

2018 LETTER TO SHAREHOLDERS

Dear Shareholder,

As outlined in our Mission, Medtronic serves a unique and important purpose in improving the health of millions of people around the world – using technology to alleviate pain, restore health, and extend life. To fulfill this shared purpose, we must be the industry leader in technology. Technology to improve lives is where everything begins at Medtronic. It is what has driven our company over the past 69 years, and it continues to be the core strategy of our company today.

Technology to improve lives is also what will drive value for our shareholders going forward. It is in our DNA – and more importantly – we're getting even better at it by allocating capital efficiently across our businesses. We are committed to bringing resources to bear across the technology landscape in a strategic and impactful fashion. This is the most important thing we do, and it is my number one focus. When we get technology right, everything else follows.

In many ways, fiscal year 2018 was a challenging year – but it was also a rewarding one. Our ability to overcome multiple challenges reflects the dedication of our more than 86,000 employees around the world, each of whom make a difference to benefit patients and fulfill the Medtronic Mission.

In FY18, together with our physician partners, our technology and associated therapies improved the lives of more than 71 million people – more than two people every second. We have a focused approach to further refine our technology leadership to improve the lives of even more people in the years ahead, while delivering enhanced value to you, our shareholders.

OUR COMMITMENT AS THE TECHNOLOGY LEADER

To lead in technology, Medtronic must lead in all three areas of technology: *innovation*, *invention*, and *disruption*. We balance our investments across these three areas to drive future growth, protect our businesses, and advance the standard of care. And, we invest differently depending on where a technology sits in its lifecycle. Our ability to accelerate access to life-saving technologies has an enormous impact on the lives of patients who need it.

Continuous *innovation* provides the base. We are committed to staying ahead of our competition by enhancing technology to improve clinical outcomes and economic value for patients, providers, and payers. This is not about iteration for iteration's sake – rather, Medtronic is constantly innovating with a clear goal of generating better outcomes and better value.

Invention requires that we create new therapies and develop new markets—something that Medtronic has been doing for decades, and something we believe we are better at today than at any time in our past. Examples include the recent success of products such as the Solitaire™ revascularization therapy to retrieve clots and restore blood flow for patients experiencing acute ischemic stroke, and the Reveal LINQ™ insertable cardiac monitor, which collects heart rhythm data for physicians to determine underlying conditions that require treatment.

Medtronic is also focused on *disruption* of our existing markets. An example of this is our development and introduction of the world's smallest pacemaker, the Micra™ transcatheter pacing system, which is delivered directly into the right ventricle of the heart using a minimally invasive procedure. We are still in the early phases of this journey, and we believe strongly that Micra™ has the potential to revolutionize the entire pacemaker market – one that was previously viewed as mature.

When we develop new markets or disrupt existing ones, we create significant new growth drivers for the company and dramatically increase our competitive advantage, while establishing new standards of care for patients. We have an incredibly robust technology pipeline across all three areas of technology development, the best in our company's history. We are excited by what we are bringing to market today, in the near future, and what we continue to invest in for the long-term. We spend more than \$2 billion a year on R&D to invest in the platforms that will sustain our growth into the future and further advance our position as the technology leader in healthcare.

OUR GLOBALIZATION & ECONOMIC VALUE STRATEGIES ACCELERATE GROWTH

When we lead in technology – when we *innovate*, *invent*, and *disrupt* – our other growth strategies, globalization and economic value, further enhance our growth profile and increase our competitiveness. They create long-term avenues for growth and widen the distance between us and the competition.

Let's start with globalization, where our ability to improve access to our technologies in emerging markets has been a strong contributor to our growth. We grew our emerging market business 13 percent on a comparable, constant currency basis in FY18, and emerging markets now represent 15 percent of our overall sales. The strength of our performance in emerging markets reflects our diversification, with multiple geographies and multiple growth drivers contributing. Medtronic is much more sophisticated in our approach to emerging markets than we were even five years ago, and we are much better at understanding and executing locally in markets around the world.

Another area where we leverage our position as the leader in continuous innovation is through the development of new business models that focus on the economic value and improved patient outcomes of our technology. These new business models are important because they align incentives to the specific value we create, both by improving patient outcomes as well as delivering cost efficiencies to healthcare systems. Importantly, they also drive improved market share and deliver incremental growth.

For our hospital customers, in particular, we provide a line of sight for how their costs are reduced through new business models; it is a method through which they can realize the full economic value of our technology. These programs, like those that include our TYRX™ infection control products in our Cardiac Rhythm & Heart Failure business, also provide distinct value for patients and payers by reducing overall costs and improving outcomes for patients meaningfully.

OUR FOCUS ON EXECUTION TO DRIVE CONSISTENT PERFORMANCE

Next, let's turn to the financials. FY18 revenue of \$29.953 billion grew 5 percent on a comparable, constant currency basis. FY18 non-GAAP diluted earnings per share grew 9 percent on a comparable basis, or 10 percent on a comparable, constant currency basis. The second half of the year was particularly strong, overcoming several first half challenges – including an IT disruption, multiple hurricanes, wildfires in Santa Rosa, and supply constraints in Diabetes. We delivered on our revenue and EPS guidance we established at the start of the year. We also continued to drive margin expansion, reduced debt leverage, and returned \$4.3 billion to shareholders in the form of dividends and share repurchases.

We followed our FY18 full year performance with strong first quarter fiscal year 2019 results, completing three consecutive quarters of 6.5 percent or greater organic revenue growth. This growth includes expanding our markets and driving share gains across multiple businesses and geographies. We know how important it is to consistently execute and it is a major focus for the company. Looking ahead, we feel good about the growth opportunities and our competitive position in our markets. Driving operating margin and free cash flow are also critically important areas of focus, and we plan to execute consistently here as well.

OUR COMMITMENT TO CREATING LONG-TERM SHAREHOLDER VALUE

The message underlying all our strategies is our commitment to creating shareholder value. We are doing this by leading in technology and allocating capital efficiently across our businesses. We are also creating shareholder value by driving operating leverage through our Enterprise Excellence program. Finally, we are improving our cash flow conversion, creating additional capital that can be returned to shareholders as well as reinvested in technology to drive future growth.

We also reached an important milestone in cost management by achieving our commitment of \$850 million in Covidien cost synergies ahead of schedule in January 2018. We have now transitioned our specific cost management efforts to achieving Enterprise Excellence, which leverages the full size, scale and breadth of our organization to improve our effectiveness and drive sustained productivity. Successfully executing on these initiatives is the basis for margin expansion, as well as to enable further investment in increased R&D, fueling our long-term growth.

Another strong area of focus for me, our management team, and our entire organization is free cash flow. We have yet to deliver on the promise of strong free cash generation from the combined Medtronic and Covidien organization; however, we have taken meaningful steps to improve. First, we have made free cash flow a key performance metric for all employees who participate in our annual incentive program. As an organization, we are focused on improving our working capital metrics and reducing one-time impacts to our free cash flow. We expect to achieve free cash flow conversion of 80 percent on our non-GAAP net income over the next two to three years, putting us above our peer average. This requires a culture shift in the company, but I am confident in our ability to achieve it.

With respect to capital allocation, we remain committed to returning a minimum of 50 percent of our free cash flow to you, our shareholders. Our primary method of return is through dividends. We target roughly a 40 percent payout ratio and expect to grow our dividend every year with earnings. We are proud of the fact that we have grown our dividend for the past 41 years and are part of the elite S&P 500 Dividend Aristocrats.

We paid down a significant amount of debt in fiscal year 2018, and are comfortable with our current debt leverage, such that further debt paydown is no longer a priority. We are actively looking to supplement our organic growth with mergers and acquisitions, focusing on tuck-in acquisitions that can leverage our scale and resources, including manufacturing, regulatory affairs, and commercial distribution. That said, we are extremely disciplined when evaluating merger and acquisition opportunities. Any deal must fit strategically and meet the right financial benchmarks; we also ensure that we have the internal management bandwidth to execute the integration. To the extent there are periods of time where there are fewer opportunities for disciplined tuck-ins, we will return cash to our shareholders through share repurchases. We do not intend to stockpile cash on our balance sheet.

Finally, our capital allocation strategy reflects a keen focus on improving our return on invested capital, which constitutes one-third of management's long-term incentive plan, with the remainder split between revenue growth and total shareholder return.

To accomplish our goals, the senior leadership team and I realize the importance of an inclusive and diverse global workforce, which accelerates innovation and business performance. We have diversity and inclusion goals that we regularly measure ourselves against and formally hold our management team accountable for achieving. We are on track to exceed our 2020 goals for inclusive and diverse representation across all leadership levels. I am particularly proud of our four Diversity Networks and 13 Employee Resource Groups with 115+ global hubs, which help to foster an inclusive culture and diverse perspectives across the business. Nearly 16,000 employees in 60

countries participate in these networks and ERGs, contributing a broad range of talent and experience. This creates a vibrant workplace with a sense of belonging while offering unique insights to best serve customers and patients.

Before closing, it is important to share our philosophy on strong corporate governance. We seek to maximize our Board of Directors' engagement. Our Board is deeply involved with providing strategic oversight for the company. At each of our quarterly meetings, the Board reviews the strategies of our business groups and global regions in detail. Our Board also regularly visits Medtronic facilities and our customers in markets around the world. At each Board meeting, we make a point of bringing managers and leaders within our organization to engage with the Board and present on specific topics that allow directors to go deep in areas of strategic importance. These activities are designed to give the Board the insights it needs to provide detailed advice and oversight of our strategic initiatives.

All of these initiatives are squarely focused on driving long-term value for our shareholders. We know there is much work to be done, but we are excited about the future—our direction is clear, our technology pipeline is robust, and our team has never been stronger.

GOING FURTHER, TOGETHER TO ADVANCE OUR MISSION

In closing, I would like to circle back to where we started—the Medtronic Mission. At its core, the Medtronic Mission states that we are a technology company that aims to improve outcomes. This alone is a noble sense of purpose, but our Mission is much more.

Our Mission inspires us to improve the lives of millions of people around the world. It defines our strategy to *innovate*, *invent*, and *disrupt*, with a clear goal of improving outcomes. And it calls upon us to be a leader and partner in finding ways to better serve our customers, employees, communities, and you, our shareholders. When we adhere to this shared sense of purpose, we cannot go wrong.

From the time I joined Medtronic as CEO in 2011, I have been truly honored to lead this organization of highly talented and dedicated employees who are working to advance our Mission. Yet looking to our future, I have never been more excited about our technology, our strategy and the impact we can make in taking healthcare Further, Together with our partners around the world.

Sincerely,



Omar Ishrak

Chairman and Chief Executive Officer