854.9)	2,472.7
Inventory step-up and certain other inventory and manufacturing related charges						(469.1)
Intangible asset amortization						(565.9)
Certain claims						–
Special items						
Biomet merger related						(487.3)
Other special items						(124.5)
Operating profit						825.9
As of and for the Year Ended December 31, 2015						
Net sales	$3,109.4	$1,302.9	$ 881.6	$ 703.9	$ –	$5,997.8
Depreciation and amortization	110.0	62.4	37.9	21.0	481.1	712.4
Segment operating profit	1,633.5	449.0	422.2	162.2	(673.9)	1,993.0
Inventory step-up and certain other inventory and manufacturing related charges						(348.8)
Intangible asset amortization						(337.4)
Certain claims						(7.7)
Special items						
Biomet merger related						(619.1)
Other special items						(212.7)
Operating profit						467.3
As of and for the Year Ended December 31, 2014						
Net sales	$2,320.2	$1,189.1	$ 789.2	$ 374.8	$ –	$4,673.3
Depreciation and amortization	70.5	48.8	30.2	7.5	218.8	375.8
Segment operating profit	1,215.4	407.8	371.0	76.4	(541.9)	1,528.7
Inventory step-up and certain other inventory and manufacturing related charges						(36.3)
Intangible asset amortization						(92.5)
Certain claims						(21.5)
Special items						
Biomet merger related						(61.9)
Other special items						(279.2)
Operating profit						1,037.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We conduct business in the following countries that hold 10 percent or more of our total consolidated Property, plant and equipment, net (in millions):

	As of December 31,	
	2016	2015
United States	$1,181.3	$1,188.6
Other countries	856.6	874.0
Property, plant and equipment, net	$2,037.9	$2,062.6

U.S. sales were $4,541.3 million, $3,447.2 million, and $2,397.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. Sales within any other individual country were less than 10 percent of our consolidated sales in each of those years. Sales are attributable to a country based upon the customer's country of domicile.

Net sales by product category are as follows (in millions):

	For the Years Ended December 31,		
	2016	2015	2014
Knees	$2,751.9	$2,276.8	$1,895.2
Hips	1,867.9	1,533.0	1,326.4
S.E.T	1,645.4	1,214.6	863.2
Dental	427.9	335.7	242.8
Spine & CMF	662.0	404.4	207.2
Other	328.8	233.3	138.5
Total	$7,683.9	$5,997.8	$4,673.3

19. Leases

Total rent expense for the years ended December 31, 2016, 2015 and 2014 aggregated $74.0 million, $60.1 million, and $48.4 million, respectively.

Future minimum rental commitments under non-cancelable operating leases in effect as of December 31, 2016 were (in millions):

For the Years Ending December 31,	
2017	$69.5
2018	58.7
2019	47.6
2020	38.9
2021	28.4
Thereafter	88.7

20. Commitments and Contingencies

On a quarterly and annual basis, we review relevant information with respect to loss contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews. We establish liabilities for loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made.

Litigation

Durom® Cup-related claims: On July 22, 2008, we temporarily suspended marketing and distribution of the Durom Cup in the U.S. Subsequently, a number of product liability lawsuits were filed against us in various U.S. and foreign jurisdictions. The plaintiffs seek damages for personal injury, and they generally allege that the Durom Cup contains defects that result in complications and premature revision of the device. We have settled some of these claims and others are still pending. The majority of the pending U.S. lawsuits are currently in a federal Multidistrict Litigation ("MDL") in the District of New Jersey (*In Re: Zimmer Durom Hip Cup Products Liability Litigation*). Multi-plaintiff state court cases are pending in St. Clair County, Illinois (*Santas, et al. v. Zimmer, Inc., et al.*) and Los Angeles County, California (*McAllister, et al. v. Zimmer, Inc., et al.*). The initial trial in *Santas* took place in November 2014, the initial trial in the MDL took place in May 2015 and the initial trial in *McAllister* took place in July 2015. As of December 31, 2016, all litigation activity in the MDL, *Santas* and *McAllister* is stayed until mid-2017 to allow participation in the U.S. Durom Cup Settlement Program, an extrajudicial program created to resolve actions and claims of eligible U.S. plaintiffs and claimants. Other lawsuits are pending in various domestic and foreign jurisdictions, and additional claims may be asserted in the future. The majority of claims outside the U.S. are pending in Canada, Germany and the U.K. A Canadian class settlement was approved in late 2016. Trials have commenced in Germany, and the majority of claims in the U.K. are consolidated in a Group Litigation Order.

Since 2008, we have recognized expense of $479.4 million for Durom Cup-related claims. Our estimate of our total liability for these claims as of December 31, 2016 remains consistent with our estimate as of December 31, 2015, and, accordingly, we did not record any additional expense during the year ended December 31, 2016. We recognized $7.7 million and $21.5 million in expense for Durom Cup-related claims in 2015 and 2014, respectively.

We maintain insurance for product liability claims, subject to self-insurance retention requirements. As of December 31, 2016, we have exhausted our self-insured retention under our insurance program and have a claim for insurance proceeds for ultimate losses which exceed the self-insured retention amount, subject to a 20 percent co-payment requirement and a cap. We believe our contracts with the insurance carriers are enforceable for these claims and, therefore, it is probable that we will recover some amount from our insurance carriers. We have received a portion of the insurance proceeds we estimate we will recover. We have a $95.3 million receivable in "Other assets" remaining on our consolidated balance sheet as of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 31, 2016 for estimated insurance recoveries for Durom Cup-related claims. As is customary in this process, our insurance carriers have reserved all rights under their respective policies and could still ultimately deny coverage for some or all of our insurance claims.

Our estimate as of December 31, 2016 of the remaining liability for all Durom Cup-related claims is $293.6 million, of which $75.0 million is classified as short-term in "Other current liabilities" and $218.6 million is classified as long-term in "Other long-term liabilities" on our consolidated balance sheet. We expect to pay the majority of the Durom Cup-related claims within the next few years.

Our understanding of clinical outcomes with the Durom Cup and other large diameter hip cups continues to evolve. We rely on significant estimates in determining the provisions for Durom Cup-related claims, including our estimate of the number of claims that we will receive and the average amount we will pay per claim. The actual number of claims and the actual amount we pay per claim may differ from our estimates. Among other factors, since our understanding of the clinical outcomes is still evolving, we cannot reasonably estimate the possible loss or range of loss that may result from Durom Cup-related claims in excess of the losses we have accrued.

Margo and Daniel Polett v. Zimmer, Inc. et al.: On August 20, 2008, Margo and Daniel Polett filed an action against us and an unrelated third party, Public Communications, Inc. ("PCI"), in the Court of Common Pleas, Philadelphia, Pennsylvania seeking an unspecified amount of damages for injuries and loss of consortium allegedly suffered by Mrs. Polett and her spouse, respectively. The complaint alleged that defendants were negligent in connection with Mrs. Polett's participation in a promotional video featuring one of our knee products. The case was tried in November 2010 and the jury returned a verdict in favor of plaintiffs. The jury awarded $27.6 million in compensatory damages and apportioned fault 30 percent to plaintiffs, 34 percent to us and 36 percent to PCI. Under applicable law, we may be liable for any portion of the damages apportioned to PCI that it does not pay. On December 2, 2010, we and PCI filed a motion for post-trial relief seeking a judgment notwithstanding the verdict, a new trial or a remittitur. On June 10, 2011, the trial court entered an order denying our motion for post-trial relief and affirming the jury verdict in full and entered judgment for $20.3 million against us and PCI. On June 29, 2011, we filed a notice of appeal to the Superior Court of Pennsylvania and posted a bond for the verdict amount plus interest. Oral argument before the appellate court in Philadelphia, Pennsylvania was held on March 13, 2012. On March 1, 2013, the Superior Court of Pennsylvania vacated the $27.6 million judgment and remanded the case for a new trial. On March 15, 2013, plaintiffs filed a motion for re-argument *en banc*, and on March 28, 2013, we filed our response in opposition. On May 9, 2013, the Superior Court of Pennsylvania granted plaintiffs' motion for re-argument *en banc*. Oral argument (re-argument *en banc*) before the Superior Court of Pennsylvania was held on October 16, 2013. On December 20, 2013, the Court issued its opinion again vacating the trial court judgment and remanding the case for a new trial. On January 21, 2014, plaintiffs filed a petition for allowance of appeal in the Supreme Court of Pennsylvania, which was granted on May 21, 2014. Oral argument before the Supreme Court of Pennsylvania took place on October 8, 2014. On October 27, 2015, the Supreme Court of Pennsylvania reversed the order of the Superior Court of Pennsylvania and remanded the case to that court to consider the question of whether the trial court erred in refusing to remit the jury's compensatory damages award. On June 6, 2016, an *en banc* panel of the Superior Court of Pennsylvania vacated the $27.6 million verdict and remanded the case back to the trial court for remittitur. On December 2, 2016, the trial court remitted the verdict to $21.5 million. On December 5, 2016, we filed a notice of appeal to the Superior Court of Pennsylvania. Although we are defending this lawsuit vigorously, its ultimate resolution is uncertain. In the future, we could be required to record a charge that could have a material adverse effect on our results of operations and cash flows.

NexGen® Knee System claims: Following a wide-spread advertising campaign conducted by certain law firms beginning in 2010, a number of product liability lawsuits have been filed against us in various jurisdictions. The plaintiffs seek damages for personal injury, alleging that certain products within the NexGen Knee System suffer from defects that cause them to loosen prematurely. The majority of the cases are currently pending in a federal MDL in the Northern District of Illinois (*In Re: Zimmer NexGen Knee Implant Products Liability Litigation*). Other cases are pending in other state and federal courts, and additional lawsuits may be filed. As of December 31, 2016, discovery in these lawsuits was ongoing. The initial bellwether trial took place in October 2015 and resulted in a defense verdict. The next scheduled bellwether trial, which was set to commence in November 2016, was dismissed following the court's grant of summary judgment in our favor in October 2016. The second bellwether trial took place in January 2017 and resulted in a defense verdict. We have not accrued an estimated loss relating to these lawsuits because we believe the plaintiffs' allegations are not consistent with the record of clinical success for these products. As a result, we do not believe that it is probable that we have incurred a liability, and we cannot reasonably estimate any loss that might eventually be incurred. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Biomet metal-on-metal hip implant claims: Biomet is a defendant in a number of product liability lawsuits relating to metal-on-metal hip implants. The majority of these cases involve the M2a-Magnum™ hip system. The majority of the cases are currently consolidated in one federal MDL proceeding in the U.S. District Court for the Northern District of Indiana *(In Re: Biomet M2a Magnum Hip Implant Product Liability Litigation)*. Other cases are pending in various state and foreign courts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

On February 3, 2014, Biomet announced the settlement of the MDL. Lawsuits filed in the MDL by April 15, 2014 may participate in the settlement. Biomet continues to evaluate the inventory of lawsuits in the MDL pursuant to the categories and procedures set forth in the settlement agreement. The final amount of payments under the settlement is uncertain. The settlement does not affect certain other claims relating to Biomet's metal-on-metal hip products that are pending in various state and foreign courts, or other claims that may be filed in the future. Our estimate as of December 31, 2016 of the remaining liability for all Biomet metal-on-metal hip implant claims is $57.4 million.

Biomet has exhausted the self-insured retention in its insurance program and has been reimbursed for claims related to its metal-on-metal products up to its policy limits in the program. Zimmer Biomet will be responsible for any amounts by which the ultimate losses exceed the amount of Biomet's third-party insurance coverage. As of December 31, 2016, Biomet had received all of the insurance proceeds it expects to recover under the excess policies. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Heraeus trade secret misappropriation lawsuits: In December 2008, Heraeus Kulzer GmbH (together with its affiliates, "Heraeus") initiated legal proceedings in Germany against Biomet, Inc., Biomet Europe BV, certain other entities and certain employees alleging that the defendants misappropriated Heraeus trade secrets when developing Biomet Europe's Refobacin and Biomet Bone Cement line of cements ("European Cements"). The lawsuit sought to preclude the defendants from producing, marketing and offering for sale their current line of European Cements and to compensate Heraeus for any damages incurred (alleged at that time to be in excess of €30.0 million).

On June 5, 2014, the German appeals court in Frankfurt (i) enjoined Biomet, Inc., Biomet Europe BV and Biomet Deutschland GmbH from manufacturing, selling or offering the European Cements to the extent they contain certain raw materials in particular specifications; (ii) held the defendants jointly and severally liable to Heraeus for any damages from the sale of European Cements since 2005; and (iii) ruled that no further review may be sought (the "Frankfurt Decision"). The Heraeus and Biomet parties both sought appeal against the Frankfurt Decision. In a decision dated June 16, 2016, the German Supreme Court dismissed the parties' appeals without reaching the merits, rendering that decision final. In December 2016, Heraeus filed papers to restart proceedings against Biomet Orthopaedics Switzerland GmbH, seeking to require that entity to relinquish its CE certificates for the European Cements. In January 2017, Heraeus notified Biomet it had filed a claim for damages in the amount of €121.9 million for sales in Germany. As of the date of filing of this report, the Biomet entities had not yet been served formally with that claim.

On September 8, 2014, Heraeus filed a complaint against a Biomet supplier, Esschem, Inc. ("Esschem"), in the United States District Court for the Eastern District of Pennsylvania. The lawsuit contains allegations that focus on two copolymer compounds that Esschem sells to Biomet, which Biomet incorporates into certain bone cement products that compete with Heraeus' bone cement products. The complaint alleges that Biomet helped Esschem to develop these copolymers, using Heraeus trade secrets that Biomet allegedly misappropriated. The complaint asserts a claim under the Pennsylvania Trade Secrets Act, as well as other various common law tort claims, all based upon the same trade secret misappropriation theory. Heraeus is seeking to enjoin Esschem from supplying the copolymers to any third party and actual damages in an unspecified amount. The complaint also seeks punitive damages, costs and attorneys' fees. If Esschem is enjoined, Biomet may not be able to obtain the copolymers from another supplier and as a result may not be able to continue to manufacture the subject bone cement products. Although Heraeus has not named Biomet as a party to this lawsuit, Biomet has agreed, at Esschem's request and subject to certain limitations, to indemnify Esschem for any liability, damages and legal costs related to this matter. On November 3, 2014, the court entered an order denying Heraeus' motion for a temporary restraining order. On June 30, 2016, the court entered an order denying Heraeus' request to give preclusive effect to the factual findings in the Frankfurt Decision. A trial is scheduled to commence on June 19, 2017.

Heraeus continues to pursue other related legal proceedings in Europe seeking various forms of relief, including injunctive relief and damages, against Biomet-related entities relating to the European Cements.

We have accrued an estimated loss relating to the Frankfurt Decision, but have not recognized any losses for Heraeus-related lawsuits in other jurisdictions because we do not believe it is probable that we have incurred a liability, and we cannot reasonably estimate any loss that might eventually be incurred. Damages relating to the Frankfurt Decision are subject to separate proceedings and it is reasonably possible that our estimate of the loss we may incur may change in the future. Although we are vigorously defending these lawsuits, their ultimate resolution is uncertain.

Stryker patent infringement lawsuit: On December 10, 2010, Stryker Corporation and related entities ("Stryker") filed suit against us in the U.S. District Court for the Western District of Michigan, alleging that certain of our Pulsavac® Plus Wound Debridement Products infringe three U.S. patents assigned to Stryker. The case was tried beginning on January 15, 2013, and on February 5, 2013, the jury found that we infringed certain claims of the subject patents. The jury awarded $70.0 million in monetary damages for lost profits. The jury also found that we willfully infringed the subject patents. We filed multiple post-trial motions, including a motion seeking a new trial. On August 7, 2013, the trial court issued a ruling denying all of our motions and awarded treble damages and attorneys' fees to Stryker. We filed a notice of appeal to the Court of Appeals for the Federal Circuit to seek reversal of both the jury's verdict and the trial court's rulings

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

on our post-trial motions. Oral argument before the Court of Appeals for the Federal Circuit took place on September 8, 2014. On December 19, 2014, the Federal Circuit issued a decision affirming the $70.0 million lost profits award but reversed the willfulness finding, vacating the treble damages award and vacating and remanding the attorneys' fees award. We accrued an estimated loss of $70.0 million related to this matter in the three month period ended December 31, 2014. On January 20, 2015, Stryker filed a motion with the Federal Circuit for a rehearing *en banc*. On March 23, 2015, the Federal Circuit denied Stryker's petition. Stryker subsequently filed a petition for certiorari to the U.S. Supreme Court. In July 2015, we paid the final award of $90.3 million, which includes the original $70.0 million plus pre-and post-judgment interest and damages for sales that occurred post-trial but prior to our entry into a license agreement with Stryker. On October 19, 2015, the U.S. Supreme Court granted Stryker's petition for certiorari. Oral argument took place on February 23, 2016. On June 13, 2016, the U.S. Supreme Court issued its decision, vacating the judgment of the Federal Circuit and remanding the case for further proceedings related to the willfulness issue. On September 12, 2016, the Federal Circuit issued an opinion affirming the jury's willfulness finding and vacating and remanding the District Court's award of treble damages, its finding that this was an exceptional case and its award of attorneys' fees. The case is now being remanded back to the District Court. Oral argument on Stryker's renewed consolidated motion for enhanced damages and attorneys' fees is scheduled for June 28, 2017. Although we are defending this lawsuit vigorously, the ultimate resolution of this matter is uncertain. In the future, we could be required to record a charge of up to $165.0 million that could have a material adverse effect on our results of operations and cash flows.

Putative Class Action: On December 2, 2016, a complaint was filed in the U.S. District Court for the Northern District of Indiana (*Shah v. Zimmer Biomet Holdings, Inc. et al.)*, naming us and three of our officers as defendants. The complaint relates to a putative class action on behalf of persons who purchased our common stock between September 7, 2016 and October 31, 2016. The complaint alleges that the defendants violated federal securities laws by making materially false and/or misleading statements and failing to disclose that supply chain issues led to a decrease in order fulfillment rates in the third quarter of 2016 and would cause us to lower our revenue and earnings guidance for full-year 2016. The plaintiff seeks unspecified damages and interest, attorneys' fees, costs and other relief. We believe this lawsuit is without merit, and we and the individual defendants intend to defend it vigorously.

Regulatory Matters, Government Investigations and Other Matters

FDA warning letters: In September 2012, Zimmer received a warning letter from the FDA citing concerns relating to certain processes pertaining to products manufactured at our Ponce, Puerto Rico manufacturing facility. In June 2015, Biomet received a warning letter from the FDA that requested additional information to allow the FDA to evaluate the adequacy of Biomet's responses to certain Form 483 observations issued following an inspection of Biomet's Zhejiang, China manufacturing facility in January 2015. In May 2016, Zimmer received a warning letter from the FDA related to observed non-conformities with current good manufacturing practice requirements of the QSR at our facility in Montreal, Quebec, Canada. We have provided detailed responses to the FDA as to our corrective actions and will continue to work expeditiously to address the issues identified by the FDA during inspections in Ponce, Zhejiang and Montreal. As of December 31, 2016, these warning letters remained pending. Until the violations are corrected, we may be subject to additional regulatory action by the FDA, as described more fully below. Additionally, requests for Certificates to Foreign Governments related to products manufactured at certain of our facilities may not be granted and premarket approval applications for Class III devices to which the QSR deviations at these facilities are reasonably related will not be approved until the violations have been corrected. In addition to responding to the warning letters described above, we are in the process of addressing various FDA Form 483 inspectional observations at certain of our manufacturing facilities, including at both the legacy Zimmer and the legacy Biomet manufacturing facilities in Warsaw, Indiana. The ultimate outcome of these matters is presently uncertain. Among other available regulatory actions, the FDA may impose operating restrictions, including a ceasing of operations, on one or more facilities, enjoining and restraining certain violations of applicable law pertaining to medical devices and assessing civil or criminal penalties against our officers, employees or us. The FDA could also issue a corporate warning letter, a recidivist warning letter or a consent decree of permanent injunction. The FDA may also recommend prosecution by the DOJ. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively manufacturing, marketing and selling our products and could have a material adverse effect on our business, financial condition and results of operations.

DPA relating to FCPA matters: On January 12, 2017, we resolved previously-disclosed FCPA matters involving Biomet and certain of its subsidiaries. As part of the settlement, Biomet resolved matters with the SEC through an administrative cease-and-desist order (the "Order"); (ii) we entered into a DPA with the DOJ; and (iii) JERDS Luxembourg Holding S.à r.l. ("JERDS"), the direct parent company of Biomet 3i Mexico SA de CV and an indirect, wholly-owned subsidiary of Biomet, entered into a plea agreement (the "Plea Agreement") with the DOJ. The conduct underlying these resolutions occurred prior to the Biomet merger.

Pursuant to the terms of the Order, Biomet resolved claims with the SEC related to violations of the books and records, internal controls and anti-bribery provisions of the FCPA by disgorging profits to the U.S. government in an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

aggregate amount of approximately $6.5 million, inclusive of pre-judgment interest, and paying a civil penalty in the amount of $6.5 million (collectively, the "Civil Settlement Payments"). We also agreed to pay a criminal penalty of approximately $17.5 million (together with the Civil Settlement Payments, the "Settlement Payments") to the U.S. government pursuant to the terms of the DPA. We made the Settlement Payments in January 2017 and, as previously disclosed, had accrued, as of June 24, 2015, the closing date of the Biomet merger, an amount sufficient to cover this matter.

Under the DPA, which has a term of three years, the DOJ agreed to defer criminal prosecution of us in connection with the charged violation of the internal controls provision of the FCPA as long as we comply with the terms of the DPA. In addition, we will be subject to oversight by an independent compliance monitor for at least 12 months. The monitor will focus on legacy Biomet operations as integrated into our operations. If we remain in compliance with the DPA during its term, the charges against us will be dismissed with prejudice. The term of the DPA may be extended for up to one additional year at the DOJ's discretion. In addition, under its Plea Agreement with the DOJ, JERDS pleaded guilty on January 13, 2017 to aiding and abetting a violation of the books and records provision of the FCPA. In light of the DPA we entered into, JERDS paid only a nominal assessment and no criminal penalty.

If we do not comply with the terms of the DPA, we could be subject to prosecution for violating the internal controls provisions of the FCPA and the conduct of Biomet and its subsidiaries described in the DPA, which conduct pre-dated our acquisition of Biomet, as well as any new or continuing violations. We could also be subject to exclusion by OIG-HHS from participation in federal healthcare programs, including Medicaid and Medicare. Any of these events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

21. Quarterly Financial Information (Unaudited)

(in millions, except per share data)

	2016 Quarter Ended				2015 Quarter Ended			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Net sales	$1,904.0	$1,934.0	$1,832.8	$2,013.1	$1,134.4	$1,167.6	$1,762.2	$1,933.6
Gross profit	1,136.8	1,160.1	1,189.2	1,250.1	829.1	840.3	1,087.5	1,102.9
Net earnings (loss) of Zimmer Biomet Holdings, Inc.	108.8	(31.3)	158.8	69.6	171.4	(173.6)	22.2	127.0
Earnings (loss) per common share								
Basic	0.54	(0.16)	0.79	0.35	1.01	(1.00)	0.11	0.62
Diluted	0.54	(0.16)	0.78	0.34	0.99	(1.00)	0.11	0.62

In the three month period ended September 30, 2016, we recognized $21.0 million of tax benefits and $12.2 million of pre-tax operating expenses that were related to previous periods. The majority of the tax benefits were related to adjusting certain Biomet purchase accounting values. In the three month period ended December 31, 2016, we recognized $13.0 million of tax provisions that were related to previous periods. We have evaluated the effect of these out-of-period adjustments on the applicable interim and annual periods of 2016 and prior years in which they should have been recognized, and concluded for both quantitative and qualitative reasons that these adjustments were not material to any of the periods affected.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 13a-15(f) under the Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2016, the end of the period covered by this report, our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting discussed in Management's Report on Internal Control Over Financial Reporting included in item 7A.

In light of this material weakness, the Company performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management concluded that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Remediation Plan. Management has begun implementing a remediation plan to address the control deficiencies that led to the material weakness. The remediation plan includes adding additional resources and strengthening our income tax controls with improved technical oversight and training. We believe these additional resources will enhance our review procedures and will effectively remediate the material weakness, but the material weakness will not be considered remediated until the applicable measures have been implemented for a sufficient period of time and management has concluded, through testing, that the enhanced control is operating effectively. As we continue to evaluate and improve our internal control over financial reporting, we may decide to take additional measures to address this material weakness, which may require additional implementation time. Further, we cannot provide any assurance that our remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

During the fourth quarter of 2016, the Audit Committee of our Board of Directors was not asked to, and did not, approve the engagement of PricewaterhouseCoopers LLP, our independent registered public accounting firm, to perform any non-audit services. This disclosure is made pursuant to Section 10A(i)(2) of the Exchange Act.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference from our definitive Proxy Statement for the annual meeting of stockholders to be held on May 12, 2017 (the "2017 Proxy Statement").

We have adopted the Zimmer Biomet Code of Ethics for Chief Executive Officer and Senior Financial Officers (the "finance code of ethics"), a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Corporate Controller, and other finance organization senior employees. The finance code of ethics is publicly available in the Investor Relations section of our website, which may be accessed from our homepage at www.zimmerbiomet.com or directly at http://investor.zimmerbiomet.com. If we make any substantive amendments to the finance code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or Chief Accounting Officer and Corporate Controller, we will disclose the nature of that amendment in the Investor Relations section of our website.

Item 11. Executive Compensation

Information required by this item is incorporated by reference from our 2017 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is incorporated by reference from our 2017 Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this item is incorporated by reference from our 2017 Proxy Statement.

Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated by reference from of our 2017 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1. Financial Statements

The following consolidated financial statements of Zimmer Biomet Holdings, Inc. and its subsidiaries are set forth in Part II, Item 8.

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Earnings for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Balance Sheets as of December 31, 2016 and 2015

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

2. Financial Statement Schedule

Schedule II. Valuation and Qualifying Accounts

Other financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

3. Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits and is incorporated herein by reference.

Item 16. 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZIMMER BIOMET HOLDINGS, INC.

By: /s/ David C. Dvorak
David C. Dvorak
President and Chief Executive Officer

Dated: March 1, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ David C. Dvorak David C. Dvorak	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2017
/s/ Daniel P. Florin Daniel P. Florin	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2017
/s/ Tony W. Collins Tony W. Collins	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	March 1, 2017
/s/ Christopher B. Begley Christopher B. Begley	Director	March 1, 2017
/s/ Betsy J. Bernard Betsy J. Bernard	Director	March 1, 2017
/s/ Paul M. Bisaro Paul M. Bisaro	Director	March 1, 2017
/s/ Gail K. Boudreaux Gail K. Boudreaux	Director	March 1, 2017
/s/ Michael J. Farrell Michael J. Farrell	Director	March 1, 2017
/s/ Larry C. Glasscock Larry C. Glasscock	Director	March 1, 2017
/s/ Robert A. Hagemann Robert A. Hagemann	Director	March 1, 2017
/s/ Arthur J. Higgins Arthur J. Higgins	Director	March 1, 2017
/s/ Michael W. Michelson Michael W. Michelson	Director	March 1, 2017
/s/ Cecil B. Pickett, Ph.D. Cecil B. Pickett, Ph.D.	Director	March 1, 2017
/s/ Jeffrey K. Rhodes Jeffrey K. Rhodes	Director	March 1, 2017

INDEX TO EXHIBITS

Exhibit No	Description†
2.1	Agreement and Plan of Merger, dated as of June 6, 2016, by and among Zimmer Biomet Holdings, Inc., LH Merger Sub, Inc. and LDR Holding Corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed June 7, 2016)
3.1	Restated Certificate of Incorporation of Zimmer Biomet Holdings, Inc., dated June 24, 2015 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
3.2	Restated By-Laws of Zimmer Biomet Holdings, Inc., effective June 24, 2015 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
4.1	Specimen Common Stock certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed August 10, 2015)
4.2	Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. (now known as Zimmer Biomet Holdings, Inc.) and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed December 13, 2016)
4.3	First Supplemental Indenture to the Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed November 17, 2009)
4.4	Form of 4.625% Note due 2019 (incorporated by reference to Exhibit 4.3 above)
4.5	Form of 5.750% Note due 2039 (incorporated by reference to Exhibit 4.3 above)
4.6	Second Supplemental Indenture dated as of November 10, 2011, to the Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed November 10, 2011)
4.7	Form of 3.375% Note due 2021 (incorporated by reference to Exhibit 4.6 above)
4.8	Third Supplemental Indenture, dated as of March 19, 2015, to the Indenture dated as of November 17, 2009 between Zimmer Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed March 19, 2015)
4.9	Form of 1.450% Notes due 2017 (incorporated by reference to Exhibit 4.8 above)
4.10	Form of 2.000% Notes due 2018 (incorporated by reference to Exhibit 4.8 above)
4.11	Form of 2.700% Notes due 2020 (incorporated by reference to Exhibit 4.8 above)
4.12	Form of 3.150% Notes due 2022 (incorporated by reference to Exhibit 4.8 above)
4.13	Form of 3.550% Notes due 2025 (incorporated by reference to Exhibit 4.8 above)
4.14	Form of 4.250% Notes due 2035 (incorporated by reference to Exhibit 4.8 above)
4.15	Form of 4.450% Notes due 2045 (incorporated by reference to Exhibit 4.8 above)
4.16	Fourth Supplemental Indenture, dated as of December 13, 2016, between Zimmer Biomet Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed December 13, 2016)
4.17	Agency Agreement, dated as of December 13, 2016, by and among Zimmer Biomet Holdings, Inc., as issuer, Elavon Financial Services DAC, UK Branch, as paying agent, Elavon Financial Services DAC, as registrar and transfer agent, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed December 13, 2016)
4.18	Amendment No. 1, dated as of January 4, 2017, to the Agency Agreement dated as of December 13, 2016, by and among Zimmer Biomet Holdings, Inc., as issuer, Elavon Financial Services DAC, UK Branch, as paying agent, Elavon Financial Services DAC, as original registrar and original transfer agent, U.S. Bank National Association, as successor registrar and successor transfer agent, and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A filed January 4, 2017)
4.19	Form of 1.414% Notes due 2022 (incorporated by reference to Exhibit 4.16 above)
4.20	Form of 2.425% Notes due 2026 (incorporated by reference to Exhibit 4.16 above)
10.1*	Zimmer Holdings, Inc. 2006 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 13, 2006)
10.2*	Zimmer Biomet Holdings, Inc. Executive Performance Incentive Plan, as amended May 7, 2013 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)

Exhibit No	Description†
10.3*	Amendment to Zimmer Biomet Holdings, Inc. Executive Performance Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.4*	Restated Zimmer Biomet Holdings, Inc. Long Term Disability Income Plan for Highly Compensated Employees (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.5*	Change in Control Severance Agreement with David C. Dvorak (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.6*	Change in Control Severance Agreement with Katarzyna Mazur-Hofsaess (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed August 7, 2013)
10.7*	Form of Change in Control Severance Agreement with Chad F. Phipps (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.8*	Form of Change in Control Severance Agreement with Daniel P. Florin, Tony W. Collins, Adam R. Johnson, David A. Nolan, Jr. and Daniel E. Williamson (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed August 10, 2015)
10.9*	Change in Control Severance Agreement with Sang Yi (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.10*	Form of Change in Control Severance Agreement with Robert D. Delp
10.11*	Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and Its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Savings and Investment Program (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.12*	First Amendment to the Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Savings and Investment Program (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.13*	Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and Its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Retirement Income Plan or the Zimmer Puerto Rico Retirement Income Plan (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed February 28, 2009)
10.14*	First Amendment to the Restated Benefit Equalization Plan of Zimmer Holdings, Inc. and its Subsidiary or Affiliated Corporations Participating in the Zimmer Holdings, Inc. Retirement Income Plan or the Zimmer Puerto Rico Retirement Income Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed January 7, 2016)
10.15*	Form of Confidentiality, Non-Competition and Non-Solicitation Agreement with U.S.-Based Executive Officers (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed June 26, 2015)
10.16*	Confidentiality, Non-Competition and Non-Solicitation Agreement with Katarzyna Mazur-Hofsaess (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed August 7, 2013)
10.17*	Confidentiality, Non-Competition and Non-Solicitation Agreement with Sang Yi (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.18*	Form of Confidentiality, Non-Competition and Non-Solicitation Agreement with Robert D. Delp
10.19*	Zimmer Biomet Holdings, Inc. Amended Stock Plan for Non-Employee Directors, as amended May 5, 2015 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.20*	Form of Nonqualified Stock Option Award Letter under the Zimmer Biomet Holdings, Inc. Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed April 5, 2005)
10.21*	Form of Restricted Stock Unit Award Letter under the Zimmer Biomet Holdings, Inc. Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed February 29, 2016)
10.22*	Form of Nonqualified Stock Option Award Letter under the Zimmer Holdings, Inc. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed December 13, 2006)
10.23*	Amended and Restated Zimmer Biomet Holdings, Inc. Deferred Compensation Plan for Non-Employee Directors, as amended May 5, 2015 and further amended as of June 24, 2015 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed November 9, 2015)
10.24*	Zimmer Biomet Deferred Compensation Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed January 7, 2016)

Exhibit No	Description†
10.25*	Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan (As Amended on May 3, 2016) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 9, 2016)
10.26*	Form of Nonqualified Stock Option Award Letter under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K filed February 29, 2016)
10.27*	Form of Restricted Stock Unit Award Letter (two-year vesting) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed February 23, 2015)
10.28*	Form of Performance-Based Restricted Stock Unit Award Letter (three-year performance period) under the Zimmer Biomet Holdings, Inc. 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K filed February 29, 2016)
10.29*	Form of Indemnification Agreement with Non-Employee Directors and Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 31, 2008)
10.30*	Settlement Agreement between Zimmer Pte Ltd and Stephen Ooi Hong Liang dated February 5, 2016 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2016)
10.31*	Agreement by and between Stephen Ooi Hong Liang, Zimmer Pte Ltd and Zimmer, Inc. dated February 5, 2016 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2016)
10.32	Term Loan Agreement ¥11,700,000,000 dated as of May 24, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 31, 2012)
10.33	Letter of Guarantee dated as of May 24, 2012 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 31, 2012)
10.34	First Amendment, dated October 31, 2014, to the ¥11,700,000,000 Term Loan Agreement dated as of May 24, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 5, 2014)
10.35	Credit Agreement, dated as of September 30, 2016, among Zimmer Biomet Holdings, Inc., Zimmer Biomet G.K., ZB Investment Luxembourg S.à r.l., the borrowing subsidiaries referred to therein, JPMorgan Chase Bank, N.A., as General Administrative Agent, JPMorgan Chase Bank, N.A., Tokyo Branch, as Japanese Administrative Agent, J.P. Morgan Europe Limited, as European Administrative Agent, and the lenders named therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 5, 2016)
10.36	Credit Agreement, dated as of May 29, 2014, among Zimmer Holdings, Inc., Zimmer K.K., Zimmer Investment Luxembourg S.à r.l., the borrowing subsidiaries referred to therein, JPMorgan Chase Bank, N.A., as General Administrative Agent, JPMorgan Chase Bank, N.A., Tokyo Branch, as Japanese Administrative Agent, J. P. Morgan Europe Limited, as European Administrative Agent, and the lenders named therein (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed June 4, 2014)
10.37	First Amendment, dated as of September 30, 2016, to the Credit Agreement dated as of May 29, 2014 among Zimmer Biomet Holdings, Inc., Zimmer Biomet G.K., ZB Investment Luxembourg S.à r.l., the borrowing subsidiaries from time to time party thereto, JPMorgan Chase Bank, N.A., as General Administrative Agent, JPMorgan Chase Bank, N.A., Tokyo Branch, as Japanese Administrative Agent, and J.P. Morgan Europe Limited, as European Administrative Agent, and the lenders from time to time party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed October 5, 2016)
10.38	Deferred Prosecution Agreement, dated as of January 12, 2017, between Zimmer Biomet Holdings, Inc. and the U.S. Department of Justice, Criminal Division, Fraud Section (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 18, 2017)
10.39	Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities and Exchange Act of 1934, Making Findings and Imposing a Cease-and-Desist Order against Biomet, Inc., dated January 12, 2017 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed January 18, 2017)
10.40	Plea Agreement, dated as of January 12, 2017, between JERDS Luxembourg Holding S.à r.l. and the U.S. Department of Justice, Criminal Division, Fraud Section (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed January 18, 2017)
21	List of Subsidiaries of Zimmer Biomet Holdings, Inc.
23	Consent of PricewaterhouseCoopers LLP
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit No	Description†
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

† Unless otherwise indicated, exhibits incorporated by reference herein were originally filed under SEC File No. 001-16407.

* Management contract or compensatory plan or arrangement.

SCHEDULE II

ZIMMER HOLDINGS, INC.
VALUATION AND QUALIFYING ACCOUNTS
(in millions)

Description	Balance at Beginning of Period	Additions Charged (Credited) to Expense	Deductions to Reserve	Effects of Foreign Currency	Acquired Allowances	Balance at End of Period
Allowance for Doubtful Accounts:						
Year Ended December 31, 2014	$ 22.7	$ 2.0	$ (1.4)	$(1.0)	$ –	$ 22.3
Year Ended December 31, 2015	22.3	13.5	(0.4)	(1.3)	–	34.1
Year Ended December 31, 2016	34.1	22.3	(4.5)	(0.3)	–	51.6
Deferred Tax Asset Valuation Allowances:						
Year Ended December 31, 2014	$ 42.7	$ 74.7	$ (9.2)	$ –	$14.6	$122.8
Year Ended December 31, 2015	122.8	(53.7)	(5.6)	(1.6)	10.8	72.7
Year Ended December 31, 2016	72.7	24.8	(12.4)	(1.1)	4.3	88.3

Reconciliation of Reported Net Sales % Growth to Adjusted Net Sales % Growth for the Year Ended December 31, 2016 (unaudited)

Reported net sales % growth	28%
Effect from product divestitures	1
Effect from full year of Biomet net sales	(26)
Impact of LDR Holding Corporation	(1)
Adjusted net sales % growth	2%

Note on Forward-Looking Non-GAAP Financial Measures

In the letter to stockholders that appears at the beginning of this Annual Report, we present our goals of generating $2 billion in annual free cash flow by 2020 and achieving a gross debt-to-adjusted EBITDA ratio of 2.5 by the end of 2018. Free cash flow and adjusted EBITDA, as well as the ratio of gross debt to adjusted EBITDA, are "non-GAAP financial measures" under U.S. Securities and Exchange Commission rules. Non-GAAP financial measures supplement our GAAP disclosures and should not be considered as a substitute for, or superior to, the most directly comparable GAAP financial measures. We define free cash flow as GAAP net cash provided by operating activities less additions to instruments and additions to other property, plant and equipment. We define adjusted EBITDA as GAAP net earnings less interest income plus interest expense, provision for income taxes, depreciation, intangible asset amortization, inventory step-up and other inventory and manufacturing-related charges, merger-related other expense and special items. We have not provided quantitative reconciliations of these forward-looking non-GAAP financial measures to the most directly comparable forward-looking GAAP financial measures because, due to variability and difficulty in making accurate forecasts and projections and/or certain information not being ascertainable or accessible, not all of the information necessary for quantitative reconciliations of these forward-looking non-GAAP financial measures to the most directly comparable GAAP financial measures is available to us without unreasonable efforts. Consequently, any attempt to disclose such reconciliations would imply a degree of precision that could be confusing or misleading to investors. It is probable that these forward-looking non-GAAP financial measures may be materially different from the corresponding GAAP financial measures.

Reconciliation of Operating Profit to Adjusted Operating Profit for the Years Ended December 31, 2016, 2015, 2014, 2013 and 2012 (in millions, unaudited)

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Operating Profit	$ 825.9	$ 467.3	$1,037.3	$1,068.6	$1,035.2
Inventory step-up and other inventory and manufacturing related charges	469.1	348.8	36.3	88.7	4.8
Intangible asset amortization	565.9	337.4	92.5	78.5	97.1
Certain claims	—	7.7	21.5	47.0	15.0
Goodwill impairment	—	—	—	—	96.0
Special items	611.8	831.8	341.1	210.3	158.4
Adjusted Operating Profit	$2,472.7	$1,993.0	$1,528.7	$1,493.1	$1,406.5

Reconciliation of Operating Profit Margin to Adjusted Operating Profit Margin for the Years Ended December 31, 2016, 2015, 2014, 2013 and 2012 (in millions, unaudited)

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Operating Profit	10.7%	7.8%	22.2%	23.1%	23.2%
Inventory step-up and other inventory and manufacturing related charges	6.1	5.8	0.8	1.9	0.1
Intangible asset amortization	7.4	5.6	2.0	1.7	2.2
Certain claims	—	0.1	0.5	1.0	0.3
Goodwill impairment	—	—	—	—	2.1
Special items	8.0	13.9	7.2	4.6	3.6
Adjusted Operating Profit	32.2%	33.2%	32.7%	32.3%	31.5%

Reconciliation of Diluted EPS to Adjusted Diluted EPS for the Years Ended December 31, 2016, 2015, 2014, 2013 and 2012 (unaudited)

	For the Years Ended December 31,				
	2016	2015	2014	2013	2012
Diluted EPS	$ 1.51	$ 0.77	$ 4.20	$ 4.54	$ 4.17
Inventory step-up and other inventory and manufacturing related charges	2.32	1.84	0.21	0.52	0.03
Intangible asset amortization	2.80	1.78	0.54	0.46	0.55
Certain claims	—	0.04	0.13	0.27	0.09
Goodwill impairment	—	—	—	—	0.54
Special items	3.02	4.38	1.99	1.22	0.90
Merger-related and other expense in other (expense) income, net	0.02	—	0.23	—	—
Debt extinguishment cost	0.26	0.12	—	—	—
Interest expense on Biomet merger financing	—	0.37	—	—	—
Taxes on above items[1]	(2.22)	(2.57)	(0.90)	(0.79)	(0.70)
Biomet merger-related measurement period tax adjustments[2]	0.26	—	—	—	—
Other certain tax adjustments[3]	(0.01)	0.17	—	—	—
Adjusted Diluted EPS	$ 7.96	$ 6.90	$ 6.40	$ 6.22	$ 5.58

(1) The tax effect for the U.S. jurisdiction is calculated based on an effective rate considering federal and state taxes, as well as permanent items. For jurisdictions outside the U.S., the tax effect is calculated based upon the statutory rates where the items were incurred.

(2) The 2016 period includes negative effects from finalizing the tax accounts for the Biomet merger. Under the applicable U.S. GAAP rules, these measurement period adjustments are recognized on a prospective basis in the period of change.

(3) Other certain tax adjustments primarily include internal restructuring transactions to integrate Biomet operations and facilitate access to offshore earnings, partially offset by resolution of certain matters with taxing authorities and adjustments to deferred tax liabilities recognized as part of acquisition-related accounting.

Reconciliation of Sales Growth Rate to Constant Currency Sales Growth Rate for the Year Ended December 31, 2016 (unaudited)

	For the Year Ended December 31, 2016		
	Reported % Growth	Foreign Exchange Impact	Constant Currency % Growth
Geographic Segment			
Americas	31%	—%	31%
EMEA	22	(3)	25
Asia Pacific	25	3	22
Consolidated	28	—	28
Product Category			
Knees	21	(1)	22
Hips	22	—	22
S.E.T.	35	—	35
Dental	27	(1)	28
Spine & CMF	64	—	64
Other	41	—	41
Consolidated	28	—	28

Corporate Information (As of March 1, 2017)

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President and Chief Executive Officer,
Anthem, Inc.

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Retired Executive Chairman
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Betsy J. Bernard
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and Chief Accounting Officer

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Global Integration

Robert D. Delp
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Americas

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Senior Vice President,
Global Operations and Logistics

Adam R. Johnson
Group President,
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Vice President, Global Quality
and Regulatory Affairs

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Europe, Middle East and Africa

David A. Nolan, Jr.
Group President, Biologics, Extremities,
Sports Medicine, Surgical, Trauma,
Foot and Ankle, Office Based
Technologies and Zimmer Biomet
Signature Solutions

Chad F. Phipps
Senior Vice President,
General Counsel and Secretary

Daniel E. Williamson
Group President,
Joint Reconstruction

Sang Yi
President,
Asia Pacific

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www.zimmerbiomet.com

Stock Listing
Zimmer Biomet is listed on the
New York Stock Exchange
and the SIX Swiss Exchange
under the symbol ZBH.

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stock transfer requirements, loss
of certificates and change of address
should be directed to Zimmer Biomet's
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visit http://investor.zimmerbiomet.com
or call +1-866-688-7656.

Independent Auditors
PricewaterhouseCoopers LLP
Chicago, IL, U.S.A.

Dividend Reinvestment and Stock Purchase Plan

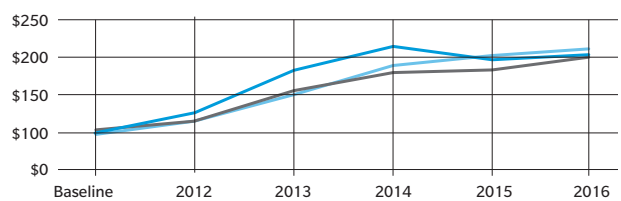
American Stock Transfer & Trust Company, LLC administers the Investors Choice Dividend Reinvestment and Stock Purchase Plan, which allows registered stockholders to purchase additional shares of Zimmer Biomet common stock through the automatic investment of dividends. The plan also allows registered stockholders to purchase shares with optional cash investments of at least $25, either by check or by automatic deductions from checking or savings accounts. The maximum optional cash investment is $10,000 per transaction. Please direct inquiries concerning the plan to: Zimmer Biomet Holdings, Inc., c/o American Stock Transfer & Trust Company, LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560, +1-888-552-8493 (domestic), +1-718-921-8124 (international)

ZBH LISTED NYSE SIX SWISS EXCHANGE

Stock Performance Graph

Comparison of Cumulative Total Return for years ended December 31

Assumes $100 was invested on December 31, 2011 in Zimmer Biomet common stock and each index and that dividends were reinvested. Returns over the indicated period should not be considered indicative of future returns.



	Baseline	2012	2013	2014	2015	2016
Zimmer Biomet Holdings, Inc.	$100	$126	$178	$218	$199	$202
S&P 500 Stock Index	$100	$117	$155	$176	$178	$200
S&P 500 Health Care Equipment Index	$100	$117	$150	$189	$201	$214

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