

(such as information technology and other common business support processes), without sacrificing our ability to meet and exceed customer needs. In order to generate further operating leverage, we must not only optimize our business processes within a business unit, we must optimize key processes across the enterprise. If we can do this successfully, we will not only win with our customers, we'll win with our shareholders.

We will need to work together to make the whole of Medtronic greater than the sum of its parts. But, we are ready.

As you might imagine, top-rate execution depends on having people who work together and operate using the same set of basic values and behaviors. To that end, the management team also spent significant time discussing "core behaviors," or the underlying set of principles we want to exhibit when we work with each other, our customers and other stakeholders. As we went through this exercise, we acknowledged that many of our businesses and functions had already created norms that reflect the way they want to work together. Not surprisingly, there was a great deal of overlap between groups. Because we have a tremendous amount of respect for each business's unique needs, the management team discussed whether the time was right to unify the company with one common set of core behaviors. There was no debate. It was clear that if Medtronic is to be greater than the sum of its parts, this is the direction we want to go. We concluded that we could, in fact, have an overall shared operating philosophy that highlights diversity and inclusion and respects individual business needs and cultures.

Following are Medtronic's new company-wide core behaviors: **customer focus, candor, trust and respect, courage, accountability and passion to win.**

The management team believes our success truly depends on holding each other accountable for acting consistently with these behaviors. As such, you will be hearing more from Human Resources in the coming weeks about how these core behaviors will be woven into the fabric of our culture.

By creating an environment that values the individual and encourages and fosters a positive workplace, we will continue our track record of attracting and hiring the best people and making Medtronic a "best place to work" around the world. Our success is not about any one of us, it is about all of us. The leadership team will continue to focus on talent management and leadership development.

LOOKING AHEAD

As I look at this year, I am excited about what lies ahead. We are well under way in completing a strategic plan, which will lay out in more detail how we intend to grow and to make the whole greater than the sum of the parts. We have strong, fresh-thinking managers in many of our top posts. We are opening a new headquarters campus for our largest business. We are looking forward to the launch of many exciting new products, including the upcoming launch of Endeavor in the United States, a huge and long-awaited opportunity for us. We have a critical new enterprise-wide operating system in Centerpiece Gen 5. And, we'll launch a new corporate Web site, among many other things.

These successes are not individual successes, they are Medtronic's successes. I hope all of you will take time to celebrate the milestones that mark the achievements of your colleagues and the patients who will live full lives as a result of our efforts.

We have a tremendous opportunity to build on the past and create a bright future. It will not be easy, and we will need to work together to accomplish the changes we must make to realize our vision and make the whole of Medtronic greater than the sum of its parts. But, we are ready.

My heartfelt thanks for being part of a great company and a great team.

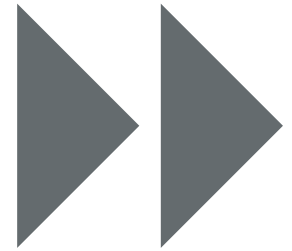


Bill Hawkins
President and CEO

09/20/2007

Medtronic

The Journey FORWARD



"Great companies recognize that success does not come in a sprint, but through a series of 'twenty mile disciplined marches' in good times and bad times."

- Jim Collins

Jim Collins, author of *Built to Last* and *Good to Great*, captures the essence of Medtronic's journey over the last 58 years. As I take the reins of this great company and reflect on where we have been and where we are going, I am struck by the fact that every Medtronic leader before me must have felt the way I feel today — that the opportunities and challenges ahead have never been greater.

As a result of our tenacity during good times and bad, here we are today. With sales last year of \$12.3 billion we are no longer a niche business in a fragmented industry. We are the undisputed medical device leader in a trillion dollar global healthcare market. Our contributions are recognized every five seconds as someone, somewhere is living a more full and productive life because of what we do.

Every 5 seconds

MEDTRONIC'S MISSION IS THE FOUNDATION OF OUR CULTURE

Our success and ability to overcome so many different challenges can in large part be attributed to the Mission our founder, Earl Bakken, penned in 1960. The Mission underscores our purpose and serves as our moral compass.

It then goes further to provide focus and clarity on the essential elements of our business model. A few of the cultural attributes and values inherent in our Mission include: unsurpassed quality and reliability; dedication, honesty, integrity and service; employee value, engagement and opportunity for growth; fair profit and good corporate citizenship. These attributes are the DNA of who we are as a company and they have remained constant throughout our continued growth and evolution.

While Medtronic's Mission is a blessing, it is also a responsibility — one that the management team of this company takes very seriously. Over the course of my career in healthcare, I have come to realize it is an honor, a privilege and a duty to have a purpose that calls us to save and improve people's lives. We do not make products that have questionable value. If we falter ... if we do not remain a great company ... millions of lives will be impacted. Every person who works at Medtronic and is truly representative of our culture feels this calling. It is why most of you choose to work here, even when there is ample opportunity elsewhere. It gives me great pride to know that every day our 38,000 employees come to work, not just to earn a living, but to do what is best for patients.

WE MUST INCREASE OUR LEADERSHIP

As Medtronic and our industry have evolved over time, so has the definition of what it means to be a leader. In the past, Medtronic was a leader because we made the



highest quality products, we had the best relationships with customers and we acted with integrity. And, while this formula for success still holds true today, it is no longer enough. We cannot just be a player in the market. We must use our skills and resources to help create and shape a market that allows us to continue to fulfill our Mission (and our vision, which I'll explain shortly).

As we get set for the 2008 presidential elections in the United States, the debate on tough healthcare issues will only increase. Rising healthcare costs, patient access to treatment, perceived conflicts of interest with our customers and a growing concern around quality are but a few of the areas in which policymakers seem inclined to introduce legislation that may have negative consequences for patient access, innovation and reimbursement.

These are complex and difficult issues. But, we will take a leadership role going forward in helping to shape healthcare policy. We will strive to earn the confidence of our stakeholders, leading by example and demonstrating integrity in all our actions. We will focus our efforts on access and affordability, knowing we must continue to demonstrate our products are not part of the problem, but part of the healthcare solution.

OUR VISION TELLS US OUR ULTIMATE GOAL

While our Mission speaks to our purpose and provides the framework for who we are as a company, it does not provide a complete sketch of who we want to be, where we are going or how we will get there. This comes from vision, strategy and core business behaviors which, unlike our unwavering Mission, must change at times to reflect new business and market realities.

So, in late August, the senior management committee met, and we redefined our vision statement. Medtronic's new vision (and our ultimate goal) is:

“Creating a world where every person suffering from chronic disease who could benefit from our diagnostic, therapeutic and disease management solutions will get them.”

Some of you may recognize this language, as it is similar to CRDM's current vision. But, after thorough discussion, the management committee felt this language truly captures the spirit of what we ultimately aspire to do as a company — help patients.

In selecting a patient-focused vision, we captured our end goal, but we didn't necessarily answer the question, "What do we want this company to become?" What is our future role in an increasingly complex healthcare system? We know we will have to chart some new territory as part of our overall strategy.

Clearly we don't have all the answers yet. But, we do know the unique value we bring to the marketplace, and we have a vision for how to translate that value into future societal good. So, the management team took some thinking from our old vision, which concentrated on being a leading device company focused on chronic degenerative disease, and expanded on it to incorporate many of the trends Medtronic is leading today in disease management.

The concept of disease management focuses on helping patients throughout the continuum of their care — from prevention to post-treatment follow-up. As our therapies, diagnostics, monitoring, data collection and communications technologies continue to become more sophisticated, we have the ability to serve patients, physicians, hospitals and payers in a way no other company can. By leveraging a broader

set of capabilities, we are expanding the field in which we operate. We have evolved to be more than a device company and have uniquely positioned ourselves to play a much broader role in the overall life sciences industry. By extending our business model beyond "treatment," we have a unique opportunity to improve chronic patient care, simplify follow-up care for healthcare providers and reduce overall healthcare costs. Many of our businesses, such as CRDM and Diabetes, are already well on their way down this path. Others may just be beginning. A new Medtronic remote technology group is already looking at how to create a revenue-generating business model from all the physiological patient data we currently capture with our devices.

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These are truly exciting times, and we have much to look forward to in the months and years ahead as we continue to evolve and chart new frontiers.

WE HAVE A CLEAR STRATEGY FOR GROWTH

While our vision is lofty, we would not be the great company we are today without setting a high bar for ourselves. We will strive to grow faster than the markets we serve. And, we will do so in three primary ways:

First, we will **grow in our existing markets**. As you have heard us say before, Medtronic is in many of the most attractive markets in the medical device arena. There are three ways

“Customer focus and operational excellence are essential to our success.”

to grow in existing markets: market development (further penetrating existing markets with existing therapies), market expansion (gathering clinical evidence to support our existing therapies in new diseases/indications), and market share (taking business from competitors).

Our second growth driver is **geographic expansion**, where we are taking our existing products into new, less penetrated geographies. Today, new products are driving our growth all over the world. A little more than 30% of our sales come from markets outside the United States, where 95% of the world population lives.

And finally, we will **grow in new markets**, by being opportunistic, bold, disciplined and strategic with internal startups and targeted acquisitions that augment top-line growth prospects. Our recently announced acquisition of Kyphon and the internal work we are doing around hepatitis-C are good examples of how we are extending our business into new segments and expanding our business into new markets.

EXECUTION IS ESSENTIAL — CORE BEHAVIORS PROVIDE COMMON GROUND

Our success is not only about what we do, but how we do it. With the mounting pressures on costs and with competition increasing, customer focus and operational excellence are essential to our success. We have a unique opportunity to use our size and scale to make the whole greater than the sum of our parts. Our challenge is to identify activities that can be combined to deliver improved customer service, differentiate Medtronic, and make it easier to do business with us. It also is about centralizing functions that could clearly be more efficiently managed across businesses

CUSTOMER
FOCUS

CANDOR

TRUST AND
RESPECT

COURAGE

ACCOUNTABILITY

PASSION
TO WIN

