



Positioner for Aiming Block

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1. Group Structure and Shareholders

1.1 Group structure

Synthes, Inc. and subsidiaries (the Group) is comprised of Synthes, Inc., a corporation registered in Delaware, USA and the unlisted companies as shown on pages 88 and 89 in the Financial Review.

The Group develops, manufactures, and distributes products for the operative treatment of bone fractures including both metallic and osteobiological materials in different areas of the world. Additionally, the Group has a power tools business including development, manufacturing and distribution.

Synthes is included in the Swiss Market Index (SMI) and is traded on virt-x, the SWX's blue chip trading platform in London. The Valor number or National number for Synthes, Inc. stock issuance is number 1863105. The ISIN number is US87162M4096.

Market capitalization as of December 31, 2006 was US\$14,093,181,207.

1.2 Significant shareholders

The following table sets forth the identities of the significant shareholders of Synthes, Inc. and their holdings of shares at year-end.

Shareholder	Shares	%
Hansjörg Wyss, MD (Hons. mult.)	47,699,465	40
Wyss 1989 Distributive Trust	12,638,117	11

1.3 Cross-shareholdings

None.

2. Capital Structure

2.1 Capital on the disclosure deadline

See Financial Review, Note C11, page 81.

2.2 Authorized and conditional share capital in particular

- Conditional capital: see Financial Review, Note C, page 81
- Authorized capital: see Financial Review, Note C, page 81

2.3 Changes in capital

No changes in the Company's capital structure were effected in the last three financial years with the exception of the following:

- At the Annual General Meeting on April 22, 2004, the Shareholders agreed to a 10 for 1 split of the outstanding shares of Common Stock by approving an amendment to the Certificate of Incorporation to change the number of authorized Common Shares. As a result of the stock split, each of the 11,492,263 issued and outstanding shares were classified into ten new shares each, leading to a new total of 114,922,630 issued and outstanding shares of Common Stock. In the stock split, the existing par value of each Common Share was reduced from CHF 0.01 to CHF 0.001 (one tenth of one centime) and the stated capital from CHF 5.00 per share to CHF 0.50 per share. The stock split was registered in Delaware after close of trading on May 21, 2004.
- The Company announced a transaction on March 15, 2006 (see Note C21 in the Financial Review) in which it issued 3,704,488 shares.

2.4 Shares and participation certificates

Each share carries one vote at the Shareholders' Meeting of Synthes, Inc. and currently there are no preferred shares issued and outstanding. Voting rights may be exercised only after a shareholder has been recorded in the Company's share register as a shareholder with voting rights.

2.5 Dividend – right certificates

Synthes has not issued any certificates.

2.6 Limitations on transferability and nominee registrations

The by-laws provide that Synthes, Inc. shall abide by the procedural rules established from time to time by the securities clearing institutions through which the shares of the Corporation are traded and settled.

So long as the shares of stock of the Corporation are not registered with the United States Securities and Exchange Commission, (i) any transfer or attempted or purported transfer of any shares of stock of the Corporation or any interest therein or right thereof to any person who is considered a United States person under the Securities

Act of 1933 or Securities Exchange Act of 1934 (a "U.S. Person") shall be prohibited and shall be void and ineffective as against the Corporation and (ii) the Corporation shall not recognize any U.S. Person as a transferee or as a stockholder of the Corporation for any purpose whatsoever and shall not record any U.S. Person as a stockholder of record. Excepted from these transfer restrictions are persons (i) who are Qualified Institutional Buyers as defined in Rule 144A of the Securities Act of 1933 who purchased shares of the Corporation in its secondary offering or (ii) transferees of such persons who comply with applicable resale restrictions.

Any voting instruction received from a U.S. Person or bearing a U.S. postmark shall be presumed to evidence a prohibited transfer of the shares, or interests therein or rights thereof, as to which such voting instructions relate, and shall, accordingly, be disregarded by the Corporation and shall be deemed void and of no effect.

Stockholder rights plan

Synthes, Inc. has in place a stockholder rights plan that is triggered if any person or persons acquires beneficial ownership of 33 $\frac{1}{3}$ % or more of the Company's stock. This plan is designed to enhance the Board's ability to protect stockholders against, among other things, unsolicited attempts to acquire control of the Company that do not offer an adequate price to all stockholders or are otherwise not in the best interests of Synthes, Inc. and its stockholders. Once the rights plan is implemented, all acquiring persons (with the exception of the person holding > 33 $\frac{1}{3}$ %) would have a right to buy a fractional share of preferred stock of the Company. This fractional share would be the economic equivalent to a share of common stock. This rights plan effectively operates by threatening to inflict dilution on the bidder and gives added leverage to the Company's Board of Directors. The purchase of shares by exercise of conversion as well as every subsequent transfer of shares are subject to the transfer and voting right restrictions pursuant to the Articles of Incorporation.

2.7 Convertible bonds and warrants/options

The features of the stock option plan are detailed in Notes B14 and C11 of the consolidated accounts of the Synthes Group 2006.

3. Board of Directors

3.1 Members of the Board of Directors

(i) Membership and qualification

Synthes is led by a strong and experienced Board. The Board includes representatives drawn from broad international business and scientific backgrounds. Its members bring diversity in expertise and perspective to the leadership of a complex, highly regulated, global business.

Name	Birth year	Position	First election	Remaining term
Hansjörg Wyss, MD (Hons. mult.)	1935	Chairman – Executive	1999	2009
Charles Hedgepeth	1937	Vice Chairman – Non-Executive	2002	2007
Dr. Roland Brönnimann	1937	Non-Executive	2003	2008
Amin Khoury	1939	Non-Executive	1999	2007
Robert Bland	1940	Non-Executive	1999	2008
Dr. Allen Misher	1933	Non-Executive	1999	2008
André Mueller	1944	Non-Executive	1999	2009
Dr. David Helfet	1947	Non-Executive	2001	2009
Jobst Wagner	1959	Non-Executive	2005	2007
Felix Pardo	1937	Non-Executive	2005	2009

The Board of Directors of Synthes, Inc. consists of between seven and ten members, the exact number to be set by the Board of Directors. Currently, the Board of Directors of Synthes, Inc. consists of ten members. A prior year amendment of the Company's Certificate of Incorporation increased the maximum authorized number of Directors to ten.

Mr. Hansjörg Wyss, MD (Hons. mult.), Swiss citizen, is Chairman & Chief Executive Officer of Synthes, Inc. and has held this position since its founding in 1999. Mr. Wyss has led the Synthes Group and its predecessor organization since 1977. Prior to his involvement with the Synthes Group, Mr. Wyss served in management roles at several European corporations including as a Director of Monsanto Europe SA; President-Managing Director of Schappe-Burlington AG as well as Assistant to the President of Burlington International. Education: MBA with distinction, Harvard Business School; Master of Science degree in Civil and Structural Engineering, Swiss Federal Institute of Technology; Honorary Doctorates of Medicine, University of Basel and University of Salzburg.

Mr. Charles Hedgepeth, U.S. citizen, has held the title Vice Chairman of the Board of Directors of Synthes, Inc., since February 2002. Prior to this, Mr. Hedgepeth held the title of Board Member and member of the Office of the Chairman. Preceding his retirement in January 2002, Mr. Hedgepeth served the Company in a number of different roles. He was President & COO from 1995 until 1999. Mr. Hedgepeth

(ii) Changes since December 31, 2005

There have been no changes in the current year.

The following table sets forth the name, birth year, and principal position, time of first election and the remaining term of office of each member of the Board of Directors:

continued as President until January 2001. Mr. Hedgepeth has been with Synthes (U.S.A.) since 1989 when he was retained as the Vice President of Manufacturing. Prior to his involvement with the Synthes Group, Mr. Hedgepeth served in management roles overseeing operations and manufacturing at several United States corporations. Education: B.Sc. in Industrial Management, Johns Hopkins University; Stanford University Executive Program; Certified Manufacturing Engineer.

Dr. Roland Brönnimann, Swiss citizen, was Managing Director of the former Synthes Europe and Latin American regions of Synthes, Inc. Preceding this position, he was a member of the executive committee of F. Hoffmann-La Roche Ltd. and was the head of the Vitamins and Fine Chemicals Division. Prior to this, he was a manager of production. Before he arrived at Hoffmann-La Roche Ltd., he worked for twenty years at Lonza Ltd. where he held various positions in research, development and manufacturing. Education: Masters Degree in Chemistry, Swiss Federal Technology Institute; Ph.D. in Chemistry, Swiss Federal Technology Institute.

Mr. Amin Khoury, U.S. citizen, is Founder, Chairman of the Board and CEO of B/E Aerospace, Inc., the world's leading manufacturer of cabin interior products for both commercial airliners and business jets. Education: B.Sc. in Chemistry, Villanova University; M.Sc. in Chemistry, Villanova University; MBA with distinction, Northeastern University.

Mr. Robert Bland, U.S. citizen, is currently President of Dunster Associates. Prior to this, he was Founder and President of Quality Health and also was President of NEMC Real Estate between 1990 and 1996. Earlier, he was President of Amoskeag Development Corporation, a Boston real estate development firm. Between 1970 and 1986 he was founder, Executive Vice President, and Chief Financial Officer of Health Systems, Inc., a healthcare and management consulting firm. He is currently Vice Chairman of the Roxbury Preparatory Charter School. Education: B.A., Harvard University.

Dr. Allen Misher, U.S. citizen, is President Emeritus of the Philadelphia College of Pharmacy and Science. His business experience encompasses 18 years with SmithKline and French Laboratories in the fields of pharmacology, research & development, manufacturing, as well as various senior management positions including President of the Medical Diagnostic Group. He has served on various corporate boards of publicly traded companies, and as the Chairman of US Bioscience, Inc. Education: B.Sc., Philadelphia College of Pharmacy and Science; Ph. D., University of Pennsylvania; D.Sc, University of the Sciences of Philadelphia (Honorary).

Mr. André Mueller, Swiss citizen, held a number of managerial positions in the strategic planning and finance divisions of Sandoz both at headquarters and in the United States. In 1981, he became Vice President of Finance and Administration, and subsequently, was named the first Chief Financial Officer of Biogen. In this capacity, Mr. Mueller was responsible for several financing rounds including the company's IPO. In 1985, he became a Founding Partner and was subsequently named Director of Investments of Genevest, the first Swiss venture capital organization, a situation he left in 1993 to head the Management Consulting practice of Deloitte & Touche in Geneva. Over the last two decades, Mr. Mueller was involved in the financing and the management of a substantial number of start-up companies including Actelion and FotoWire Development SA. From 1998 to 2003, he had been Actelion's CFO and Head of Strategic Development. He is currently Vice-Chairman of the Board of Actelion and also on the Board of a number of privately held Biotech companies in Switzerland. Education: Chartered Chemical Engineer, Superior Technical College, Geneva; Licenciate, Business Economics, University of Geneva; MBA, INSEAD Fontainbleau.

Dr. David L. Helfet, MD, U.S. citizen, is an Attending Orthopedic Surgeon at the Hospital for Special Surgery as well as the New York Presbyterian Hospital in New York, where he also is the Director of the Combined Orthopedic Trauma Service at both institutions. He is a Professor of Orthopedic Surgery at Weill Medical College of Cornell Uni-

versity in New York. Dr. Helfet serves as a member of the Hospital for Special Surgery Board of Trustees, and as a trustee of the AO Foundation and AO North America. In addition, Dr. Helfet is the Chairman of the AO Foundation Documentation and Publishing Board. Over the years, Dr. Helfet held several hospital appointments including at the Johns Hopkins Hospital, Union Memorial Hospital and The Good Samaritan Hospital, all in Baltimore, Maryland and at Tampa General Hospital in Tampa, Florida. Dr. Helfet is Board Certified (American Board of Orthopedic Surgery), a Fellow of the American Academy of Orthopedic Surgeons, the American Orthopedic Association and former President of the Orthopedic Trauma Association. Education: B.Sc. in Biochemistry (with honors), University of Cape Town; M.B.CH.B, University of Cape Town Medical School; Orthopedic Residency, Johns Hopkins Hospital.

Mr. Jobst Wagner, Swiss citizen, is the President of the Supervisory Board of the REHAU Group in Muri, Berne/Switzerland. Before assuming this position, he held various functions within the REHAU organization, especially in purchasing and logistics. REHAU is a leading polymer manufacturer and systems supplier in the construction, automotive and industry sectors with over 160 locations in 51 countries. Mr. Wagner is a member of the board of the Swiss private bank Von Graffenried AG. Education: Graduated in law (lic.iur.), University of Berne.

Mr. Felix Pardo, U.S. citizen, was most recently the Chairman and CEO of Dyckerhoff, Inc. and Chairman of its subsidiaries, Lone Star Industries and Glens Falls Cement, until his retirement in 2002. Before assuming this position, he was President and CEO of Philip Services Inc. He also served on the Philip Services Board of Directors from 1994 through 2003. From 1992 to 1998, Mr. Pardo was President and CEO of Ruhr American Coal Corporation, a United States coal production, sales and trading company. Currently, Mr. Pardo is a Director of Newalta Corporation. He has also served on the Boards of the Exchange National Bank in Chicago, Invatec, ISG Technologies, Panaco and several other companies. As part of his previous Board responsibilities, Mr. Pardo had been Chairman of Corporate Governance, Environmental, Health and Safety and Compensation committees. He has also served on the Audit Committee of various companies. Education: BA in Economics, Brown University; MBA in Finance, Wharton (University of Pennsylvania); Massachusetts Institute of Technology Program for Senior Executives.

3.2 Other activities and vested interests

The respective information can be found for each member of the Board of Directors in section 3.1. The activities performed by the non-

executive Directors, apart from their duties as members of the Board, are not directly related to the Company.

3.3 Cross-involvement

There are no cross-involvements among the Board of Directors of Synthes, Inc. and other listed companies.

3.4 Elections and terms of office

The Board of Directors of Synthes, Inc. is elected at the annual Shareholders’ Meeting. The Certificate of Incorporation provides that the Board of Directors must consist of between seven and ten members at any time. Each member of the Board of Directors is elected for a term of three years and may be re-elected to successive terms. The Board of Directors is divided into three classes, with the term of office of one class expiring each year (staggered). At each annual meeting of stockholders the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting following their election. The Board of Directors decides on how tenure is allocated and there is no age restriction as to the election or retention of a Director; however, a Director may be removed with or without cause at any time.

3.5 Internal organizational structure

The Board of Directors is ultimately responsible for the general policies and management of Synthes, Inc. The Board of Directors establishes the strategic, organizational, accounting and financing policies to be followed by the Companies. The Board of Directors has delegated the conduct of the day-to-day business operations to the Group Management Committee, which is headed by the Chairman. The Chairman is responsible for the overall management of the Companies.

Allocation of tasks within the Board of Directors

Name	Chairman/Vice-Chairman	Audit Committee	Compensation Committee
Hansjörg Wyss, MD (Hons. mult.)	■ (Chair)		
Charles Hedgepeth	■		
Dr. Roland Brönnimann			
Amin Khoury			■ (Chair)
Robert Bland		■	■
Dr. Allen Misher		■ (Chair)	
André Mueller		■	
Dr. David Helfet			
Jobst Wagner			■
Felix Pardo		■	

Committees

The Board of Directors has established an Audit Committee and a Compensation Committee. A person elected by the Board of Directors chairs the committees. The committees meet regularly and make full reports and recommendations to the Board of Directors at its regular meetings. Their chairperson sets the agenda for the committee meetings. The members of the board committees receive in advance of committee meetings documents allowing them to prepare for the items on the agenda. Members of the Board of Directors are involved in interviewing and nominating top positions within the Company, and therefore, the Company believes that a nomination committee is not required.

Audit Committee

The Audit Committee consists of four persons. Allen Misher is the Chairman and the other members are Robert Bland, André Mueller and Felix Pardo. The present members of the Audit Committee are non-executive members of the Board of Directors and are experienced in financial and accounting matters.

The principal responsibilities of the Audit Committee are:

- to discuss the auditor's yearly reports with particular emphasis on the annual financial statements (both statutory and consolidated) and to present conclusions to the Board
- to review and assess the auditing concept, examination process, examination instruments, Internal Audit Plan and examination programs
- to discuss Synthes' internal accounting procedures
- to support the Board of Directors in its supervision of financial control through a direct link to Ernst & Young (external auditors) and the Internal Audit Group
- to keep itself regularly informed on important findings of the audits and of their progress
- to support the Board of Directors in its oversight of the global compliance program through a direct link with the Chief Compliance Officer

The Board of Directors has established an Internal Audit Group to report directly to the Audit Committee. The Audit Committee periodically reviews and assesses the adequacy of the internal audit organizational structure, the internal audit scope, the audit plan and relevant processes, and whether recommended improvements have been implemented by the management in charge. The annual internal audit plan will also analyze risks associated with the following:

- achievement of business goals and objectives
- business process optimization
- effectiveness of risk management, control and governance processes
- safeguarding of assets
- compliance of legal and regulatory issues

- data systems control and process
- accounting system controls and processes
- authorization of transactions
- significant or unusual transactions
- other areas of significance as determined by the audit committee

Compensation Committee

The Compensation Committee consists of three persons. Amin Khoury is Chairman; Robert Bland and Jobst Wagner are the other members of the Compensation Committee. The Compensation Committee discharges the responsibilities of the Board of Directors relating to all compensation, including equity compensation of Company executives. The Committee also has overall responsibility for evaluating and making recommendations to the Board regarding employee compensation, compensation under the Company's equity incentive plans and other Company compensation policies and programs. The Committee determines the compensation policies of the members of the Group Management Committee, as well as approves the compensation of the members of the Group Management Committee.

Work methods of the Board of Directors and its Committees

The Board meets as often as necessary, at least quarterly, and on notice by the Chairman/CEO or by the person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman/CEO for a meeting. The average attendance at the 2006 Board meetings was over 95%.

Committee members and days attended 2006

	Full Board	Audit Committee	Compensation Committee
Number of meeting days in 2006	8	4	2
Hansjörg Wyss, MD (Hons. mult.)	8		1
Charles Hedgepeth	7		
Dr. Roland Brönnimann	8		
Amin Khoury	8		2
Robert Bland	8	4	2
Dr. Allen Misher	8	4	
André Mueller	8	4	
Dr. David Helfet	8		
Jobst Wagner	8		2
Felix Pardo	8	4	

3.6 Definition of areas of responsibility

The primary duties of the Board of Directors are as follows:

- issuance of guidelines for business policy
- establishment of policies and procedures concerning accounting and financial control as well as financial planning
- approval, dismissal and supervision of members of management
- supervision of preparation of the annual report of the Corporation
- approval of any bankruptcy filing or compromise or arrangement with creditors in the case of insolvency
- approval of the strategic direction of the Companies
- approval of changes of business activities
- approval of the establishment of new businesses and closing of businesses
- approval of the purchase or sale of assets in excess of US\$ 8 million
- determination of the general framework, amount and time frame of bond issues
- approval of new long-term and short-term bank debt if in excess of US\$ 10 million
- approval of the yearly operational and consolidated investment budget

The Chairman sets the agenda for board meetings. Any member of the Board of Directors may request that an item be included on the agenda. The members of the Board receive documents in advance of the board meeting which allow the members of the Board to prepare for the items on the agenda.

The Board of Directors hold discussions with officers of Synthes, Inc. and visit at least once per year one or more offices and plants.

3.7 Information and control instruments vis-à-vis the Group Management Committee

The following financial information is generated from the Management Information System of Synthes, Inc. Financial statements (balance sheet, profit and loss statement, cash flow statement) for each of the subsidiaries are prepared monthly, quarterly, semiannually and annually. This information is summarized by division and consolidated for the Group. This information is compared with the preceding financial year and the budget.

Financial performance analysis (i.e., actual versus budget versus last year) is prepared and reviewed by division management on a monthly basis.

4. Group Management Committee

4.1 Members of the Group Management Committee

The following table sets forth the name, birth year and principal positions of those individuals who were members of the Group Management Committee as of December 31, 2006:

Name	Birth year	Position
Hansjörg Wyss, MD (Hons. mult.)	1935	Chairman & Chief Executive Officer
Michel Orsinger	1957	President and Chief Operating Officer
Robert Donohue	1947	Chief Financial Officer
Ciro Römer	1962	President Europe, Middle East and Africa

Mr. Hansjörg Wyss MD (Hons. mult.) is Chairman & Chief Executive Officer of Synthes, Inc. and has held this position since its founding in 1999 (see page 38).

Mr. Michel Orsinger is the President and Chief Operating Officer of Synthes, Inc. Prior to joining Synthes, Mr. Orsinger spent 10 years with Novartis in various executive management positions, most recently as the CEO and President of OTC Worldwide. Mr. Orsinger served as a member of the Nobel Biocare Board of Directors. Education: Business Administration Degree, Handelshochschule St. Gallen, Switzerland; Advanced Management Program, Harvard Business School, USA; Advanced Management Program, INSEAD Fontainebleau, France.

Mr. Robert Donohue is the Chief Financial Officer. Additionally, Mr. Donohue holds the position of President, Synthes Canada, Ltd. (since 1998). Prior to this, Mr. Donohue held the position of Vice President of Finance for Synthes (U.S.A). Mr. Donohue has been with Synthes since 1990 when he was retained as the Corporate Controller. Prior to joining the Synthes Group, Mr. Donohue served in several financial positions including corporate controller, plant controller, and other corporate positions within several major United States corporations. Education: B.Sc. in Economics, West Chester University; MBA, Widener University; Certified Public Accountant.

Mr. Ciro Römer is the President Europe, Middle East & Africa. Prior to this, Mr. Römer held the title of general manager to the Synthes Europe group in both the Netherlands and Spain and the title of VP Sales Europe. Between 1983 to 1998, Mr. Römer held various positions including the Head of the Orthopedic Department at the OLVG Clinic and Howmedica. Education: Radulphus College; Advanced Management Program, Harvard Business School.

4.2 Other activities and vested interests

The respective information can be found for each member of the Group Management from the information above.

4.3 Key elements of all management contracts between the issuer and companies (or natural persons) not belonging to the Group

Synthes, Inc. and its subsidiaries have not entered into management contracts with third parties.

5. Compensation, Shareholdings and Loans

5.1 Contents and method of determining the compensation and of the shareholding programs

The members of the Board of Directors receive compensation that is determined from time to time upon motion of the Compensation Committee by the Board of Directors. Members of the Board of Directors receive a yearly fixed compensation (retainer) and meeting fees according to their individual attendance at Board and committee meetings. The Compensation Committee approves upon proposal of the Chairman the compensation (including the share option programs) of the members of the Group Management Committee.

5.2 Compensation for acting members of the governing bodies

In aggregate, the compensation (without social security payments and without the additional honorariums and remuneration mentioned later in this section) paid to the nine non-executive members of the Board of Directors in the financial year 2006 amounted to US\$ 1,299,851.

In aggregate, the compensation (including all employer contributions into pension funds, without social security payments) paid to the executive member of the Board of Directors and the three other members of the Group Management Committee amounted in the fiscal year 2006 to US\$ 9,254,911.

5.3 Compensation for former members of governing bodies

No severance payment was made to any person giving up their function in a governing body during 2006.

5.4 Share allotment in the year under review

In 2000, the Board of Directors and Shareholders approved an equity incentive plan for directors and employees, which authorized the issuance of up to 1,500,000 shares. At the end of 2006, 50,000 share options were outstanding to members of the Board and Group Management. The purpose of the equity incentive plan is to provide members of the Board of Directors and other key employees added incentives to continue in the long-term service of the Corporation and to create in such persons a more direct interest in the future success of the operations of the Corporation by relating incentive compensation to increases in shareholder value and to provide a financial incentive that will help the Corporation attract, retain and motivate the most qualified employees and consultants.

The number of Synthes, Inc. shares allotted to the following parties during 2006 is as follows:

- To the executive member of the Board of Directors: 13,000 shares.
- To non-executive members of the Board of Directors: 9,990 shares.

5.5 Share ownership

The number of shares of Synthes, Inc. held by the executive member of the Board of Directors and the other three members of the Group Management Committee and parties closely linked to such persons amounted in aggregate to 60,547,332. "Persons closely linked to them" are (i) their spouse, (ii) their children under age 18, (iii) any legal entities that they own or otherwise control, or (iv) any legal or natural person who is acting as their fiduciary.

The total number of shares held by the nine non-executive members of the Board of Directors and parties closely linked to such persons amounted to 150,720.

5.6 Options held

The executive member of the Board of Directors, as well as the parties closely linked to him, hold no options.

The non-executive members of the Board of Directors and the members of the management team, as well as parties closely linked to them hold a total of 50,000 options. The year of allocation, number, vesting schedule and exercise price and period are as follows:

Year of allotment	Number of options	Vesting schedule	Exercise price	Exercise period
2006	50,000	vested ratably through 2010	CHF 140.0	10 years

5.7 Additional fees and remuneration

In aggregate, two non-executive members of the Board of Directors were paid US\$ 1,650,344 in the financial year 2006 for additional services performed during the year exclusive of their Board responsibilities. None of the Group Management Committee or parties closely linked to such persons has billed honorariums.

5.8 Loans to members of governing bodies

There are no interests of members of the Board of Directors, or the Group Management or parties closely linked to such persons in transactions effected by Synthes, Inc. or any of its subsidiaries which are or were unusual in their nature or conditions during the year under review or the preceding financial year.

As of December 31, 2006, the total amount that Synthes, Inc. and its subsidiaries have conferred as a loan to the Group Management Committee or parties closely linked to such persons was US\$ 200,000. This amount had been conferred in a prior year transaction to one beneficiary.

5.9 Highest total compensation paid during the year under review

The highest total compensation (not including social security payments) paid to a member of the Group Management Committee in the year under review amounted to:

- compensation: US\$ 3,711,228 (in cash)
- share allotment: 13,000 shares

6. Shareholders' Participation Rights

Voting rights' restrictions and representations

Pursuant to the Certificate of Incorporation, any person who, directly or indirectly, owns 5% or more of the outstanding shares of Common Stock who does not disclose his stock ownership and other related information will only be entitled to exercise a maximum of 5% of the voting power eligible to be cast at a meeting of shareholders, as adjusted for the number of votes deducted from the voting power of all shareholders whose voting power is reduced by virtue of such provision. Any shareholder who discloses his full stock ownership will have full voting rights.

Each share of Common Stock bears one vote. The by-laws of the Company provide that so long as restrictions on transfers of shares of Common Stock to U.S. persons are in effect, any voting instructions received from a U.S. person or bearing a U.S. postmark (other than those U.S. persons who purchased shares of Common Stock (i) pursuant to Rule 144A of the U.S. Securities Act or (ii) pursuant to a private placement exemption under the U.S. Securities Act in connection with the combination of the Synthes Group and Stratec, or transferees of such persons who obtained their shares pursuant to an exemption from registration under the U.S. Securities Act) shall be presumed to evidence a prohibited transfer of the shares of Common Stock, or interests therein or rights thereof, to a U.S. person, as to which such voting instructions relate and shall be disregarded by the Company.

Each shareholder entitled to vote at a meeting of shareholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The proxy holder need not be a shareholder. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A shareholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by delivering a subsequent proxy in accordance with applicable law bearing a later date to the Secretary of the Company.

Convocation of the general meeting of shareholders and agenda

The Annual General Meeting of Shareholders will be held on April 26, 2007.

Shareholder proposals

The by-laws of Synthes, Inc. require that certain procedures be observed by a shareholder submitting a proposal at an annual meeting of shareholders. The shareholder must file, within the appropriate time as provided in the by-laws, with the Corporate Secretary a written statement setting forth specified information, including (1) a brief description of the proposal and the reasons for bringing such business before the annual meeting, (2) the name and address of the shareholder making the proposal and the beneficial owner, if any, on whose behalf the proposal is made, (3) the class and number of shares of Common Stock of Synthes, Inc. owned beneficially and of record by such shareholder and such beneficial owner, (4) any material interest of the shareholder and such beneficial owner in such business and (5) whether the proponent intends or is part of a group which intends to solicit proxies from other shareholders in support of such nomination or proposal.

For a proposal to be considered timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than seventy days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than twenty days, or delayed by more than seventy days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of the seventieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

Registrations in the share register/invitation to the Shareholders' Meeting

Shareholders eligible to vote and entered in the share register as of March 27, 2007 will receive the invitation to the Shareholders' Meeting with the proposals of the Board of Directors. Shareholders who sent their reply to the companies' offices will receive the admission card and voting materials after April 10, 2007. Shareholders who are not yet registered on December 31, 2006, but purchase shares at a later date will receive the invitation to the Shareholders' Meeting later. No entries in the share register can be made from December 31, 2006 to the date of the Shareholders' Meeting. Owners of registered shares who sell their shares prior to the Shareholders' Meeting shall no longer be eligible to vote. Shareholders who sell portions of their shares or purchase additional shares are kindly requested to have their admis-

sion card updated at the information desk at the venue of the Shareholders' Meeting.

Vote requirements

All decisions taken at the meeting of shareholders require the affirmative vote of the holders of at least a majority of the Common Stock present or represented and entitled to vote. For the election of directors, a plurality of the votes cast is sufficient. A majority of the outstanding Common Stock entitled to vote is required for certain fundamental corporate transactions, such as amendments to the Certificate of Incorporation, certain mergers, sales of all or substantially all of the Corporation's assets and dissolution of the Corporation. The Certificate of Incorporation and By-laws of the Company follow the voting requirements of the Delaware General Corporate Law but contain some additional voting requirements: an affirmative vote of holders of at least 80% of the shares entitled to vote, present in person or represented by proxy, is required to approve specified transactions, including (i) amendment of provisions restricting share issuances not approved by shareholders, (ii) amendment of provisions granting pre-emptive rights, (iii) amendment of provisions dividing the Board of Directors into three classes, each elected for three-year staggered terms, (iv) amendment of provisions limiting director liability and granting indemnification rights, and (v) amendment of provisions prohibiting shareholder action outside the meeting of shareholders. An affirmative vote of the holders of at least $66\frac{2}{3}\%$ of the outstanding shares entitled to vote is required to authorize certain transactions with major shareholders.

7. Changes of Control and Defense Measures

The Company has adopted a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan provides for the Company to issue rights to purchase shares of Preferred Stock ("Rights") to all existing shareholders, such Rights to become exercisable if a shareholder (an "Acquiring Person") acquires or agrees to acquire 33 1/3 % of the outstanding shares of the Company without at the same time making an offer to purchase the shares of the remaining shareholders at terms acceptable to the Board of Directors. The substantive effect of the Rights is to allow all shareholders of the Company, other than the Acquiring Person, to acquire an interest in a share of Preferred Stock that approximates the value of one share of Common Stock of the Company for half-price, thereby substantially diluting the value of existing Common Stock. Since the Acquiring Person will not be entitled to exercise any Rights, the Rights Plan in effect dilutes the position of the Acquiring Person. However, the Rights will not be exercisable if the Board of Directors approves the transaction by which the Acquiring Person acquired its shares. Similarly, the Rights will not be exercisable if such acquisition of 33 1/3 % results from a tender offer for all outstanding shares of Common Stock at a price at least as high as the price at which shares of Common Stock are trading on the SWX Swiss Exchange and which is not less than 25% below the highest price paid by such person for any shares during the preceding twelve months.

In accordance with the provisions of the equity incentive plan approved by the shareholders in April 2000, unless provided otherwise by the Compensation Committee at the time of the grant of an Award, upon a change of control of Synthes, Inc. then (i) all options shall become immediately exercisable in full during the remaining term thereof, and shall remain so, whether or not the Participants to whom such options have been granted remain employees or consultants of the Company, (ii) all restrictions with respect to outstanding Restricted Stock Awards shall immediately lapse, (iii) all Stock Units shall become immediately payable, and (iv) all other awards shall become immediately exercisable or shall vest, as the case may be, without any further action or passage of time. For purposes of this Plan, a "change of control" shall be deemed to have occurred if either (i) any individual, entity, or group or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, acquires beneficial ownership of fifty percent or more of either (A) the then outstanding shares of Stock or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, or (ii) at any time during any period of three consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (any new director whose election by the Board or whose

nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof.

8. Auditors

8.1 Duration of the mandate and term of office of the head auditor

In 2004, Ernst & Young LLP assumed the existing auditing mandate of Synthes, Inc. The appointment of the auditor is for one year, renewable annually. The partner in charge of the audit engagement assumed the position of the auditor in 2004.

8.2 Auditing honorariums

The auditing fees for 2006 were US\$ 1,651,573.

Synthes, Inc. and Ernst & Young have agreed on clear guidelines as to professional services which it is appropriate for Ernst & Young to provide. These services include due diligence on mergers, acquisitions and disposals and tax compliance and tax consulting services. These guidelines help to ensure Ernst & Young's independence in their capacity as auditors to Synthes, Inc.

8.3 Additional honorariums

Additional fees paid to the Group's auditors in 2006 amounted to \$562,762. This included audit-related services, tax services (including tax compliance) and all other services.

8.4 Supervisory and control instruments pertaining to the audit

The Audit Committee, on behalf of the Board of Directors, is responsible for monitoring the performance of the auditors and meets with the auditors to review the planned scope and results of their audit. The Audit Committee meets regularly with the external and internal auditors. The Audit Committee of the Board of Directors annually assesses the performance, compensation and independence of the auditors and submits for Board approval a proposal as to which external auditor shall be engaged and submitted for ratification at the Shareholders' Meeting.

9. Information Policy

Synthes, Inc. is committed to a transparent information policy for the benefit of the public and capital markets. Synthes, Inc.'s objective is to ensure that the perception of those parties about the historical record, current performance and future prospects of Synthes is in line with management's understanding of the actual situation at Synthes. In general, Synthes, Inc. publishes full financial results on a half-annual basis. The full-year results are generally released in March, the interim report in August. Sales results are reported on a quarterly basis. The first quarter sales results are generally published in April and the third quarter sales results in October.

Synthes, Inc. has established a website at www.synthes.com. to ensure a rapid and equitable distribution of information. Thus, press releases and presentations are available on the web site as they are published and remain on the site as a library of background information on the Group. Synthes does not just rely on people visiting the site to be updated on the latest developments with the Group; anyone can sign up on the site to be alerted automatically by Synthes whenever there is a change to the investor relations website. Shareholders may direct investor relation inquiries to:

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