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Report of the Board of Directors of Centerpulse AG following Smith & Nephew's and Zimmer's public takeover offers (the "Offers"), as per Art. 29 of the Federal Act on Stock Exchanges and Securities Trading and Art. 29–32 of the Ordinance of the Takeover Board on Public Takeovers

1 Background

On March 20, 2003 Smith & Nephew plc and Centerpulse AG ("Centerpulse") announced that they had agreed on the terms and conditions of a public exchange and takeover offer in the form of a combination agreement (the "Combination Agreement"). On April 16, 2003 the board of directors of Centerpulse (the "Board") issued a recommendation to accept Smith & Nephew plc's offer. On April 25, 2003 Smith & Nephew Group plc ("Smith & Nephew") issued an offer for all outstanding shares of Centerpulse (the "Smith & Nephew Offer").

On May 20, 2003 Zimmer Holdings, Inc. ("Zimmer") published the pre-announcement of a competing public exchange and takeover offer for all outstanding shares of Centerpulse. Zimmer subsequently filed the competing public exchange and takeover offer on June 19, 2003 (the "Zimmer Offer").

As Swiss takeover law stipulates that the report of the board of directors of the target company must be published at the latest on the 15th trading day following the publication of an offer, the Board issued a report on July 8, 2003, in which it communicated that it had decided that the bidder's offer that constitutes the better value for Centerpulse's shareholders should be recommended, as soon as such value could be sufficiently ascertained. The Board determined this not to be the case at that time.

On August 6, 2003 Smith & Nephew announced that it would not increase its outstanding offer. Zimmer's shareholders have approved the issuance of new shares as part of the consideration paid to Centerpulse shareholders in the Zimmer Offer. The Zimmer Offer is therefore unconditional except with respect to the minimum acceptance condition. Further to its report of July 8, 2003, the Board is therefore now in a position to issue a recommendation as set out below.

2 Recommendation of Zimmer Offer

As stated in the Board report dated July 8, 2003, the Board, together with management and its advisors, has repeatedly analyzed the short- and long-term prospects of Centerpulse as an independent enterprise and carefully evaluated, with a view to the market position of Centerpulse in certain key markets, the advantages of joining forces with a strategic partner, particularly with one of the bidders. The Board has, supported by an independent advisor, evaluated the strategic implications of the Offers from the perspective of all stakeholders. In addition, the Board has weighed the financial aspects of the Offers with its strategic and financial advisors and, together with external auditors and legal counsel, has conducted due diligence reviews of both bidders, comparable in scope and depth.

The Board has examined and compared both Offers and, based on its analysis and after consultation with its advisors, has concluded that joining forces with either Smith & Nephew or Zimmer would be in the interests of Centerpulse, its customers, employees and shareholders. As the Zimmer Offer constitutes the better value for Centerpulse's shareholders, the Board is **recommending the Zimmer Offer** to Centerpulse's shareholders.

3 Potential Conflicts of Interest of Board Members and Management and Countermeasures

The Board has set out, in its report dated July 8, 2003, certain potential conflicts that certain Board members might have to favor a transaction with Smith & Nephew rather than with Zimmer, including a) board seats for Dr. Max Link and René Braginsky on the board of Smith & Nephew; b) an agreement between Smith & Nephew and certain shareholders of InCentive Capital AG ("InCentive"), including René Braginsky; c) a break fee of CHF 20 million to be paid to Smith & Nephew in case a competing third party offer is successfully completed; and d) certain arrangements with respect to stock options held by Dr. Max Link, Larry L. Mathis and Prof. Dr. Steffen Gay. Since all Board members voting on the recommendation contained in this report have voted in favor of the Zimmer Offer, these potential conflicts have not materialized and their description is therefore not repeated herein. This report thus reviews only those potential conflicts already disclosed in the Board reports dated April 16, 2003 and July 8, 2003, respectively, which theoretically might lead Board members to vote for rather than against the recommendation of the Zimmer Offer, as well as all potential conflicts of management.

It is not proposed that any member of the Board be elected to the board of Zimmer. The Zimmer Offer provides that each member of the Board will be required to give certain undertakings as to how the business of Centerpulse is to be managed until the new members of the Board (to be proposed by Zimmer and elected by an extraordinary shareholders' meeting) may take up their office. Such undertakings have been provided by the current members of the Board as of the date of this report.

The members of the Board, with the exception of Dr. Max Link, are not entitled to any special severance payments. One half of the ordinary compensation of the Board members was paid after the first six months of this year and no decision has yet been taken on the payment (if any) for the second half.

The employment contracts of the following members of senior management contain provisions that provide for severance payments (plus corresponding social security payments) in the event that the employment relationship is terminated within 12 months following a change of control by Centerpulse or the employee, however, in the latter case only if the position of the employee has substantially deteriorated: Mike McCormick (USD 1 260 000), David Floyd (USD 1 530 000), Richard Fritschi (CHF 1 650 375), Steven Hanson (USD 1 354 500), Urs Kamber (CHF 1 850 370), Matthias Mölleney (CHF 1 525 140), Hans-Rudolf Schürch (CHF 917 955), Christian Stambach (CHF 1 332 000), Beatrice Tschanz (CHF 1 526 250) and Dr. Thomas Zehnder (CHF 1 600 800). Dr. Max Link is entitled to terminate his employment contract as CEO in the event of a change of control. His severance payment is CHF 4 950 000, plus respective social security payments. The Board has guaranteed the members of senior management, including Dr. Max Link, bonus payments for their work during the first half of 2003. The amount of such guarantees is equal to half of the bonus payments made the preceding year (excluding extraordinary bonuses).
With the exception of the aforementioned items the Board has, as already stated in the previous Board report dated July 8, 2003, no knowledge of possible financial effects of the Zimmer Offer on members of the Board or senior management that may constitute a conflict of interest for members of the Board or senior management.
While René Braginsky has abstained from the discussions and votes in connection with the assessment of the present Offers and with regard to this report due to his aforementioned conflict of interest, Dr. Max Link has, based on a decision of the Board, led the negotiations to date and participated in the discussion and voting with regard to this recommendation. No additional measures following the recommendations of the Board dated April 16, 2003 and July 8, 2003, respectively, were deemed necessary, as Dr. Max Link was always in full support of the Board's decision to recommend the offer with the better value and the Board has commissioned and received a fairness opinion from KPMG, which concluded that the offer price of the Zimmer Offer is fair and that such offer constitutes financially higher value than the Smith & Nephew Offer.

4 Intentions of Shareholders holding more than 5% of Voting Rights

InCentive, directly or indirectly through its 100%-owned subsidiary InCentive Jersey Ltd, holds 18.9% of the Centerpulse shares (as disclosed up to August 19, 2003). Smith & Nephew and Zimmer have each also launched takeover offers with regard to InCentive. The board of InCentive published a report on August 15, 2003, in which it recommended Zimmer's offer for InCentive to its shareholders, subject to Zimmer creating the shares to be offered to InCentive shareholders in exchange.

The Board is not aware of any other shareholders holding more than 5% of the voting rights of Centerpulse.

M. Link

Dr. Max Link
Chairman of the Board of Directors
Centerpulse AG