



Corporate Governance

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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 (Synthes, Inc. or the Company) and the unlisted companies as shown on pages 37 and 38 in the Financial Review. The Financial Review contains detailed segment reporting.

The Group develops, manufactures, and distributes instruments, implants and biomaterials for the surgical fixation, correction and regeneration of the human skeleton and its soft tissues, 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, Inc. shares of Common Stock are listed on the SWX and included in the Swiss Market Index (SMI) and are traded on virt-x, the SWX's blue chip trading platform in London. The Swiss securities number for Synthes, Inc. stock is number 1863105. The ISIN is US87162M4096. Market capitalization as of December 31, 2007 was CHF 16,689,190,896, corresponding to approximately US\$14,708,183,936.

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	%
Dr. h.c. mult. Hansjörg Wyss, MD	47,479,770	40
Wyss 1989 Distributive Trust	12,043,117	10
AO Technology AG	3,704,488	3

1.3 Cross-shareholdings

None.

2. Capital Structure

2.1 Capital on the disclosure deadline

See Financial Review, Note C11, page 30.

2.2 Authorized and conditional capital in particular

- Conditional capital: None
- Authorized capital: see Financial Review, Note C11, page 30.

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 a transaction on March 15, 2006 (see Note C21 in the Financial Review) in which it issued 3,704,488 shares, issuance of 23,281 shares to members of the Board of Directors in 2005, 22,990 shares to members of the Board of Directors in 2006, and 25,500 shares to members of the Board of Directors in 2007, and issuance of 7,500 shares in 2007 to an employee upon exercise of options.

2.4 Shares and participation certificates

See Financial Review, Note C11, page 30.

Each registered share of Common Stock carries one vote at the Shareholders' Meeting of Synthes, Inc. and is entitled to dividends. Voting rights may be exercised only after a shareholder has been recorded in the Company's share register as a shareholder with voting rights.

Currently, there is no preferred stock issued.

The by-laws do not provide for Synthes, Inc. issuing any participation certificates.

2.5 Profit Sharing Certificates

Synthes, Inc. has not issued any profit sharing 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 Company are traded and settled. This does not, however, limit the transferability of the shares. Moreover, the by-laws provide that so long as the shares of stock of the Company 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 Company 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 Company, and (ii) the Company shall not

recognize any transferee who is a U.S. Person as a shareholder of the Company for any purpose whatsoever and shall not record any transferee who is a U.S. Person as a shareholder 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 Company 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 Company and shall be deemed void and of no effect.

No exceptions to the restrictions described above have been granted. Please see Section 6.1 below for requirements for changing or eliminating restrictions contained in the Certificate of Incorporation or the by-laws.

Synthes, Inc. does not limit or restrict nominee registrations.

2.7 Convertible bonds and warrants/options

The features of the Equity Incentive Plan are detailed in the Financial Review, Note B14, page 14 and Note C11, page 30. There are no outstanding bonds or warrants.

3. Board of Directors

3.1 Members of the Board of Directors

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.

The Board of Directors of Synthes, Inc. consists of between seven and twelve 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 twelve.

Only Messrs. Wyss, Hedgepeth and Brönnimann have previously served as members of Synthes, Inc. senior management.

Dr. h.c. mult. Hansjörg Wyss (MD), Swiss citizen, is Chairman of Synthes, Inc. and has held this position since its founding in 1999. Mr. Wyss has led the Group and its predecessor organization since 1977. Until April 26, 2007, Mr. Wyss also held the position of Chief Executive Officer of Synthes, Inc. Prior to his involvement with the 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 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 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.

Mr. Robert Bland, U.S. citizen, is currently President of Dunster Associates, a consulting firm. 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. 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. in, 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. In addition to serving as a member of the Board of Directors of Synthes, Inc., Dr. Brönnimann provides services to one of the Company's Swiss subsidiaries. This primarily involves special projects on behalf of the Chairman in exploring additional business opportunities in Europe.

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 University 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. 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.

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., Physiology, 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 Fontainebleau.

Mr. Felix Pardo, U.S. citizen, was Chairman and CEO of Dyckerhoff, Inc. and Chairman of its subsidiaries, Lone Star Industries and Glens Falls Cement, until his retirement in 2002. From April to November of 1998, 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 and Western Prospector Group LTD. 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.

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 has 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.

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

Name	Birth year	Position	First election	Remaining term
Dr. h.c. mult. Hansjörg Wyss (MD)	1935	Chairman – Executive	1999	2009
Charles Hedgepeth	1937	Vice Chairman – Non-Executive	2002	2010
Robert Bland	1940	Non-Executive	1999	2008
Dr. Roland Brönnimann	1937	Non-Executive	2003	2008
Dr. David Helfet	1947	Non-Executive	2001	2009
Amin Khoury	1939	Non-Executive	1999	2010
Dr. Allen Misher	1933	Non-Executive	1999	2008
André Mueller	1944	Non-Executive	1999	2009
Felix Pardo	1937	Non-Executive	2005	2009
Jobst Wagner	1959	Non-Executive	2005	2010

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. Furthermore, the Group has no significant business connection with any company or organization represented by a member of the Board of Directors, except as disclosed in the Financial Review, Note C17, page 35.

3.3 Cross-involvement (Repealed)

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 twelve members at any time. Each member of the Board of Directors is normally 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 shareholders 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 or such shorter term as proposed by the Board of Directors to ensure annual re-election of approximately one third of the Directors. There is no age restriction as to the election or retention of a Director; however, a Director may be removed by the shareholders with or without cause at any time. The Directors standing for election are elected by global vote.

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 Synthes, Inc. and the other Group 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 of the Board of Directors. The Chairman, Hansjörg Wyss, the sole executive member of the Board of Directors, is responsible for the overall management of the Group companies. The Board of Directors met five times in 2007. Each meeting was approximately two days in length.

Allocation of tasks within the Board of Directors and members list

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

Tasks and area of responsibility for each committee

The Board of Directors has established an Audit Committee and a Compensation Committee from its members. A person elected by the Board of Directors chairs each committee. The committees meet regularly and make full reports and recommendations to the Board of Directors at its regular meetings. Committee chairpersons set the agenda for 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.

Succession planning and nomination for top positions within the Group are performed by the full Board of Directors, who take an active role in selecting and nominating the top positions within the Group. Given this involvement of the full Board, a nomination committee is not required.

Audit Committee

The Audit Committee acts in an advisory capacity to the Board of Directors and 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 Chief Financial Officer and the Chief Compliance Officer attend meetings of the Audit Committee. The Audit Committee met four times in 2007. Each meeting was approximately one-half day in length.

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 LLP (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 that reports 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 with legal and regulatory requirements
- 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; David Helfet and Jobst Wagner are the other members of the Compensation Committee. The Compensation Committee assists the Board of Directors in discharging its responsibilities relating to all compensation, including equity compensation of Company executives. The Committee 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. All decisions of the Compensation Committee are subject to approval of the Board of Directors. The Compensation Committee has retained an outside consultant to review the Group's executive compensation. During 2007 the Compensation Committee met three times, and in each case provided the Board of Directors a report on its findings and recommendations. Each meeting was a few hours in length. Members of management attend meetings of the Compensation Committee at the discretion of the Compensation Committee.

Committee members and days attended 2007

	Full Board	Audit Committee	Compensation Committee
Number of meeting days in 2007	9	4	3
Dr. h.c. mult. Hansjörg Wyss (MD)	9	–	–
Charles Hedgepeth	9	–	–
Robert Bland	9	4	1
Dr. Roland Brönnimann	9	–	–
Dr. David Helfet	9	–	3
Amin Khoury	9	–	3
Dr. Allen Misher	9	4	–
André Mueller	9	4	–
Felix Pardo	9	4	–
Jobst Wagner	9	–	2

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 or by a person designated by him. In addition, the Board must be convened as soon as a Board member requests the Chairman for a meeting. The average attendance at the 2007 Board meetings was 100%. Each committee reports to the Board of Directors following each committee meeting.

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 senior 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 in excess of US\$ 10 million
- approval of the yearly operational and consolidated investment budget

The Group Management Committee is responsible for the operational management of the Group, subject to the foregoing responsibilities reserved to the Board of Directors.

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. Members of the Group Management Committee generally attend the quarterly meetings of the Board of Directors, and the Chief Financial Officer and the Chief Compliance Officer attend meetings of the Audit Committee.

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 Board of Directors uses several tools to be kept informed about Group operations and exercise control over senior management:

- The Board of Directors receives a monthly financial report generated by the Synthes management information system. The report is comprised of consolidated financial information and includes: a) an Income Statement, Balance Sheet, and Cash Flow Statement, including a comparison of each to budgeted and prior year figures; b) management performance comments; and c) communication of key issues.
- Members of the Group Management Committee generally attend quarterly meetings of the Board of Directors, and the Chief Financial Officer and the Chief Compliance Officer attend meetings of the Audit Committee.
- The internal audit function reports directly to the Chairman of the Audit Committee and is comprised of auditors who travel worldwide, completing audit assignments developed and assigned by the Audit Committee.
- Synthes has a risk management process whereby key risks are identified and communicated to senior management.

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, 2007:

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

Dr. h.c. mult. Hansjörg Wyss (MD) is Chairman of Synthes, Inc. and has held this position since its founding in 1999 (see page 46).

Mr. Michel Orsinger, Swiss citizen, is the President and, since April 26, 2007, Chief Executive Officer of Synthes, Inc. Prior to joining Synthes in 2004, 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, U.S. citizen, Chief Financial Officer of Synthes, Inc. is responsible for Synthes, Inc.'s financial reporting, internal controls and related issues. 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 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, Dutch citizen, has been the President of Europe, Middle East and Africa since 2003. Prior to this, Mr. Römer held the positions of Vice President Europe as well as General Manager for the Netherlands and Spain. Between 1983 and 1998 Mr. Römer held various positions at the OLVG clinic and Howmedica and has over 15 years experience in the orthopedic industry. 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 Committee in Section 4.1 above.

4.3 Management contracts

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

5. Compensation, Shareholdings and Loans

5.1 Content and method of determining the compensation and the share-ownership programs

Board of Directors

The compensation of members of the Board of Directors is determined from time to time by the Board of Directors upon recommendation of the Compensation Committee.

Members of the Board of Directors receive cash meeting fees of CHF 2,000 per meeting day according to their individual attendance at Board and committee meetings. In addition, members of the Board of Directors may receive shares under the Synthes, Inc. Equity Incentive Plan. The cash remuneration paid, and the number of shares distributed under the Plan to each member of the Board of Directors during 2007 can be found in the Financial Review, Note C23, page 41.

The Group also reimburses reasonable expenses incurred by members of the Board of Directors in attending meetings.

Group Management Committee

The Compensation Committee reviews the compensation of the members of the Group Management Committee at least annually. The Board of Directors determines the compensation of the Chief Executive Officer and reviews and approves the Chief Executive Officer's recommendations for the compensation of the members of the Group Management Committee. The Compensation Committee has engaged an independent consulting firm to assist them in overseeing the executive compensation program. Survey data provides a reference for decisions about the appropriate level of incentives to be provided to senior management. The survey data is drawn from companies that were selected from an international peer group of comparable companies. In setting the pay level of the members of the Group Management Committee, survey data is reviewed along with a variety of other factors, including individual performance, competencies, skills, future potential, prior experience, scope of responsibility and accountability within the organization.

The objectives of the compensation program are:

1. To ensure a relationship between pay and performance, including both rewards for results that meet or exceed performance targets and consequences for results that are below performance targets.
2. Align executive and shareholder interests through the provision of incentives that link executive compensation to company performance.

3. Provide a total compensation package that is competitive with the market for executive talent, thereby enabling the Company to attract, retain and motivate executives.

The major elements of the Company's compensation program are base salary and an executive bonus plan:

1. Base Salary: The Company provides senior management with a competitive fixed annual cash base salary. The base salaries are reviewed annually by the Compensation Committee; taking into account the results achieved by the executive, the executive's future potential, scope of responsibilities, experience and competitive salary practices.
2. Executive Bonus Plan: The Company has a Global Executive Bonus Plan which provides annual cash incentives based on both company performance and individual performance goals. Thirty percent of the compensation earned under the bonus plan is deferred (unless the participant elects to defer a larger portion) and paid upon retirement or upon a separation from service. The remainder is paid in cash. The value of units which are automatically deferred (30%) vests ratably over three years. Under this plan executives are assigned a number of units in the plan. The unit values are calculated by reference to the Company's Consolidated Earnings Before Income Taxes. The unit values can fluctuate both upwards and downwards based on company performance.

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 of Common Stock. The purpose of the Equity Incentive Plan is to provide the members of the Board of Directors and other key employees added incentives to continue in the long-term service of the Company and to create in such persons a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in shareholder value and to provide a financial incentive that will help the Company attract, retain and motivate the most qualified employees and consultants. The features of the Equity Incentive Plan are detailed in the Financial Review, Note B14, page 14 and Note C11, page 30.

Specific information concerning actual compensation paid to members of the Board of Directors and the Group Management Committee during 2007 can be found in the Financial Review, Note C23, page 41.

Share ownership

The number of shares of Synthes, Inc. held by each member of the Board of Directors and the Group Management Committee, including parties closely linked to such persons, is 47,839,541. "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 357,591.

Options held

As of December 31, 2007, the members of the Board of Directors and the Group Management Committee, including the parties closely linked to them, held the number of options on shares of Common Stock as indicated in the chart below:

Number of options	Vesting schedule	Exercise price	Exercise period
50,000	Vested ratably through 2010	CHF 140.0	10 years

5.2 Transparency of Compensation For, Shareholdings of and Loans to Issuers Domiciled Abroad

Specific information concerning actual compensation paid to members of the Board of Directors and the Group Management Committee during 2007, as required by Article 663b bis of the Swiss Code of Obligations, can be found in the Financial Review, Note C23, page 41.

6. Shareholders' Participation

6.1 Voting rights and representation restrictions

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 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.

No exceptions to the restrictions described above have been granted. Restrictions contained in the Certificate of Incorporation or the by-laws can only be changed or eliminated by amending those documents. Amendment of the by-laws can be effected by the Board of Directors or by the shareholders. Amendment of the by-laws by the Board of Directors requires a majority vote of the members of the Board of Directors present at a meeting attended by a majority of all Directors. Amendment of the by-laws by the shareholders requires the affirmative vote of the holders of at least a majority of the Common Stock present or represented and entitled to vote at a meeting at which at least one-third of all voting shares are represented. In order to effect an amendment of the Certificate of Incorporation, the majority of the Board of Directors present at a meeting attended by a majority of all Directors must first adopt a resolution setting forth the amendment, declaring its advisability and providing for consideration of the amendment at a meeting of the shareholders. The amendment must then be adopted by the vote of the holders of a majority of the Common Stock represented at the meeting and entitled to vote. Different voting requirements apply to certain actions, as described in Section 6.2 below.

Voting rights may be exercised only after a shareholder has been recorded in the Company's share register as a shareholder with voting rights.

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.

6.2 Statutory quorums

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 Company's assets and dissolution of the Company.

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 2/3 % of the outstanding shares entitled to vote is required to authorize certain transactions with major shareholders.

6.3 Convocation of the general meeting of shareholders

The Annual General Meeting of Shareholders will be held on April 24, 2008.

6.4 Agenda (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 proposal.

For a proposal to be considered timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Company 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 shareholder 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.

6.5 Inscriptions into the share register;

Admission to the Shareholders' Meeting

Shareholders holding registered shares as of March 28, 2008 (record date) will be able to attend and vote at the Shareholders' Meeting. An invitation with the proposals of the Board of Directors is available through the Company's website at www.synthes.com and will be published in leading Swiss newspapers as well as the Swiss Official Gazette of Commerce (SOGC). Shareholders can ask for their admission card through their broker and will receive the admission card and voting materials after April 10, 2008.

7. Changes of Control and Defense Measures

7.1 Duty to make an offer

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. This plan is designed to enhance the Board of Directors' ability to protect shareholders against, among other things, unsolicited attempts to acquire control of the Company that do not offer an adequate price to all shareholders or are otherwise not in the best interests of Synthes, Inc. and its shareholders. 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.

7.2 Clauses on changes of control

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 shareholders 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 lead auditor

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

8.2 Auditing Fees

The auditing fees charged for 2007 were US\$ 1.9 million.

8.3 Additional fees

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 the Group.

Additional fees charged by the Group's auditors in 2007 amounted to US\$ 1.1 million. This included audit-related services, tax services (including tax compliance) and all other services.

8.4 Information instruments pertaining to the external 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 auditors attend at least two meetings of the Audit Committee each year, and may attend additional meetings of the Board of Directors and the Audit Committee as needed.

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. The web site also includes a schedule of planned media conferences. 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:

Synthes
Investor Relations
Glutz Blotzheim-Strasse 3
4500 Solothurn
Switzerland

Tel. +41 32 720 46 38
Fax +41 32 720 48 11
ir.info@synthes.com