

2017 LETTER TO SHAREHOLDERS

Dear Shareholder,

As CEO of Medtronic, I have often reflected on the unique opportunity and responsibility we have to improve the health of people around the world. Healthcare inherently is an area of enormous opportunity, because the need and desire for better health will always exist. Medtronic remains focused on addressing the universal needs of all healthcare systems: to continuously improve clinical outcomes, provide access to quality healthcare when needed, and to optimize costs and efficiencies in the delivery of care.

Our core growth strategies of Therapy Innovation, Globalization and Economic Value help us to systematically address these universal healthcare needs, thereby creating a distinct competitive advantage for Medtronic. We made meaningful progress in each of our growth strategies in fiscal year 2017 (FY17), while also improving our operational productivity, and meeting our commitments to you, our shareholders.

But most importantly in FY17, together with our physician partners, we served 70 million patients – more patients, in more places around the world, than in any year in our history. It is incredible that every second, two patients somewhere in the world are benefitting from Medtronic therapies and services. I am very proud of our global team of dedicated employees for all they accomplished in FY17, and all that we can accomplish going forward, as we continue to fulfill the Medtronic Mission.

FY17 – A SOLID YEAR

Overall, FY17 was a solid year for Medtronic. We delivered record revenue of \$29.7 billion, growing approximately 5% on a constant currency, constant week basis, which marks our fifth consecutive year of mid-single digit constant currency, constant week growth. The integration of Covidien progressed as planned. We have now realized more than \$600 million in synergy savings, and remain on track to deliver our goal of \$850 million of total cost savings by the end of FY18. This operational productivity, coupled with our revenue growth, were key contributors to delivering constant currency, constant week EPS growth of approximately 11% and generating \$5.6 billion of free cash flow.

Of note, our Minimally Invasive Therapies Group recorded its highest ever growth in FY17. Preserving revenue growth was among our highest priorities of the Covidien integration, so this result was particularly significant. In the Restorative Therapies Group, Spine, Brain and Specialty Therapies all made strong contributions to our overall performance; our Spine division delivered its best performance in seven years, benefitting from our "Speed to Scale" initiative as we launched a series of new products. In our Cardiac & Vascular Group and our Diabetes Group, we launched the Micra® Transcatheter Pacing System and the MiniMed® 670G hybrid closed loop system respectively – both revolutionary platforms that promise to fundamentally change the way these types of therapies are delivered.

We strategically deployed our capital in line with our stated priorities, balancing the return of cash to our shareholders with disciplined reinvestment in our businesses. We met our commitment of returning greater than 50% of our free cash flow to our shareholders in the form of dividends and net share repurchases, returning a total of \$5.5 billion to shareholders in FY17. In addition, we allocated approximately \$1.5 billion of our capital to tuck-in acquisitions and strategic investments, which we expect will further enhance our revenue growth and improve returns over time.

Finally, late in the fiscal year, we announced the sale of a portion of our Patient Monitoring and Recovery division to Cardinal Health for \$6.1 billion as part of our disciplined portfolio management strategy. Not only does this divestiture help the company's flexibility with capital allocation, but it also is expected to provide meaningful increases in revenue growth and operating margin rates. The process was executed in a thoughtful and organized manner. Given our strategic focus on areas where we can make the most meaningful contributions, we believe these businesses will be better served under Cardinal Health, which can bring prioritization and investment to this product portfolio, as well as continued strong commitment to patients and employees, very much in line with our own values. We closed on this transaction on July 29, 2017, and remain focused on ensuring a smooth transition of these businesses in the coming months.

OUR GROWTH STRATEGIES

We continue to develop technologies and solutions in line with our Mission to alleviate pain, restore health and extend life for people; this underpins our Therapy Innovation strategy. We executed a steady cadence of meaningful product launches throughout the year that advanced clinical and economic outcomes across our therapeutic areas, from cardiac and vascular, to brain, spine and pain, to diabetes, and minimally invasive therapies.

Among the many new therapies introduced in FY17, two groundbreaking new products are particularly noteworthy. The Micra® Transcatheter Pacemaker is a miniature pacemaker that promises to re-invent pacemaker therapy and eventually transform all cardiac rhythm management. This market was generally assumed to have matured, and it is pleasing to note that our company, which was founded with the invention of the original battery-powered pacemaker, is now positioned to reignite the field through disruptive organic technology development.

In addition, the MiniMed® 670G hybrid closed-loop system was launched after more than 15 years of organic development within our Diabetes team. This revolutionary product has the potential to create new standards of care for diabetes patients under intensive insulin management. The outcomes we are seeing with the first patients to receive the 670G are outstanding, reinforcing clinical trial results. Our team is working diligently to meet the demand for this transformative step in diabetes management.

Our Economic Value strategy focuses on developing new solutions and value-based business models that improve patient outcomes and lower costs. In Hospital Solutions, we had more than 130 long-term contracts in place around the world at the end of the fiscal year. Our Europe, Middle East & Africa (EMEA) region continues to lead our efforts, and we are now beginning to establish accounts in new geographies, including our first contract in the U.S. We have also expanded our presence to operating room management in addition to cath labs.

We continue to play a leading role in the shift of healthcare from fee-for-volume to fee-for-value, and extended our industry leadership in developing value-based healthcare (VBHC) offerings. Several outcomes-based business models are now in operation. Of note is the TYRX® anti-bacterial pouch; this product is an excellent example of technology that directly creates clear and measurable value to the healthcare system. Since the launch of this program earlier this calendar year, we have completed risk-based contracts in over 325 accounts.

We are also applying value-based healthcare principles to drive global growth. We believe that establishing and building relationships directly with hospitals and physicians will facilitate the development of new VBHC business models. We also believe that by leading value-based healthcare efforts in broad-based healthcare forums around the world, we can achieve great strides in the transformation of healthcare globally, making high-quality healthcare both accessible and affordable.

Turning to our Globalization growth strategy, both our China and Asia Pacific (APAC) regions are building a track record of consistent execution. Both offset multiple external pressures to deliver strong top and bottom line performances. The APAC team offset significant market pressures in the India coronary market with strong growth in other businesses and geographies. In addition, Latin America and Russia also had outstanding years, both growing in the high-teens on a constant currency, constant week basis and significantly outperforming their local medical device markets. Growth in these geographies offset a decline in the Middle East & Africa, where we faced challenges in the macroeconomic environment in Saudi Arabia. However, as we exited the year, we started to see improvement in this important region and expect a return to growth in FY18.

Our FY17 Emerging Markets revenue was approximately \$4 billion, and is well diversified amongst the different regions. This diversification has allowed us to balance risks and opportunities and deliver consistent double-digit growth on a constant currency, constant week basis over the past seven years.

OUR COMMITMENT TO SHAREHOLDERS

As we conclude our third year of delivering Covidien synergies in FY18, we are shifting to longer-term strategies for continued operating leverage and margin expansion. Our strong technology leadership, together with our unmatched breadth and scale, are our greatest competitive advantages. We are focused on driving more efficient and effective use of enterprise-wide Medtronic resources to fuel our growth, operate at scale and meet customer, employee and shareholder expectations. To this end, we are preparing to implement enterprise efficiency programs that are intended to streamline our operations, enhance our functional excellence and optimize our commercial models.

In addition to our focus on delivering strong revenue and EPS growth, we are driving and measuring ourselves against longer-term, value-creating metrics, including free cash flow growth and return on invested capital. At the same time, we will continue to balance our capital allocation between disciplined reinvestment to fuel future growth and delivering meaningful returns to our shareholders.

Our Board of Directors is actively engaged in strategic oversight of the company and the evaluation of risks. The Board consistently reviews the strategy for long-term value creation, including a regular review of the strategic plans for each of our business groups and geographic regions, financial results, merger and acquisition-related activities, legal and regulatory matters, and public filings. They provide meaningful input into our plans to increase operating efficiency.

In addition, the Board uses its committees to assist in its oversight of company strategy. We regularly review our committee composition and re-appoint committee members on an annual basis with the chair rotation occurring approximately every 5 years; recently, we appointed a new lead independent director. We also split our Quality and Technology Committee into two new committees, one focused on Technology and Value, and one focused on Quality.

ADVANCING OUR MISSION

We would not be able to achieve our growth goals and continuously improve our organization without the commitment and contributions of our employees around the world. As members of the Medtronic team, we are the beneficiaries of the hard work and dedication of the generations of leaders and employees who came before us, including our co-founder Earl Bakken.

Not only did Earl begin a legacy of innovation for Medtronic and the entire medtech industry with his invention of the first battery-powered wearable pacemaker in 1958, but he and a handful of early Medtronic leaders also wrote an enduring Mission that provides a shared sense of purpose for all employees. It inspires us, defines us, and provides a consistent set of guiding principles.

Even though the Mission was written more than 50 years ago, we still use it as a guide for our business every day. Here are a few ways our strategic decision-making, including how and where we invest, was influenced by our Mission in FY17:

THE MEDTRONIC MISSION

1. To **contribute to human welfare by application of biomedical engineering** in the research, design, manufacture, and sale of instruments or appliances that **alleviate pain, restore health, and extend life.**
2. To **direct our growth in the areas of biomedical engineering where we display maximum strength and ability**; to gather people and facilities that tend to augment these areas; to continuously build on these areas through education and knowledge assimilation; to avoid participation in areas where we cannot make unique and worthy contributions.
3. To **strive without reserve for the greatest possible reliability and quality in our products**; to be the unsurpassed standard of comparison and to be recognized as a company of dedication, honesty, integrity, and service.
4. To **make a fair profit** on current operations to meet our obligations, sustain our growth, and reach our goals.
5. To **recognize the personal worth of employees** by providing an employment framework that allows personal satisfaction in work accomplished, security, advancement opportunity, and means to share in the company's success.
6. To **maintain good citizenship** as a company.

Tenet 1: "To contribute to human welfare through application of biomedical engineering... to alleviate pain, restore health, and extend life."

At our core, we are a technology company focused on improving patient outcomes. We introduced hundreds of advanced technologies to further meet the needs of customers and patients, and invested \$2.2 billion in global research and development. The move to value-based healthcare, which links payment for our technologies to achieving the promised patient outcomes, is consistent with this tenet.

Tenet 2: "To direct our growth in the areas of biomedical engineering where we display maximum strength and ability..."

Our decision to divest a portion of the Patient Monitoring & Recovery division within our Minimally Invasive Therapies Group not only allows us to direct our focus on products and solutions more aligned with our three growth strategies, but also to invest in technologies and acquisitions that more directly complement our strengths.

Tenet 3: "To strive without reserve for the greatest possible reliability and quality in our products..."

Patient safety, quality and integrity are non-negotiables, and we have robust systems to ensure not only compliance, but also a culture that encourages and expects accountability for all employees. In FY17, we were pleased that 93% of global regulatory inspections resulted in no major findings, and our global team continued to embrace the Quality Begins with Me program.

Tenet 4: "To make a fair profit..."

We believe a "fair" profit is reflected by pricing our technologies in line with the value they create. We do this through evidence generation, and our continued leadership in the movement to value-based healthcare that we exhibited in FY17 further supports this notion.

Tenet 5: "To recognize the personal worth of employees..."

We are strongly committed to having an inclusive and diverse workplace where all employees feel that they can be themselves at work – no matter their race, gender, nationality, religion or sexual orientation – and we hold ourselves accountable for ensuring we are a company that reflects the diversity of the patients and customers we serve. We believe all employees should have opportunities for meaningful career development, are engaged in achieving our goals and are recognized for their contributions. In FY17, we invested more than \$76 million in employee training and development programs to help our employees expand their skills and achieve their career aspirations.

Tenet 6: "To maintain good citizenship as a company."

Our philanthropic goals support our Mission by leading in global health, community well-being, and volunteer engagement. We made a multi-year, \$100 million donation to the Medtronic Foundation in the third quarter of the fiscal year, as well as an additional \$2 million to other charitable causes through corporate cash contributions, product donations, and employee volunteering. We also launched Medtronic Labs to transform access to healthcare for underserved patients in emerging geographies by bringing locally-appropriate services, solutions, and products to market.

As you can see, the six tenets of the Medtronic Mission are a comprehensive and forward-looking guide, and provide an ongoing framework for us as we address the enormous opportunities to transform healthcare while meeting our responsibilities to all our stakeholders.

As I look ahead to the future, I remain grateful to the passionate employees who work as a team and with our partners to take healthcare Further, Together. It is a true honor to lead this organization, and I look forward to everything we can achieve together.



Omar Ishrak
Chairman and Chief Executive Officer