



**Unaudited Interim Condensed Consolidated
Financial Statements**

As of June 30, 2006

Synthes, Inc. and subsidiaries
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Statements

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Synthes Inc. Announces First Half-Year 2006 Financial Results and FDA PMA approval for ProDisc® -L
H1 2006 Local Currency Sales and Net Earnings up 15.1% and 10.1%, respectively, versus the prior year

Solothurn/Switzerland August 16, 2006

Synthes 2006 consolidated sales for the second quarter of \$591.2 million and half-year sales of \$1,167.7 million represent increases of 12.9% and 13.8%, respectively, over the prior year (12.9% and 15.1%, respectively, in local currency).

Synthes consolidated net earnings grew by 8.3% for the half-year 2006 versus prior year results (10.1% in local currency).

Continued growth in all product lines and regions primarily due to successful new product introductions and selling initiatives

All three product lines (Trauma, Spine & CMF) experienced double-digit sales growth for the first half of 2006. Trauma growth was primarily due to the continued expansion of Locking Compression Plate (LCP) products, Trochanteric Fixation Nail (TFN) and the newly introduced Expert Intramedullary Nail system. Spine's growth was realized over a broad range of products including the Interbody Fusion, Anterior Thoracolumbar and Cervical product portfolios. CMF's continued strong sales growth was due to solid core fixation growth, especially mandible and neuro, in all regions.

Operational results

2006 first half gross profit margins of 82.0% (as a percentage of sales) represents an improvement versus second half 2005 gross profit of 81.2%; however, is lower than 1H 2005 of (83.9%). Lower gross profit margins versus first half 2005 are primarily due to increased inventory obsolescence as a result of new product introductions, increased subcontracting costs to support new product launches, and raw material price increases. Increased selling and promotional expenses as a percent of sales primarily reflect a significant expansion and training of a dedicated global sales force, increased depreciation expense on selling investments as well as an increase in education activities focused on surgeons and operating room personnel. Total operating expenses (as a percentage of sales) were held relatively flat while selling and promotional expenses increased.

Other/taxes

Foreign exchange losses of (\$3.1) million for the first half 2006 versus first half 2005 foreign exchange gains of \$6.0 million were primarily driven by the strengthening of the Swiss Franc. Additionally, foreign exchange losses were partially offset by a lower tax rate in 2006.

Capital Investment

Synthes continues to invest heavily in its future growth as evidenced by first half 2006 capital expenditures of \$88.0 million. First half 2006 capital expenditures are mostly comprised of continued investments in sales support equipment which grew by 6.1% versus the prior year.

FDA Approves ProDisc® -L PMA

The U.S. Food and Drug Administration (FDA) has approved the ProDisc® -L Total Disc Replacement for commercial distribution in the United States.

ProDisc® -L is intended to treat lower back pain in patients with degenerative disc disease at a single level from L3 - S1

Synthes: A leading medical device company

Synthes is a leading global medical device company. We develop, produce and market instruments, implants and biomaterials for the surgical fixation, correction and regeneration of the human skeleton and its soft tissues.

Synthes, Inc. and subsidiaries
Condensed Consolidated Balance Sheets
As of June 30, 2006, December 31, 2005 and June 30, 2005

	(Unaudited) June 30, 2006 <i>in 1,000 US\$</i>	Dec. 31, 2005 <i>in 1,000 US\$</i>	(Unaudited) June 30, 2005 <i>in 1,000 US\$</i>
Assets			
Current Assets			
Cash and cash equivalents	272'081	368'394	280'316
Marketable securities	10	10	10
Accounts receivable			
Trade	408'334	364'840	348'959
Less Trade allowance	(11'356)	(8'788)	(6'627)
Other	40'856	24'168	29'774
Inventories, net	393'291	340'691	310'252
Prepaid expenses and other current assets	12'212	7'721	4'343
Deferred income taxes	25'429	25'880	11'730
Total current assets	1'140'857	1'122'916	978'757
Property, plant and equipment, net	526'981	506'171	481'493
Other assets			
Non-current portion of marketable securities	51	85	116
Intangible assets	1'000'347	955'086	973'217
Less accumulated amortization of intangibles	(76'610)	(61'807)	(49'840)
Goodwill	897'081	853'577	845'634
Other assets	26'509	24'814	28'012
Deferred income taxes	44'336	39'372	41'613
Total other assets	1'891'714	1'811'127	1'838'752
Total assets	3'559'552	3'440'214	3'299'002
Liabilities and stockholders' equity			
Current liabilities			
Current maturities of long-term debt	98'252	99'217	104'129
Accounts payable	43'666	43'747	43'265
Income taxes payable	45'268	67'359	52'728
Accrued expenses	233'064	311'227	194'605
Deferred income taxes	28'344	34'677	20'716
Total current liabilities	448'594	556'227	415'443
Long-term debt, net of current maturities	160'889	225'378	318'332
Deferred credit	-	-	52'953
Other long-term liabilities	38'430	37'217	26'394
Deferred income taxes	241'038	226'150	259'224
Minority interests	3'422	7'827	7'444
Total liabilities	892'373	1'052'799	1'079'790
Stockholders' equity			
Common stock CHF 0.001 par value, shares authorized - 150,000,000; shares issued - June '06 - 114,971,245; Dec. '05 - 114,946,858, June '05 - 114,944,858	76	76	76
Additional paid-in-capital	1'516'186	1'512'932	1'510'493
Treasury stock - at cost	(525)	(590)	(590)
Retained earnings	1'061'650	880'797	669'286
Accumulated other comprehensive income (loss)	89'792	(5'800)	39'947
Total stockholders' equity	2'667'179	2'387'415	2'219'212
Total liabilities and stockholders' equity	3'559'552	3'440'214	3'299'002

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the six months ended June 30, 2006 and 2005

	June 30, 2006 <i>in 1,000 US\$</i>	June 30, 2005 <i>in 1,000 US\$</i>
Net sales	1'167'674	1'026'523
Cost of goods sold	209'809	165'211
Gross profit	957'865	861'312
Operating expenses		
Selling and promotion	345'029	290'284
General and administrative	128'946	122'833
Research and development	61'135	54'233
Royalty expense	41'566	36'849
Amortization of intangible assets	12'511	12'574
Operating income	368'678	344'539
Other income (expense)		
Interest expense	(3'942)	(6'846)
Interest income	3'925	2'556
Foreign exchange (losses) gains	(3'092)	5'959
Other, net	(2'197)	(1'653)
Earnings before minority interest and income taxes	363'372	344'555
Minority interest	(556)	1'423
Earnings before income taxes	363'928	343'132
Income taxes	120'654	118'605
Net earnings	243'274	224'527
Basic and diluted earnings per share (expressed in US\$)	2.12	1.95
	<i>in 1,000 of shares</i>	<i>in 1,000 of shares</i>
Weighted average number of common shares outstanding	114'952	114'905
Weighted average number of common shares outstanding with dilutive effect	114'997	114'960

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the six months ended June 30, 2006 and 2005

	<u>Common stock</u>		Additional paid-in capital <i>in 1,000 US\$</i>	Treasury stock <i>in 1,000 US\$</i>	Retained earnings <i>in 1,000 US\$</i>	Accumulated other comprehensive income (loss) <i>in 1,000 US\$</i>	Consolidated total equity <i>in 1,000 US\$</i>	Comprehensive income (loss) <i>in 1,000 US\$</i>
	number of shares	<i>in 1,000 US\$</i>						
Balance December 31, 2004	114'873	76	1'504'847	(652)	511'642	276'501	2'292'414	-
Net earnings YTD June 30, 2005	-	-	-	-	224'527	-	224'527	224'527
Issuance of common stock	72	-	5'587	-	-	-	5'587	-
Re-issuance of treasury shares	-	-	59	62	-	-	121	-
Dividends CHF 0.7000 (US\$ 0.5819) per share	-	-	-	-	(66'883)	-	(66'883)	-
Foreign currency translation adjustment YTD June 30, 2005	-	-	-	-	-	(236'554)	(236'554)	(236'554)
Balance June 30, 2005	114'945	76	1'510'493	(590)	669'286	39'947	2'219'212	(12'027)
Balance December 31, 2005	114'947	76	1'512'932	(590)	880'797	(5'800)	2'387'415	-
Net earnings YTD June 30, 2006	-	-	-	-	243'274	-	243'274	243'274
Issuance of common stock	24	-	2'473	-	-	-	2'473	-
Re-issuance of treasury shares	-	-	74	65	-	-	139	-
Share-based payment arrangements compensation	-	-	707	-	-	-	707	-
Dividends CHF 0.7000 (US\$ 0.5430) per share	-	-	-	-	(62'421)	-	(62'421)	-
Foreign currency translation adjustment YTD June 30, 2006	-	-	-	-	-	95'592	95'592	95'592
Balance June 30, 2006	114'971	76	1'516'186	(525)	1'061'650	89'792	2'667'179	338'866

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Synthes, Inc. and subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the six months ended June 30, 2006 and 2005

	June 30, 2006 <i>in 1,000 US\$</i>	June 30, 2005 <i>in 1,000 US\$</i>
Cash flows from operating activities		
Net earnings	243'274	224'527
Adjustments to reconcile net earnings to net cash provided by operating activities		
Minority interest	(556)	1'423
Share-based payment arrangements compensation	3'034	2'607
Provisions for inventory obsolescence	11'401	6'353
Depreciation	79'318	66'948
Amortization	13'341	13'429
Changes in working capital and other	(136'392)	(55'119)
Net cash provided by operating activities	213'420	260'168
Cash flows from investing activities		
Capital expenditures for property, plant and equipment	(87'962)	(93'415)
Contingent consideration related to a prior acquisition	(79'903)	-
Purchase of minority interest	(4'433)	-
Other investing activities	(2'126)	(1'660)
Net cash used in investing activities	(174'424)	(95'075)
Cash flows from financing activities		
Principal payments of debt and capital lease obligations	(81'220)	(76'605)
Proceeds from issuance of long-term debt	4'575	6'116
Proceeds from issuance of common stock in connection with stock options	146	2'981
Dividends paid to stockholders	(62'421)	(66'883)
Excess tax benefits from share-based arrangements	58	-
Net cash used in financing activities	(138'862)	(134'391)
Effects of exchange rate changes on cash and cash equivalents	3'553	(14'032)
Net (decrease) increase in cash and cash equivalents	(96'313)	16'670
Cash and cash equivalents as of January 1	368'394	263'646
Cash and cash equivalents as of June 30	272'081	280'316
Supplemental disclosures of cash flow information		
Interest paid	4'810	6'808
Income taxes paid	158'156	99'100
Non-cash transactions		
Issuance of common stock	2'327	1'082

See Notes to Condensed Consolidated Financial Statements (Unaudited).

1. Description and nature of operations

Synthes, Inc. and its subsidiaries (the Group) develop, manufacture, and distribute 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.

2. Basis of the condensed consolidated financial statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim reporting and do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Operating results for the six-month period ended June 30, 2006, are not necessarily indicative of the results that may be expected for a full fiscal year. For further information, refer to the consolidated financial statements and notes included in the Group's Annual Report for the year ended December 31, 2005.

The consolidated financial statements include the accounts of Synthes, Inc. and all companies in which Synthes, Inc. has directly or indirectly more than a 50% voting interest or is the primary beneficiary of a variable interest entity. For those consolidated subsidiaries where ownership is less than 100%, the outside stockholders' interests are shown in minority interest in the accompanying financial statements. Subsidiaries are consolidated from the date of acquisition. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. All intercompany transactions and balances between Group companies are eliminated.

3. Reclassifications

Certain June 2005 financial information has been reclassified to conform to the current period's presentation.

4. Segment reporting

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

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

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

4. Segment reporting (continued)

For the six months ended June 30, 2006	Reportable segments (in 1,000 US\$)					Consolidated total
	North America	Europe	Asia Pacific	Latin America	Elimi- nations	
External revenue	751'184	273'930	105'506	37'054	-	1'167'674
Intersegment revenue	32'102	137'911	-	-	(170'013)	-
Interest revenue	3'153	577	74	121	-	3'925
Interest expense	3'851	20	61	10	-	3'942
Depreciation and amortization	51'038	38'304	9'162	2'311	(8'156)	92'659
Segment operating income	283'274	95'641	100	2'535	(12'872)	368'678
Income tax expense (benefit)	104'257	18'162	1'443	1'644	(4'852)	120'654
Segment net earnings	180'565	74'435	(1'848)	249	(10'127)	243'274
Segment total assets	867'200	2'303'105	392'393	112'936	(116'082)	3'559'552
Expenditures for long-lived assets	62'081	28'752	8'953	2'824	(11'251)	91'359

For the six months ended June 30, 2005	Reportable segments (in 1,000 US\$)					Consolidated total
	North America	Europe	Asia Pacific	Latin America	Elimi- nations	
External revenue	653'263	250'589	94'943	27'728	-	1'026'523
Intersegment revenue	6'807	142'044	-	-	(148'851)	-
Interest revenue	1'909	557	47	43	-	2'556
Interest expense	6'541	95	126	84	-	6'846
Depreciation and amortization	35'804	41'466	5'542	1'057	(3'492)	80'377
Segment operating income	243'123	103'338	6'251	2'553	(10'726)	344'539
Income tax expense (benefit)	90'781	27'097	2'956	800	(3'029)	118'605
Segment net earnings	155'123	73'700	3'230	1'697	(9'223)	224'527
Segment total assets	708'173	2'190'934	361'894	97'540	(59'539)	3'299'002
Expenditures for long-lived assets	64'543	28'732	7'349	1'858	(6'051)	96'431

5. Earnings per share (EPS)

The following is a calculation of basic and diluted earnings per share for the six months ended June 30, 2006 and 2005. For the diluted earnings per share, the weighted average shares are adjusted to assume conversion of all potential dilutive ordinary shares.

	For the six months ended June 30, 2006 <i>in 1,000 US\$</i>	For the six months ended June 30, 2005 <i>in 1,000 US\$</i>
Net earnings	243'274	224'527
	<i>in 1,000 of shares</i>	<i>in 1,000 of shares</i>
Weighted average number of common shares used in basic EPS	114'952	114'905
Effects of dilutive equity incentive plan stock options	45	55
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	114'997	114'960
Basic EPS of common stock (expressed in US\$)	2.12	1.95
Diluted EPS of common stock (expressed in US\$)	2.12	1.95

6. Commitments and contingencies

The Group must observe the laws, government orders and regulations of the countries in which it operates.

Synthes, Inc. and certain subsidiaries are currently involved in legal and administrative proceedings arising out of the normal conduct of their business. The Group records accruals for losses that are probable and reasonably estimable. In the opinion of management, the ultimate outcome of these proceedings is not expected to have a material impact on the Group's consolidated financial position.

The Group has, on occasion, been named as a defendant in lawsuits alleging product failure or patent infringement. Product liability cases are routinely handled by in-house and external counsel, and management does not anticipate that any material losses will be sustained by the Group as a result of these claims. Based on the advice of counsel, management has provided reserves for losses that are probable and reasonably estimable. Management believes the outcome of any pending litigation will not have a material adverse impact on the financial position of the Group.

7. Acquisition

On April 4, 2003, the Group acquired all of the outstanding stock of Spine Solutions, Inc., a marketer and developer of a total artificial disc system, called the Prodisc® system. The acquisition price was approximately US\$ 179 million in cash plus additional contingent consideration of approximately US\$ 175 million to be paid based upon certain product development milestones through 2008. Through June 30, 2006, the Group has paid approximately 75% of the additional contingent consideration.

8. Agreement to acquire assets

On March 15, 2006 Synthes, Inc. and the AO Foundation agreed to continue their long standing successful cooperation whereby Synthes will acquire substantially all of the Intellectual Property of the AO for approximately CHF 1.0 billion in a combination of stock and cash. The AO Foundation will continue the mission of educating surgeons, conducting basic and clinical research and providing technical services to assure the safety and efficacy of osteosynthesis products. The transaction is projected to be slightly accretive to earnings per share.

A fairness opinion has been provided by Credit Suisse to Synthes, Inc. The closing of the transaction is subject to usual and customary conditions, as well as certain regulatory approvals.