

Media Release

## Synthes First Half 2008 Earnings Growth Exceeds Double-Digit Local Currency Sales Growth

West Chester (PA), USA, July 30, 2008

**Synthes (SWX: SYST.VX)** today announced its First Half Year 2008 financial results, with sales and earnings growth of 18.1% and 23.6%, respectively (12.6% and 16.9%, respectively, in local currencies). Net earnings growth exceeded organic double-digit sales growth.

### Second Quarter 2008

- **Consolidated sales** increased by 17.5% (11.9% in local currencies) over prior year to US\$ 792.5 million
- **Double-digit sales growth** was achieved in all geographical regions and divisions
- Commitment to the introduction of **new products** and **continued sales force expansion**, including investments in equipment and education, contributed to positive results
- **ProDisc®-C** received further coverage for reimbursement by several key insurers in the US
- **In-Space interspinous spacer** pilot FDA IDE study was initiated in the US

### First Half Year 2008

- **Consolidated sales** increased by 18.1% (12.6% in local currencies) over prior year to US\$ 1,573.5 million
- **Net earnings** of US\$ 348.8 million represent an increase of 23.6% (16.9% in local currencies) vs. prior year, once again exceeding double-digit sales growth
- Strong growth was achieved across the company, with accelerated performance in **Asia Pacific**
- **Gross margin** of 83.3% increased by 1.6 percentage points (pps) vs. prior year
- **Operating expenses** as a percentage of sales remained flat vs. prior year
- **Foreign exchange** transaction losses negatively impacted "Other Income/(Expense)" and "Royalty Expense"
- **Income tax rate** decreased by 2.4 pps vs. prior year
- **Strong cash generation** was offset by payments related to acquisitions, FIN 48 tax statute and increased working capital, which is primarily a result of foreign currency translation
- **Other highlights** included the launch of **ProDisc®-C**, the **Innomedic** acquisition, and the settlement of the **TFN (Trochanteric Fixation Nail)** case

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

*"We are pleased to have delivered another strong half year of growth that spans all regions and divisions. Our improved profitability is also an important achievement, as it is the direct result of gross margin gains from increased short-term production volumes and enhanced operational efficiencies combined with new product introductions from our rich product pipeline."*

## Financial Summary

### Sales Results (unaudited)

	Second Quarter 2008 (April - June)			
Consolidated Net Sales (in US\$ millions)	2008	2007	% Change (in US\$)	% Change (in local currencies)*
North America	471.7	424.8	11.0%	10.8%
Europe	196.1	154.5	26.9%	11.9%
Asia Pacific	74.4	57.6	29.2%	16.0%
Rest of the World	50.3	37.6	33.9%	19.0%
<b>Total</b>	<b>792.5</b>	<b>674.5</b>	<b>17.5%</b>	<b>11.9%</b>

	First Half 2008 (January - June)			
Consolidated Net Sales (in US\$ millions)	2008	2007	% Change (in US\$)	% Change (in local currencies)*
North America	943.5	842.3	12.0%	11.6%
Europe	387.1	303.3	27.6%	13.3%
Asia Pacific	149.9	114.5	31.0%	17.3%
Rest of the World	93.0	72.4	28.4%	14.4%
<b>Total</b>	<b>1,573.5</b>	<b>1,332.5</b>	<b>18.1%</b>	<b>12.6%</b>

\* Local currencies – 2008 results translated at 2007 foreign exchange rates.

### Key Financial Results (unaudited)

Consolidated Operations in US\$ millions (except no. of employees and per share data)	Jan - Jun 2008	As a % of Sales	Jan - Jun 2007	As a % of Sales	% Change (in US\$)	% Change (in local currencies)*
Net Sales	1,573.5	100.0%	1,332.5	100.0%	18.1%	12.6%
Gross Profit	1,310.0	83.3%	1,088.0	81.7%	20.4%	13.8%
Operating Income	530.8	33.7%	431.0	32.3%	23.2%	16.6%
Net Earnings	348.8	22.2%	282.1	21.2%	23.6%	16.9%
Earnings per share	2.94	n/a	2.38	n/a	23.5%	16.8%
No. of employees on June 30 <sup>th</sup>	9,617	n/a	8,770	n/a	9.7%	n/a
Capital Expenditures	126.5	n/a	103.0	n/a	22.9%	15.1%
Free Cash Flow	161.9	n/a	231.8	n/a	-30.1%	-39.0%

\* Local currencies – 2008 results translated at 2007 foreign exchange rates.

## REGIONAL PERFORMANCE (Second Quarter 2008)

**North America** achieved double-digit sales growth during the second quarter. Trauma continued to grow above market at a double-digit pace. Spine experienced strong performance due to new product introductions and accelerated sales force expansion.

The **Synthes Resident Program (SRP)**, an on-line training platform for entry-level surgeons, was expanded from Trauma to other divisions in the US. The program has been highly successful with more than 90% of US orthopedic residents enrolled. The SRP will be launched outside the US later in 2008.

The **Synthes Inventory Management System (SIMS)** has achieved a high level of penetration as a state-of-the-art logistical support system for hospitals.

**Europe** realized solid sales growth as a result of sales force expansions during 2007 and the First Half 2008. CMF performance was especially strong primarily due to the introduction of mandibular distraction, neurosurgical and cardiothoracic products. On a country basis, the UK, Russia, and Poland realized significant gains over the previous year.

**Asia Pacific** achieved attractive double-digit gains in all divisions, primarily in China and Korea. Strong growth was achieved despite a government mandated price decrease in Japan which took effect during the quarter. The Asia-specific PFNA (Proximal Femoral Nail) and LCP (Locking Compression Plate) product lines continued to support strong growth for the region.

Additionally, several key management positions in Asia Pacific were filled during the quarter.

In **Rest of World**, growth was positively impacted by the first shipments of a tender order to the Middle East. Latin America also grew at a double-digit rate.

## FINANCIAL PERFORMANCE (First Half Year 2008)

2008 first half year **gross profit margin** of 83.3% (as a percentage of sales) improved versus first half year 2007 of 81.7% due to favorable sales mix, increased levels of production (including short-term Middle East tender volumes, which improved overhead absorption) and manufacturing productivity initiatives.

**Operating expense** remained flat (as a percentage of sales) versus prior year as a result of productivity improvements which helped offset increased investments in the business to support sales force expansion, education, and research and development efforts. Higher royalty expenses (as a percentage of sales) resulted from the weakened US dollar.

**Other Income (Expense)** was negatively impacted by foreign exchange losses, primarily a result of the strengthening Swiss Franc.

Improvements in the **income tax rate** were achieved due to tax planning efforts and favorable outcomes on certain tax contingencies.

**Net earnings growth** exceeded sales growth despite the impact of first half 2008 foreign exchange losses.

Synthes' investments in its future growth were reflected by **Capital Expenditures** of US\$ 126.5 million, including sales force equipment investments (implant and instrument kits) of US\$ 93.9 million, an increase of 53% versus prior year. The increase in sales force investments can be attributed to our continued commitment to sales force expansion and new product launches.

During the first half 2008, Synthes increased its staffing by more than 500 employees, approximately 80% of which were sales force and manufacturing personnel. On June 30, 2008 Synthes employed **9,617 employees** worldwide.

## PRODUCT GROUP DEVELOPMENTS (Second Quarter 2008)

### TRAUMA

Trauma achieved double-digit sales growth globally, fueled by increased sales of the **Trochanteric Fixation Nail (TFN)** and the continued success of the **LCP (Locking Compression Plate)** platform, including the **LCP Volar Column Distal Radius Plate**.

A key new Trauma product launch at the end of the second quarter was the **Variable Angle LCP Extra-Articular Distal Radius Plate**, an innovative system for the treatment of wrist fractures, one of the most common types of fractures. This is Synthes' first plating system to utilize variable angle LCP technology, which combines the benefits of locked plating with the intraoperative flexibility of multiple screw angulations.

Close to twenty **Synthes Geriatric Fracture Centers** (hospitals) are now fully operational both in the US and in Europe. Synthes aids in establishing the centers by providing them with comprehensive protocols and standardized procedures that significantly reduce total treatment times and improve the care of geriatric fracture patients.

### SPINE

Spine's accelerated growth continued to be driven by **SynFix-LR** and **Synapse**, while the **OPAL Spacer** also was a strong contributor. SynFix-LR, with its unique plate/spacer combination and anterior-only access, continued to gain clinical acceptance. Synapse is a comprehensive set of implants and instruments for stabilization of the upper spine. The OPAL Spacer is a vertebral body replacement device intended for use in the thoracolumbar spine.

**ProDisc®-C Total Disc Replacement** made progress with reimbursement in the US as several key payors announced positive coverage decisions for cervical total disc arthroplasty.

In June, the first surgeries of the pilot US FDA IDE clinical study for **In-Space** were completed. In-Space is a motion-preserving implant designed to treat lumbar spinal stenosis through a minimally-invasive lateral approach.

Spine's product portfolio was bolstered by several significant product launches, including **Zero-P** (a zero-profile plate/spacer combination for standalone cervical interbody fusion), **N-Hance** (acquired in December 2007 from N Spine) and the **Constellation Cannulated Pangea**, which is used as a minimally-invasive treatment system for pedicle screw fixations.

### CMF

The CMF division continued to grow above market, driven by increased sales of its Matrix product lines. They include **MatrixNEURO**, a cranial plating system that offers a complete line of plates, screws and instrumentation designed specifically for neurosurgical fixation, and **MatrixMIDFACE**, a comprehensive plating system for the midface and craniofacial skeleton launched in January 2008.

CMF's Europe and Asia Pacific operations continued to post attractive double-digit growth rates.

### OUTLOOK

For the second half of 2008, Synthes continues to expect **low double-digit sales growth in local currency**. Synthes will maintain its focus on continuous rollout and clinical acceptance of new products, the expansion of the global sales force, and educational programs for surgeons and operating room personnel.

**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.

**First Half (Interim) Report 2008**

The First Half 2008 Unaudited Interim Condensed Consolidated Financial Statements incl. Notes can be downloaded on <http://www.synthes.com/html/Financial-Reports.4355.0.html>.

**Financial Analyst Phone Conference**

For details about today's Financial Analyst Phone Conference at 2.30 PM CEST please refer to the Investor Relations Calendar on <http://www.synthes.com/html/?id=7326>.

**Image Bank**

A selection of product and company images can be found on <http://www.synthes.com/html/Media-Corner.7325.0.html?&L=0>.

**For further information please contact**

Gilgian Eisner, Investor Relations, Synthes, Inc.  
Phone +41 32 720 4745, Fax +41 32 720 4811  
Email: [ir.info@synthes.com](mailto:ir.info@synthes.com)  
<http://www.synthes.com>

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In addition, it should be noted that past financial and operational performance of the company is not necessarily indicative of future financial and operational performance. Synthes undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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