



Annual Report

SEC 10-K Filing for Fiscal Year 2014

Fiscal Year 2014

Dear Shareholder,

As I complete my third year as CEO of Medtronic, we have made measurable progress in the areas that were identified as the most pressing priorities for the company in May 2011: improving execution, accelerating globalization, and improving productivity. Furthermore, we have established a consistent and realistic strategy for the future that appeals to customers, investors, and employees. The key elements of this strategy are:

- Delivering consistent **operational execution**
- Expanding market leadership through **therapy innovation**
- Increasing access to existing therapies through **globalization**, especially in emerging markets
- Leading the transformation to a value-based healthcare company, leveraging the **economic value** of our products and services
- Enhancing **shareholder value** through best-in-class financial performance

FY14 Results

In FY14 we delivered solid results, while facing many challenges. Overall, we met investor expectations, finishing in the middle of our guidance range. There were some significant accomplishments during the year, which have created a growth platform for FY15 and beyond.

In our Diabetes business, the MiniMed® 530G with Enlite® CGM sensor gained considerable momentum as the first and only system that automatically stops insulin delivery if glucose levels fall below a predetermined threshold. Both Bone Morphogenetic Protein (BMP) and Balloon Kyphoplasty (BKP) in our Spine business, which have had declining sales, have shown sequential stability over multiple quarters. Our Surgical Technologies business continued its growth momentum, delivering 12 consecutive quarters of double-digit growth.

We launched the Reveal LINQ™ insertable cardiac monitor that is 87 percent smaller than our previous device and has been accepted enthusiastically by the marketplace. Our U.S. launch of the self-expanding transcatheter CoreValve® System, brought to market a differentiated therapy for severe aortic stenosis patients who are too ill or frail to have their aortic valves replaced through traditional open-heart surgery. Most importantly, the results of landmark clinical trials with our transcatheter aortic valve and drug coated balloon products yielded groundbreaking results and are on the verge of creating major \$1 billion markets.

We continue to be excited about future opportunities around new therapies, including our strong R&D investment in more than 200 projects that will lead to a cadence of product launches and innovations across the breadth of our businesses. We estimate this investment will generate more than \$30 billion in incremental revenue over the next five years.

In globalization, we continue to make progress with emerging markets contributing 13 percent of our total revenue by the end of FY14. There were several highlights in the past year: Middle East and Africa delivered noticeable results, growing 24 percent on a constant currency basis* (17 percent as reported); we converted to direct sales in Turkey, one of our major markets in the region and have a solid multi-year plan for extending direct sales capability virtually across the entire region; and China grew 13 percent on a constant currency basis* (15 percent as reported), outperforming the broader medtech market.

We recognize, however, that emerging markets are still performing short of their potential. We remain confident about our long-term outlook and are building a robust growth platform for the future. This is based on aggressive investment in field resources, building direct distribution capabilities, and structuring major provider and government partnerships. Examples include our Healthy Heart for All program, which has built patient awareness and referral chains to improve patient access to cardiac therapies. The program combines market development and business model innovation through private hospital partnerships.

Another highlight was the announcement of our hemodialysis product development in India, a product that will improve treatment quality, lower costs, and dramatically increase access. For the latter, we are working closely with Apollo Hospitals, and the program represents our first therapy to be developed and launched in the emerging markets. A good example of our efforts to reach underserved populations in India is our Shruti program, which is an innovative business model addressing the problem of disabling hearing loss. This program educates community health workers to detect and treat hearing conditions, and gives them simple, innovative mobile technology to help diagnose ear problems.

* See reconciliation of non-GAAP financial measures following this Shareholder Letter.

We also sharpened our focus on the economic value of our offerings, translating our efforts into new value-based business models, which promise to be the catalyst for large, new growth markets. We believe the shift to value-based healthcare is one of the most fundamental changes in Medtronic and one of the most pivotal moves we are making as a leader in healthcare. We also know this is something that we cannot do alone. We must work with physicians, hospital administrators, payers, and patients as we help to recognize the value that comes from optimal long-term management of patients, including clinical and financial outcomes.

In the U.S., we are seeing health systems looking at patient populations over a longer period of time, spanning multiple years. The focus therefore turns to patient outcomes and how to best manage the patient over the long term. We are starting to deliver broader value, not only at the time of the procedure, but through care coordination from the hospital to the patient's home. Our acquisition of CardioCom was a significant step forward, as this uniquely distinguishes Medtronic with a proprietary patient management technology platform.

We are also focused on increasing hospital operational efficiency – providing meaningful clinical and economic improvements for customers, reducing costs associated with readmissions and post-acute care, and helping the system more effectively manage populations of chronically ill patients. In Europe, through our unique cath lab managed services offering, we enter into long-term contracts with hospitals to upgrade and more effectively manage their cath lab and hybrid operating rooms. The hospital sees an improvement in cath lab efficiency and profitability, and physicians get access to the latest technology that can lead to better patient outcomes. Medtronic benefits not only through the increased use of our technology, but also through incremental service revenue, reduced pricing pressure, better inventory management, and more efficient use of our service personnel. We have signed several long-term contracts with hospitals, and are in discussions with over 90 more hospitals in Europe.

Finally in FY14, I was pleased with the way our team worked together to deliver results in-line with our financial commitment of mid-single digit revenue growth, 200 basis points of EPS leverage (after adjustments for currency and other one-time events) and returning 50 percent of our free cash flow to shareholders. We are beginning to build a track record of consistency, but are still early in our journey. I am particularly excited about our position as we enter FY15, having stabilized or mitigated major recent issues and our readiness to leverage the strong growth platforms we are building in new therapies, emerging markets, and value-based healthcare.

Achieving these results ultimately reflects the dedication and passion of more than 49,000 Medtronic employees living our Mission every day, collaborating with our partners to deliver therapies and services to millions of people around the globe.

Transformation of Healthcare

As we move forward in our journey to lead the transformation of healthcare, our planned acquisition of Covidien is one of our most exciting opportunities. This is a highly strategic and compelling acquisition, fully aligned with our Mission of alleviating pain, restoring health, and extending life for patients around the world. It accelerates all three of our growth strategies – therapy innovation, globalization, and economic value – and bolsters the long-term sustainability and consistency of our mid-single digit revenue growth expectations. Combined, we can accelerate our common goal of addressing the universal healthcare needs of improving clinical outcomes, expanding access, and optimizing cost and efficiency, thereby improving healthcare systems around the world.

In therapy innovation, Covidien's impressive array of industry-leading products enhances our existing portfolio, offers greater breadth across clinical areas, and creates exciting entry points into new therapies. We also believe that Medtronic's deep clinical, regulatory, reimbursement, and market development expertise will help accelerate both their introduction, as well as their rapid adoption, in markets around the world.

Our globalization strategy will benefit from the power of our combined companies. From a financial perspective, we will now have a \$3.8 billion emerging markets business that we are confident can sustain double-digit growth over an extended period of time. Covidien has extensive emerging market R&D and manufacturing, while Medtronic has well-established clinical expertise. These capabilities, applied across a much broader product offering, will significantly increase the number of attractive solutions we can offer.

Finally, this transaction enhances Medtronic's ability to deliver economic value to a broader range of stakeholders. The value proposition of Covidien's technologies primarily deliver hospital efficiency, while the value of Medtronic's chronic disease therapies are generally realized in post-acute settings. When combined, these complementary solutions will create a robust and unmatched Integrated Health franchise. Our two organizations have a common philosophy around value-based healthcare and we believe our industry-leading products, clinical and economic expertise, global footprint, and financial strength will position us to be the preferred partner for physicians, hospital systems, patients, payers, and governments around the world.

While the transaction continues to make us more of a global company, it also gives us the capacity to both return additional capital to our shareholders and to invest much more aggressively in U.S. innovation to drive long-term growth. In fact, we are committed to investing an incremental \$10 billion in U.S. technology over the next decade, which will result in global growth and increased U.S. exports. This helps preserve U.S. global leadership in medical technology innovation, and ultimately will lead to better healthcare systems in the U.S. and around the world.

We are extremely excited about this acquisition, and believe that the combination of Covidien with Medtronic gives us an even better platform to deliver reliable performance and generate sustainable, long-term value for our shareholders.

There remains significant opportunity in healthcare. People's desire to live longer, healthier, more productive and pain free lives will always exist. This is not going to stop in 2015 – there will always be a need for what we do.

We have made tremendous progress as a company and healthcare community around the globe. Yet, we have so much more to do. We can make our therapies and services more valuable and integral to healthcare; we can treat more people in more ways; and we can do this in ways that the individual and the system can afford. These are the objectives we seek to address, and I could not be more excited about the role that Medtronic can play in making this a reality.

Thank you for your ownership of and trust in our company as we continue on our journey to pursue our Mission – to alleviate pain, restore health, and extend life for patients around the world.



Omar Ishrak
Chairman and Chief Executive Officer



Reconciliation of Non-GAAP Financial Measures

The Shareholder Letter set forth in this Annual Report includes financial measures that are not prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Management believes that such non-GAAP financial measures provide useful information to investors regarding the underlying business trends and performance of the Company's ongoing operations. Investors should consider non-GAAP measures set forth in the Shareholder Letter to be in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, such non-GAAP financial measures may not be the same as, or similar to, measures presented by other companies.

RECONCILIATION OF REVENUE GROWTH TO CONSTANT CURRENCY GROWTH (Unaudited) (In millions)

	Fiscal year ended		Reported Growth	Currency Impact on Growth		Constant Currency Growth
	April 25, 2014	April 26, 2013		Dollar	Percentage	
Middle East and Africa revenue	\$ 423	\$ 361	17%	\$ (23)	(7)%	24%
China revenue	\$ 824	\$ 715	15%	\$ 16	2%	13%

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended April 25, 2014.
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____

Commission File No. 1-7707



Medtronic

Medtronic, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State of incorporation)

41-0793183
(I.R.S. Employer Identification No.)

710 Medtronic Parkway
Minneapolis, Minnesota 55432
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (763) 514-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.10 per share	New York Stock Exchange, Inc.

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Aggregate market value of voting and non-voting common stock of Medtronic, Inc. held by nonaffiliates of the registrant as of October 25, 2013, based on the closing price of \$57.36, as reported on the New York Stock Exchange: approximately \$57.2 billion.
Shares of Common Stock outstanding on June 16, 2014: 995,764,180

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement for its 2014 Annual Meeting are incorporated by reference into Part III hereto.

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Investor Information

Annual Meeting and Record Dates

Medtronic, Inc.'s (Medtronic or the Company, or we, us, or our) Annual Meeting of Shareholders will be held on Thursday, August 21, 2014 at 10:30 a.m., Central Daylight Time at the Company's Mounds View campus located at 8200 Coral Sea Street N.E., Mounds View, MN 55112. The record date for the Annual Meeting is June 23, 2014 and all shareholders of record at the close of business on that day will be entitled to vote at the Annual Meeting.

Medtronic Website

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act) are available through our website (www.medtronic.com under the "Investors" caption and "Financial Information - SEC Filings" subcaption) free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

Information relating to corporate governance at Medtronic, including our Principles of Corporate Governance, Code of Conduct (including our Code of Ethics for Senior Financial Officers), Code of Business Conduct and Ethics for Members of the Board of Directors, and information concerning our executive officers, directors and Board committees (including committee charters) is available through our website at www.medtronic.com under the "Investors" caption and the "Corporate Governance" subcaption. Information relating to transactions in Medtronic securities by directors and officers is available through our website at www.medtronic.com under the "Investors" caption and the "Financial Information - SEC Filings" subcaption.

The information listed above may also be obtained upon request from the Medtronic Investor Relations Department, 710 Medtronic Parkway, Minneapolis (Fridley), MN 55432 USA.

We are not including the information on our website as a part of, or incorporating it by reference into, our Form 10-K.

Available Information

The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files with the SEC at <http://www.sec.gov>. The Company files annual reports, quarterly reports, proxy statements, and other documents with the SEC under the Exchange Act. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Stock Transfer Agent and Registrar

Wells Fargo Shareowner ServicesSM acts as transfer agent and registrar, dividend paying agent, and direct stock purchase plan agent for Medtronic and maintains all shareholder records for the Company. If you are a registered shareholder, you may access your account information online at www.shareowneronline.com. If you have questions regarding the Medtronic stock you own, stock transfers, address or name changes, direct deposit of dividends, lost dividend checks, lost stock certificates, or duplicate mailings, please contact Wells Fargo Shareowner ServicesSM by writing or calling: Wells Fargo Shareowner ServicesSM, 1110 Centre Pointe Curve, Suite 101, Mendota Heights, MN 55120 USA, Telephone: 888-648-8154 or 651-450-4064, Fax: 651-450-4033, www.wellsfargo.com/shareownerservices.

Direct Stock Purchase Plan

Medtronic's transfer agent, Wells Fargo Shareowner ServicesSM, administers the direct stock purchase plan, which is called the Shareowner Service Plus PlanSM. Features of this plan include direct stock purchase and reinvestment of dividends to purchase whole or fractional shares of Medtronic stock. All registered shareholders and potential investors may participate.

To request information on the Shareowner Service Plus PlanSM, or to enroll in the plan, contact Wells Fargo Shareowner ServicesSM at 888-648-8154 or 651-450-4064. You may also enroll via the Internet by visiting www.shareowneronline.com and selecting "Direct Purchase Plan."

PART I

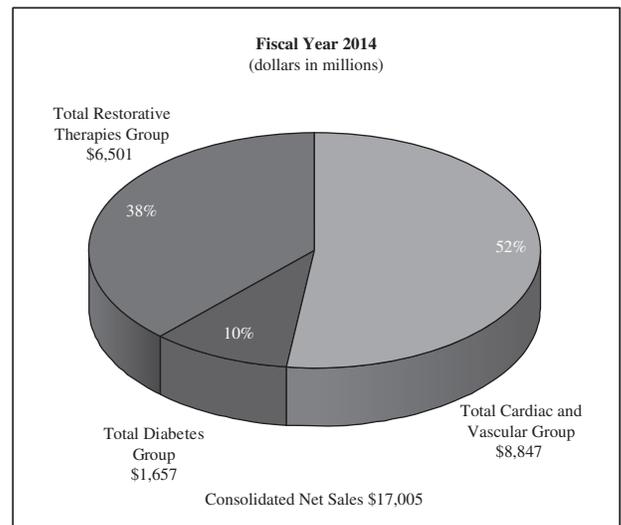
Item 1. Business

Overview

Medtronic is the global leader in medical technology. Medtronic was founded in 1949, incorporated as a Minnesota corporation in 1957, and today serves hospitals, physicians, clinicians, and patients in more than 140 countries worldwide. We remain committed to a mission written by our founder more than 50 years ago that directs us “to contribute to human welfare by the application of biomedical engineering in the research, design, manufacture, and sale of products to alleviate pain, restore health, and extend life.”

We currently function in three operating segments that manufacture and sell device-based medical therapies. Our operating segments are as follows:

- **Cardiac and Vascular Group**
Cardiac Rhythm Disease Management (CRDM)
Coronary
Structural Heart
Endovascular
- **Restorative Therapies Group**
Spine
Neuromodulation
Surgical Technologies
- **Diabetes Group**



The chart above shows the net sales and percentage of total net sales contributed by each of our operating segments for the fiscal year ended April 25, 2014 (fiscal year 2014). For more information please see Note 20 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

The results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations. All information in this “Item 1. Business” includes only results from continuing operations (excluding Physio-Control) for all periods presented, unless otherwise noted. For further information regarding discontinued operations, see Note 17 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

With innovation and market leadership, we have pioneered advances in medical technology in all of our businesses. Over the last five years, our net sales on a compounded annual growth basis have increased approximately 3 percent, from \$15.392 billion in fiscal year 2010 to \$17.005 billion in fiscal year 2014. Our commitment to enhance our offerings by developing and acquiring new products, wrap-around programs, and solutions to meet the needs of a broader set of stakeholders is driven by the following primary strategies:

- **Therapy Innovation:** Delivering strong launch cadence of meaningful therapies and procedures.
- **Globalization:** Addressing the inequity in health care access globally, primarily in emerging markets.
- **Economic Value:** Becoming a leader in value-based health care by offering new services and solutions to improve outcomes, lower costs by reducing hospitalizations, improve remote clinical management, and increase patient engagement.

Our primary customers include hospitals, clinics, third-party health care providers, distributors, and other institutions, including governmental health care programs and group purchasing organizations.

CARDIAC AND VASCULAR GROUP

Cardiac Rhythm Disease Management

CRDM develops, manufactures, and markets products for the diagnosis, treatment, and management of heart rhythm disorders and heart failure, including implantable devices, leads and delivery systems, products for the treatment of atrial fibrillation (AF), products designed to reduce surgical site infections, information systems for the management of patients with CRDM devices, and an integrated health solutions business.

The following are the principal products offered by our CRDM business:

Implantable Cardiac Pacemakers (Pacemakers). A pacemaker is a battery-powered device implanted in the chest that delivers electrical impulses to treat bradycardia, a condition of abnormally slow heart rhythms, usually less than 60 beats per minute, or unsteady heart rhythms that cause symptoms such as dizziness, fainting, fatigue, and shortness of breath. Our latest generation of pacemaker systems is compatible with certain magnetic resonance imaging (MRI) machines. These include the Advisa and Revo MRI SureScan models, which have received United States (U.S.) Food and Drug Administration (U.S. FDA) approval, and the Advisa and Ensura MRI SureScan models which have received Conformité Européene (CE) Mark approval. We also continue to market the Adapta product family, which includes the Adapta, Versa, and Sensia models.

Implantable Cardioverter Defibrillators (ICDs). An ICD continually monitors the heart and delivers therapy when an abnormal heart rhythm, such as tachyarrhythmia, or rapid heart rhythm, occurs and leads to sudden cardiac arrest. Our latest generation ICD is the Evera MRI SureScan, the first and only ICD system with CE Mark approval for full-body MRI scans which has increased battery longevity, advanced shock reduction technology, and a contoured shape with thin, smooth, edges that better fits inside the body. The Evera system is paired with the reliable Sprint Quattro Secure lead, the only defibrillator lead with more than 10 years of proven performance with active monitoring. In addition to Evera, devices in the ICD family include the Protecta XT/Protecta with SmartShock technology, including the Lead Integrity Alert (LIA), an exclusive technology designed to improve the detection of lead fractures, and the Cardia and Egida models. We also continue to market the Secura, Virtuoso, and Maximo II devices.

Implantable Cardiac Resynchronization Therapy Devices (CRT-Ds and CRT-Ps). Implantable cardiac resynchronization therapy (CRT) devices are combined with defibrillation (CRT-D) or are pacing-only (CRT-P). These devices treat heart failure patients by altering the abnormal electrical sequence of cardiac contractions by sending tiny electrical impulses to the lower chambers of the heart to help them beat in a more synchronized fashion. Our latest generation of CRT-Ds is the Viva/Brava family that features a new algorithm, called AdaptivCRT, which improves heart failure patients' response rate to CRT-D therapy, as compared to historical CRT trials, by preserving the patients' normal heart rhythms and continuously adapting to individual patient needs. Other features of the Viva/Brava portfolio include Ensure CRT, which works to maximize CRT treatment, even during atrial fibrillation, SmartShock technology, increased battery longevity, and OptiVol 2.0 fluid status monitoring. In Europe, we also have CE Mark approval for our Attain Performa quadripolar leads. Paired with our Viva/Brava Quad CRT-Ds, Attain Performa left-heart leads provide additional options for physicians as they navigate different patient anatomies, optimizing therapy based on the individual needs of heart failure patients. Our quadripolar technology is in the clinical evaluation process for U.S. FDA approval. Our CRT-D devices also include the Protecta XT/Protecta with SmartShock technology. With respect to CRT-P, we recently received CE Mark approval for our Viva CRT-P, which includes the AdaptivCRT software. In the U.S., our latest CRT-P devices are Consulta and Syncra.

AF Products. AF is a condition in which the atrium quivers instead of pumping blood effectively. Our portfolio of AF products includes the Arctic Front Advance Cardiac Cryoballoon System designed for pulmonary vein isolation in the treatment of patients with drug refractory paroxysmal AF. Additionally, we have a second-generation CE Mark approved Phased RF System, PVAC Gold, which uses duty cycled, phased radio frequency energy for the treatment of symptomatic paroxysmal persistent and long-standing persistent AF. Our Phased RF portfolio, including PVAC Gold, is currently being clinically evaluated by the U.S. FDA.

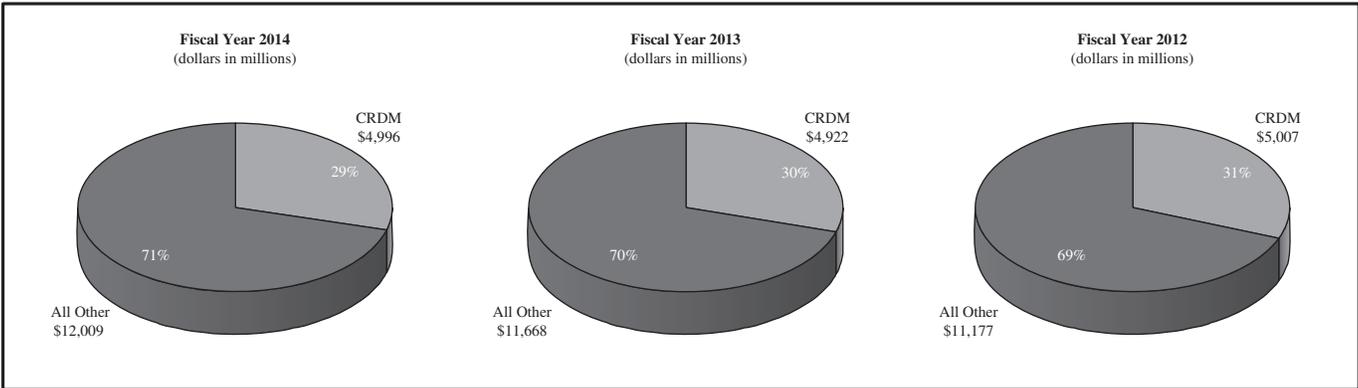
Diagnostics and Monitoring Devices. The Reveal LINQ is our newest Insertable Cardiac Monitor (ICM) System, having recently received U.S. FDA and CE Mark approval. The system is used to record the heart's electrical activity before, during, and after transient symptoms such as syncope (i.e., fainting) and palpitations to help provide a diagnosis and is the smallest ICM

device available for patients. LINQ is 80% smaller than other ICMs. In addition, it has 20% more data memory than its larger predecessor, Reveal XT.

Services and Solutions. Given the market’s shift to value-based health care, we are expanding our medical device product offerings to include broader health care services and solutions that provide meaningful clinical outcomes and economic value for hospitals, physicians, patients, and payers. Such services and solutions include several different platforms. Our Cardiacom products and services include remote monitoring and patient-centered software to enable efficient care coordination and specialized telehealth nurse support. Our TYRX products include the recently U.S. FDA cleared AIGISRx R fully resorbable antibacterial envelope and AIGISRx N antibacterial envelope, which are designed to reduce surgical site infections associated with implantable pacemakers, defibrillators, and spinal cord neurostimulators. Our Cath Lab Managed Services business is focused on developing novel partnerships with hospitals to provide services directly related to hospital operational efficiency. The business is initially focused on offering services in Europe to manage and modernize catheterization lab (cath lab) facilities, bringing sustainable efficiencies and programs to this critical area of hospital cardiology departments.

Patient Management Tools. We have a number of patient management tools, such as Patient Home Monitors, CareLink Express, Paceart, and CardioSight Service. CareLink Express is the latest advancement in the care of Medtronic cardiac device patients, enabling transmission of data from their pacemaker, ICD, CRT-D, or Insertable Cardiac Monitor using a portable monitor that is connected to a standard telephone line. Paceart organizes and archives data for cardiac devices from major device manufacturers, serving as the central hub for patients’ device data. CardioSight Service is an in-clinic data access tool available to physicians treating heart failure patients who have one of several types of Medtronic CRT-Ds or ICDs. Patient Home Monitors transfer data from pacemakers, ICDs, and CRT-Ds from patients’ homes to a web-based system that their health care provider can view.

The charts below set forth net sales of our CRDM products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use our CRDM products include electrophysiologists, implanting cardiologists, heart failure specialists, and cardiovascular surgeons. Our primary competitors in the CRDM business are St. Jude Medical, Inc. (St. Jude), Boston Scientific Corporation (Boston Scientific), Biotronik, Inc., and Sorin Group (Sorin).

Coronary

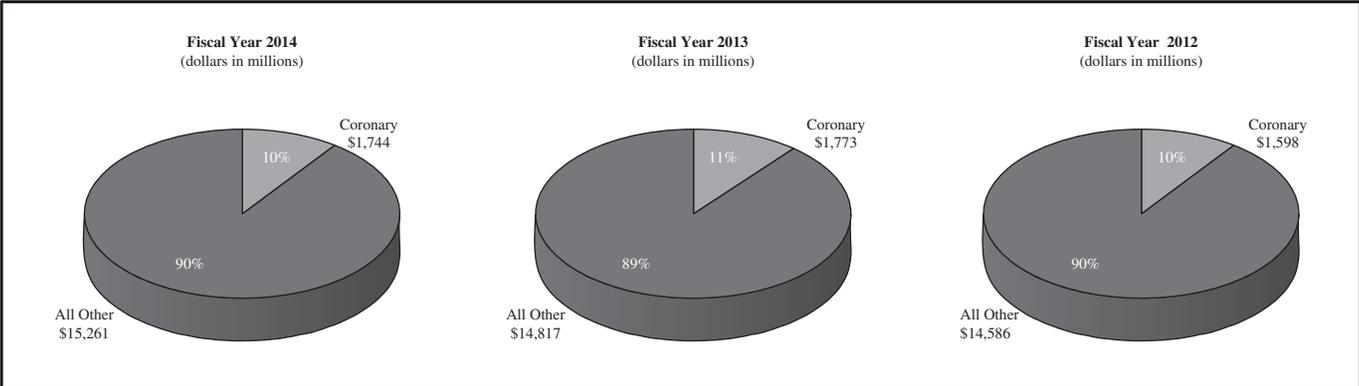
Coronary includes therapies to treat coronary artery disease (CAD) and hypertension. The products contained within this business include coronary stents and related delivery systems, including a broad line of balloon angioplasty catheters, guide catheters, guidewires, diagnostic catheters, and accessories.

The following are the principal products offered by our Coronary business:

Percutaneous Coronary Intervention (PCI). PCI encompasses a variety of procedures used to treat patients with CAD. CAD is commonly treated with balloon angioplasty, which is performed to open narrowed heart vessels by inserting a balloon catheter into the vessel and advancing it to the site of the blockage where it is inflated to widen the obstructed vessel. Balloon angioplasty can be followed up with a coronary stent, a support device which works as scaffolding to keep the vessel open

following the intervention. Our PCI stent products include our Resolute Integrity, Resolute, and Endeavor drug-eluting stent systems as well as our Integrity, Driver, and Micro-Driver bare metal stent systems.

The charts below set forth net sales of our Coronary products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use our Coronary products are interventional cardiologists. Our primary competitors in the Coronary business are Abbott Laboratories (Abbott) and Boston Scientific.

Structural Heart

The Structural Heart business offers a comprehensive line of products and therapies to treat a variety of heart valve disorders. Our products include products for the repair and replacement of heart valves, perfusion systems, positioning and stabilization systems for beating heart revascularization surgery, and surgical ablation products.

The following are the principal products offered by our Structural Heart business:

Transcatheter Heart Valves (TCVs). TCV technology represents a less invasive means to treat heart valve disease and is designed to allow physicians to deliver replacement valves via a catheter through the body’s cardiovascular system, eliminating the need to open the chest. Our TCVs include the CoreValve transfemoral aortic valve and Engager transapical aortic valves as well as the Melody pulmonary valve. CoreValve, which is the only TCV system shown to be superior to open-heart surgery, has received U.S. FDA approval for extreme risk patients and CE Mark approval. We received U.S. FDA approval for CoreValve in high risk patients in June 2014. Our next-generation recapturable TCV system, CoreValve Evolut R, is currently being clinically evaluated for CE Mark approval and is expected to begin enrolling in its U.S. IDE in the first half of fiscal year 2015. Engager has received CE Mark approval while Melody has received CE Mark approval and U.S. FDA approval under a Humanitarian Device Exemption (HDE).

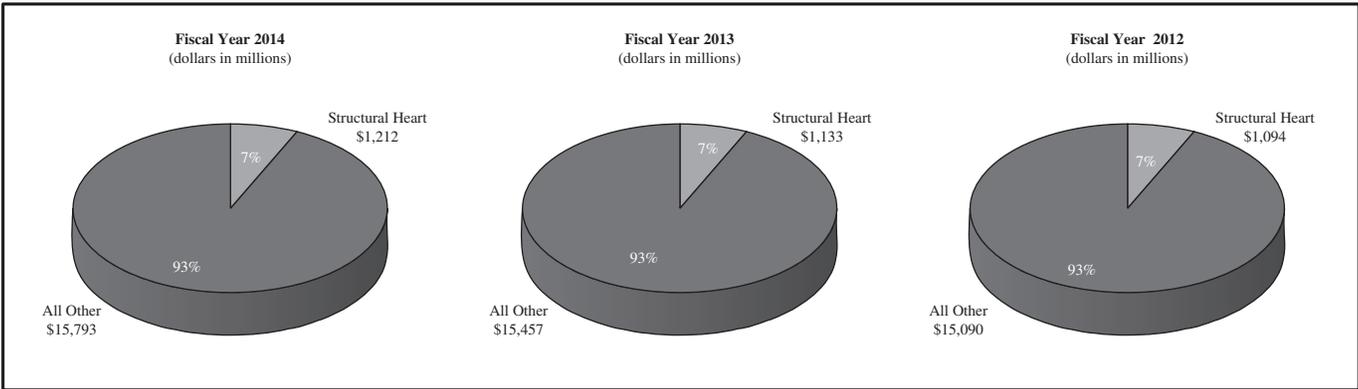
Heart Valves. We offer a complete line of surgical valve replacement and repair products for damaged or diseased heart valves. Our replacement products include both tissue and mechanical valves. Our replacement tissue valve product offerings include the Mosaic bioprosthetic stented, Freestyle stentless, Hancock II stented, Enable sutureless tissue (CE Mark countries), and 3f Biological tissue valves. Our mechanical valves include the Open Pivot valve. Our valve repair products include the Duran Flexible and CG Future Band, CG Composite Annuloplasty Systems, Profile 3D Annuloplasty Ring, Simulus Ring portfolio, and Tri-Ad Annuloplasty Ring.

Arrested Heart Surgery. In conventional coronary artery bypass graft procedures and heart valve surgery, the patient’s heart is temporarily stopped, or arrested. The patient is placed on a circulatory support system that temporarily functions as the patient’s heart and lungs and provides blood flow to the body. We offer a complete line of blood-handling products that form this circulatory support system and maintain and monitor blood circulation and coagulation status, oxygen supply, and body temperature during arrested heart surgery. Our Affinity Fusion oxygenation system received both CE Mark and U.S. FDA approval and is being launched globally. Affinity Fusion incorporates numerous innovations for patient safety and ease of use.

Beating Heart Surgery. To assist physicians performing beating heart surgery, we offer positioning and stabilization technologies. These technologies include our Starfish 2 and Urchin heart positioners, which are designed to work in concert with our family of Octopus tissue stabilizers.

Surgical Ablation. Our Cardioblade surgical ablation system, which includes the Cardioblade LP surgical ablation system, Cardioblade navigator tissue dissector, and Cardioblade Cryoflex system, allows cardiac surgeons to create ablation lines during cardiac surgery.

The charts below set forth net sales of our Structural Heart products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use our Structural Heart products are cardiac surgeons and interventional cardiologists. Our primary competitors in the Structural Heart business are Edwards Lifesciences Corporation (Edwards), St. Jude, Sorin, Maquet Medical Systems, which is part of the publicly-listed Swedish group of companies GETINGE AB, and Terumo Medical Corporation.

Endovascular

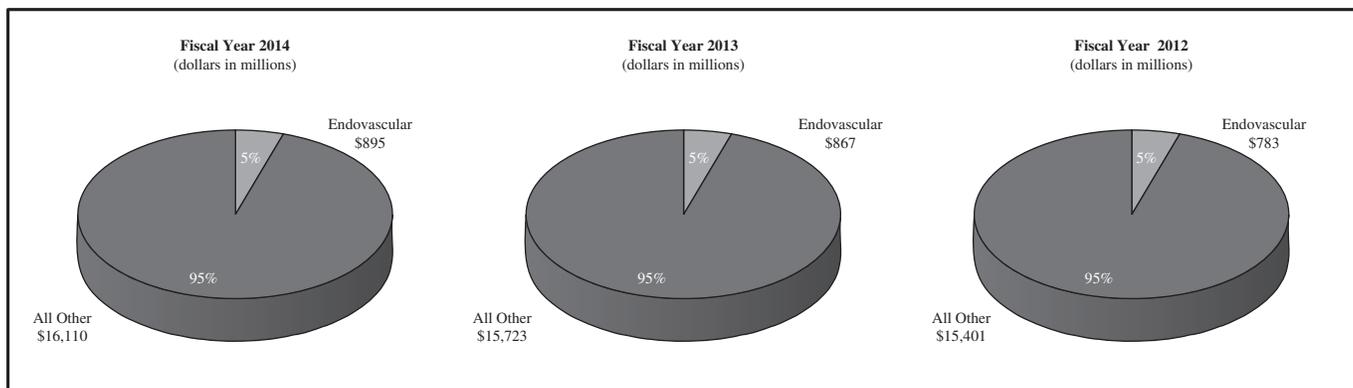
The Endovascular business is comprised of a comprehensive line of products and therapies to treat aortic disease (such as aneurysms, dissections, and transections) as well as peripheral vascular disease (PVD). Our products include endovascular stent graft systems, peripheral stent and angioplasty systems, and carotid embolic protection systems for the treatment of vascular disease outside the heart.

The following are the principal products offered by our Endovascular business:

Endovascular Stent Grafts. An endovascular stent graft is a minimally invasive device to treat aortic disease such as an aortic aneurysm, which is a weakened and bulging area in the aorta, the major blood vessel that feeds blood to the body. Our products are designed to treat aortic aneurysms in either the abdomen (AAA) or thoracic (TAA) regions of the aorta. Our product line includes a range of endovascular stent grafts and accessories including the market-leading Endurant II abdominal stent graft system and the Valiant Captivia thoracic stent graft system.

Peripheral Vascular Intervention (PVI). PVI encompasses a variety of procedures to treat patients with PVD, a narrowing or blockage of vessels outside the heart which impedes blood supply to the brain, kidneys, legs, and other vital organs. Similar to CAD, PVD is commonly treated with balloon angioplasty which can be followed up with a peripheral stent. Our primary PVI products include percutaneous angioplasty balloons including the IN.PACT family of drug-coated balloons, as well as stents such as the Complete SE Vascular Stent and the Assurant Cobalt Iliac Stent.

The charts below set forth net sales of our Endovascular products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use our Endovascular products include interventional radiologists, vascular surgeons, cardiac surgeons, and interventional cardiologists. Our primary competitors in the Endovascular business are Cook, Inc., W. L. Gore & Associates, Inc., Endologix, Inc., TriVascular Technologies, Inc., Lombard Medical, Inc., Abbott, Boston Scientific, C.R. Bard, Inc., and Johnson & Johnson, Inc. (Johnson & Johnson).

RESTORATIVE THERAPIES GROUP

Spine

Our Spine business develops, manufactures, and markets a comprehensive line of medical devices and implants used in the treatment of the spine and musculoskeletal system. Our products and therapies treat a variety of conditions affecting the spine, including degenerative disc disease, spinal deformity, spinal tumors, fractures of the spine, and stenosis. Our Spine business also provides biologic solutions for the orthopedic and dental markets.

We offer some of the industry’s broadest lines of devices, including a wide range of sophisticated internal spinal stabilization devices, instruments, and biomaterials used in the treatment of spinal conditions. Our Spine products are used in spinal fusion of both the thoracolumbar region, referring to the mid to lower vertebrae, and cervical region, or upper spine and neck vertebrae. Products used to treat spinal conditions include rods, pedicle screws, hooks, plates, balloons, cement and interbody devices, as well as biologics products, primarily bone growth substitutes including bone graft extenders and structural allografts such as dowels and wedges. In concert with our Surgical Technologies business, we offer unique and highly differentiated navigation, neuromonitoring, and power technologies designed for spine procedures.

The following are the principal products offered by our Spine business:

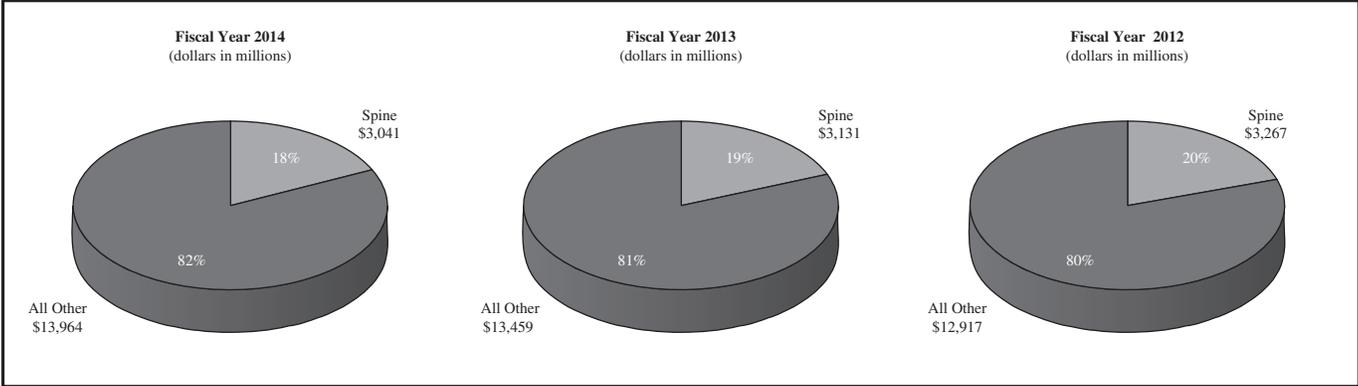
Thoracolumbar Products. Products used to treat conditions in this region of the spine include the CD HORIZON SOLERA and LEGACY Systems, the TSRH 3Dx System, and the T2 Altitude System. In addition, Medtronic offers a number of products that facilitate less invasive thoracolumbar surgeries, including the CD HORIZON SOLERA SEXTANT and LONGITUDE Percutaneous Fixation Systems, the Direct Lateral Access System and corresponding CLYDESDALE Interbody Implant, Xpander II Balloon Kyphoplasty product for vertebral compression fractures, and the METRx System. Other products include AMT interbody implants, Powerease powered surgical instruments, and the NIM-ECLIPSE Spinal System.

Cervical Products. Products used to treat conditions in this region of the spine include the ATLANTIS VISION ELITE Anterior Cervical Plate System, the VERTEX SELECT Reconstruction System, and the PRESTIGE and BRYAN Cervical Artificial Discs.

Kanghui. China Kanghui Holdings (Kanghui), which was acquired on November 1, 2012, has a broad portfolio of trauma and spine products focused on the growing value segment in China and other emerging markets, and is beginning to expand into large-joint reconstruction.

Biologics Products. Products in our Biologics platform include INFUSE Bone Graft (InductOs in the European Union (EU)), which contains a recombinant human bone morphogenetic protein, rhBMP-2, for certain spinal, trauma, and oral maxillofacial applications, Demineralized Bone Matrix (DBM) products, including MagniFuse, Grafton/Grafton Plus, and PROGENIX, and the MASTERGRAFT family of synthetic bone graft products - Matrix, Putty, and Granules.

The charts below set forth net sales of our Spine products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use our Spine products are spinal surgeons, neurosurgeons, orthopedic surgeons, and interventional radiologists. Competitors in this business include DePuySynthes, a Johnson & Johnson Company, Stryker Corporation (Stryker), NuVasive, Inc., Globus Medical, Inc., Zimmer Holdings, Inc. (Zimmer), Alphatec Holdings, Inc., K2M Group Holdings, Inc., LDR Holding Corporation, Orthofix International N.V., Biomet, Inc., and over 200 smaller competitors and physician-owned distributorships.

Neuromodulation

Our Neuromodulation business includes implantable neurostimulation and targeted drug delivery systems for the management of chronic pain, common movement disorders, spasticity, and urologic and gastrointestinal disorders. Neurostimulation uses an implantable medical device, similar to a pacemaker, called a neurostimulator.

The following are the principal products offered by our Neuromodulation business:

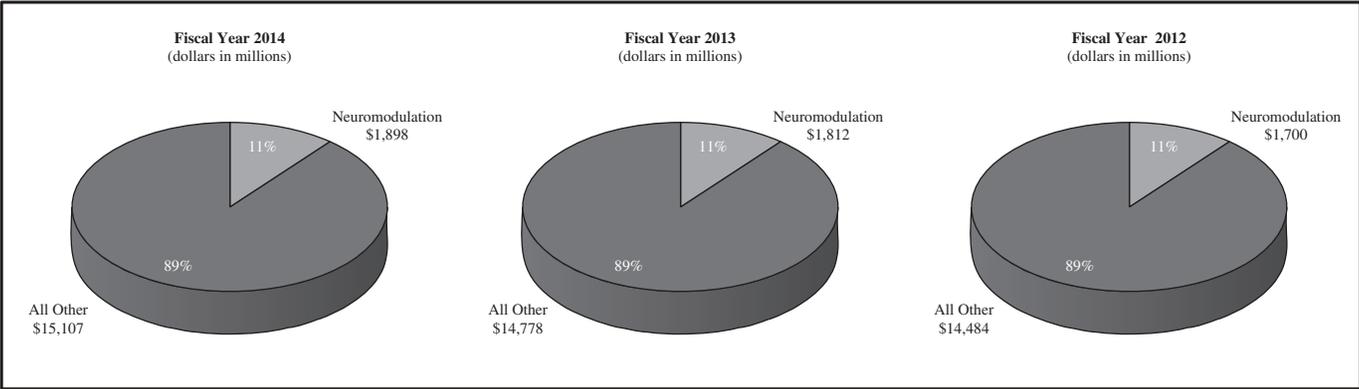
Neurostimulation Systems for Chronic Pain. Neurostimulation therapy for chronic pain uses a neurostimulator to deliver mild electrical impulses to the spinal cord, which act to block pain signals from the brain. We have the largest portfolio of neurostimulation systems in the industry, including rechargeable and non-rechargeable devices and a large selection of leads used to treat chronic back and/or limb pain. Our portfolio of products includes pain neurostimulation systems with SureScan MRI Technology, including the RestoreSensor (rechargeable) SureScan MRI, with its proprietary AdaptiveStim technology. Other products include the RestoreULTRA (rechargeable), RestoreADVANCED (rechargeable), and PrimeADVANCED (non-rechargeable) neurostimulation systems.

Implantable Drug Infusion Systems. The SynchroMed II Implantable Infusion System delivers small quantities of drug directly into the intrathecal space surrounding the spinal cord. These devices are used to treat chronic, intractable pain and severe spasticity associated with cerebral palsy, multiple sclerosis, spinal cord and traumatic brain injuries, and stroke.

Deep Brain Stimulation (DBS) Systems. DBS uses a neurostimulator to deliver mild electrical pulses to precisely targeted areas in the brain. DBS is currently approved in many countries around the world for the treatment of the disabling symptoms of essential tremor, Parkinson’s disease, refractory epilepsy (outside the U.S.), severe, treatment-resistant obsessive-compulsive disorder (approved under a HDE in the U.S.), and chronic, intractable primary dystonia (approved under a HDE in the U.S.). Our family of Activa Neurostimulators for DBS includes Activa SC (single-channel primary cell), Activa PC (dual channel primary cell), and Activa RC (dual channel rechargeable).

Gastroenterology & Urology Systems. Sacral neuromodulation uses InterStim, a neurostimulator, to help control the symptoms of overactive bladder, (non-obstructive) urinary retention, and chronic fecal incontinence. The InterStim system consists of a thin wire lead and a neurostimulator. After a successful trial stimulation period, the system is implanted under the skin in the upper buttock and delivers mild electrical pulses to stimulate the sacral nerves, which are involved in the control of bladder and bowel function. Enterra Therapy is the only gastric electrical stimulation therapy approved in the U.S. (under a HDE), Europe, and Canada for use in the treatment of intractable nausea and vomiting associated with gastroparesis. The system, which contains a small neurostimulator and two leads, stimulates the smooth muscles of the lower stomach.

The charts below set forth net sales of our Neuromodulation products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use our pain management and movement disorder products are neurosurgeons, neurologists, pain management specialists, anesthesiologists, physiatrists, and spinal surgeons. Our primary competitors in this business are Boston Scientific and St. Jude.

The primary medical specialists who use our gastroenterology and urology products are urologists, urogynecologists, gastroenterologists, and colorectal surgeons. Our primary competitors in this business are Allergan, Inc., Uroplasty, Inc., and Astellas Pharma, Inc.

Surgical Technologies

Our Surgical Technologies business develops, manufactures, and markets products and therapies to treat diseases and conditions of the ear, nose, and throat (ENT) and certain neurological disorders. In addition, the business develops, manufactures, and markets image-guided surgery and intra-operative imaging systems that facilitate surgical planning during precision cranial, spinal, sinus, and orthopedic surgeries. Our Advanced Energy business includes products in the emerging field of advanced energy surgical incision technology, as well as the haemostatic sealing of soft tissue and bone.

The following are the principal products offered by our Surgical Technologies business:

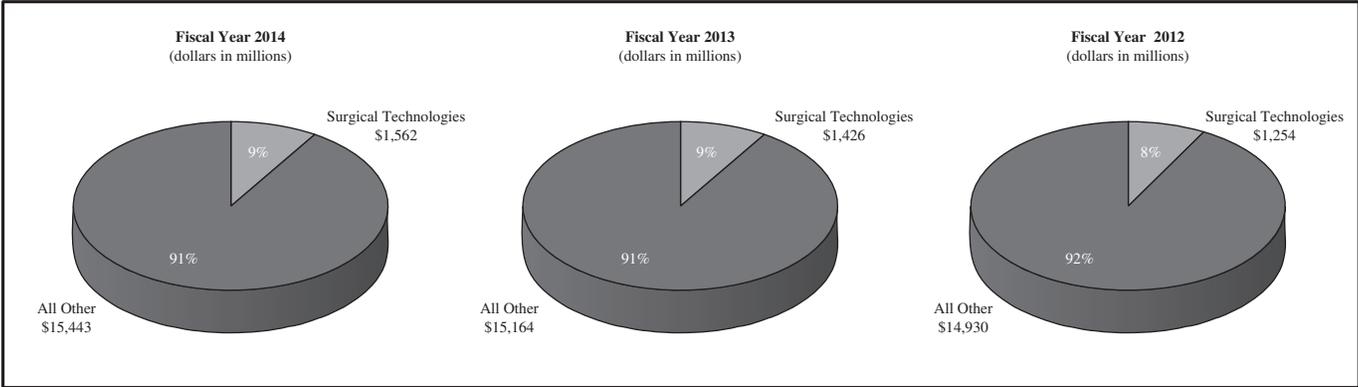
Neurosurgery. The following products treat certain neurological disorders and conditions: Midas Rex Spine Shaver, the Midas Rex MR7 Pneumatic Platform, the Midas Rex Legend EHS High Speed Surgical Drill, the Strata Family of Adjustable Valves for the treatment of Hydrocephalus, Duet External Drainage & Monitoring System, the IPC System, and the Subdural Evacuating Port System. The following Navigation products are used in cranial, spinal, sinus, and orthopedic surgeries: the StealthStation S7 Navigation and i7 Integrated Navigation Systems, the O-arm 2D/3D Surgical Imaging System, and the Polestar Surgical MRI System.

ENT. The following products treat ENT diseases and conditions: Straightshot M4 Microdebrider Handpiece, the IPC system, NIM Nerve Monitoring Systems, Fusion ENT Navigation System, Hydrodebrider Endoscopic Sinus Irrigation System, Meniett Device for Meniere’s Disease, as well as surgical products for Snoring and Obstructive Sleep Apnea.

Advanced Energy. Our PEAK Surgery System is a tissue dissection system that consists of the PEAK PlasmaBlade and PULSAR Generator and is cleared for use in a variety of settings, including plastic reconstructive, general surgery, and

conditions of ENT. Our Aquamantys System uses patented Transcollation technology to provide haemostatic sealing of soft tissue and bone and is cleared for use in a variety of surgical procedures, including orthopedic surgery, spine, solid organ resection and thoracic procedures.

The charts below set forth net sales of our Surgical Technologies products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary customers for our products relating to ENT diseases and conditions are ENT surgeons and the hospitals and clinics where they perform surgery. Competitors in this part of our Surgical Technologies business include Gyrus ACMI (a group company of Olympus Corporation), Stryker, and Johnson & Johnson.

The primary customers for our neurosurgical products are neurosurgeons, spinal surgeons, and the hospitals and clinics where they perform surgery. Competitors include Johnson & Johnson, Stryker, Zimmer, and Integra LifeSciences Holdings Corporation. The primary customers for our image-guided surgery and intra-operative imaging systems are hospitals and clinics. Competitors include BrainLAB, Inc., Stryker, GE Healthcare, Siemens Medical Solutions USA, Inc., and Philips Medical Systems.

The primary customers for our advanced energy products are orthopedic surgeons, spinal surgeons, neurosurgeons, general surgeons, electro physiologists, and the hospitals and clinics where they perform surgery. Competitors include Johnson & Johnson, Covidien Plc, ArthroCare Corporation, a Smith & Nephew plc company, Olympus Corporation, Stryker, Conmed Corporation, and B. Braun Medical Inc.

DIABETES GROUP

Our Diabetes business develops, manufactures, and markets advanced, integrated diabetes management solutions that include insulin pump therapy, continuous glucose monitoring (CGM) systems, and therapy management software.

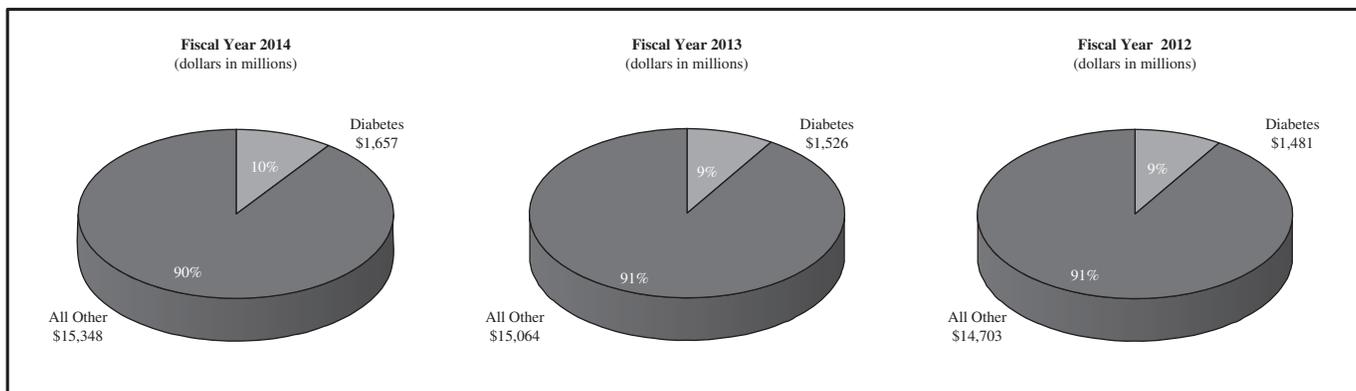
The following are the principal products offered by our Diabetes business:

Integrated Diabetes Management Solutions. We have the only integrated insulin pump and CGM system in the world. In the U.S., we offer the MiniMed 530G System featuring our threshold suspend technology, which automatically suspends insulin delivery when glucose levels reach a pre-determined threshold, and newest CGM sensor, Enlite, which is labeled for 6-days and is more comfortable, more accurate, and smaller than our previous generation sensor. Outside the U.S., we offer our Paradigm Veo System, an integrated system that includes the Low Glucose Suspend feature and is labeled for use with Enlite.

Professional CGM. In addition to Personal CGM (Enlite), we offer physicians a Professional CGM product called the iPro2/iPro Professional CGM System. Physicians send patients home wearing the iPro2/iPro recorder to capture glucose data, which is later uploaded in a physician’s office to reveal glucose patterns and potential problems, including hyperglycemic and hypoglycemic episodes, which can lead to more informed treatment decisions.

CareLink Therapy Management Software. We offer web-based therapy management software solutions, including CareLink Personal software for patients and CareLink Pro software, to help patients and their health care providers control their diabetes.

The charts below set forth net sales of our Diabetes products as a percentage of our total net sales for each of the last three fiscal years:



Customers and Competitors

The primary medical specialists who use and/or prescribe our Diabetes products are endocrinologists, diabetologists, and internists. Our primary competitors in the Diabetes business are Johnson & Johnson, DexCom, Inc., Insulet Corporation, F. Hoffmann-La Roche Ltd, and Tandem Diabetes Care, Inc.

Research and Development

The markets in which we participate are subject to rapid technological advances. Constant improvement of products and introduction of new products is necessary to maintain market leadership. Our research and development (R&D) efforts are directed toward maintaining or achieving technological leadership in each of the markets we serve in order to help ensure that patients using our devices and therapies receive the most advanced and effective treatment possible. We remain committed to developing technological enhancements and new indications for existing products, and less invasive and new technologies for new and emerging markets to address unmet patient needs. That commitment leads to our initiation and participation in many clinical trials each fiscal year as the demand for clinical and economic evidence remains high. Furthermore, we expect our development activities to help reduce patient care costs and the length of hospital stays in the future. We have not engaged in significant customer or government-sponsored research.

During fiscal years 2014, 2013, and 2012, we spent \$1.477 billion (8.7 percent of net sales), \$1.557 billion (9.4 percent of net sales), and \$1.490 billion (9.2 percent of net sales) on R&D, respectively. Our R&D activities include improving existing products and therapies, expanding their indications and applications for use, and developing new products. We continue to focus on optimizing innovation, improving our R&D productivity, driving growth in emerging markets, evidence generation for our growth platforms, and continue to assess our R&D programs based on their ability to deliver economic value to the customer.

Acquisitions and Investments

Our strategy to provide a broad range of therapies to restore patients to fuller, healthier lives requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialized expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally generated growth through our R&D efforts, historically we have relied, and expect to continue to rely, upon acquisitions, investments, and alliances to provide access to new technologies both in areas served by our existing businesses as well as in new areas and markets.

We expect to make future investments or acquisitions where we believe that we can stimulate the development of, or acquire new technologies and products to further, our strategic objectives, and strengthen our existing businesses. Mergers and acquisitions of medical technology companies are inherently risky and no assurance can be given that any of our previous or future acquisitions will be successful or will not materially adversely affect our consolidated results of operations, financial condition, and/or cash flows.

Pending Acquisition of Covidien plc

On June 15, 2014, Medtronic entered into a Transaction Agreement (the Transaction Agreement) by and among Medtronic, Covidien public limited company, an Irish public limited company (Covidien), Kalani I Limited, a private limited company organized under the laws of Ireland (New Medtronic), Makani II Limited, a private limited company organized under the laws of Ireland and a wholly-owned subsidiary of New Medtronic (IrSub), Aviation Acquisition Co., Inc., a Minnesota corporation (U.S. AcquisitionCo), and Aviation Merger Sub, LLC, a Minnesota limited liability company and a wholly-owned subsidiary of U.S. AcquisitionCo (MergerSub). Under the terms of the Transaction Agreement, (i) New Medtronic and IrSub will acquire Covidien (the Acquisition) pursuant to the Irish Scheme of Arrangement under Section 201, and a capital reduction under Sections 72 and 74, of the Irish Companies Act of 1963 (the Arrangement) and (ii) MergerSub will merge with and into Medtronic, with Medtronic as the surviving corporation in the merger (such merger, the Merger, and the Merger together with the Acquisition, the Pending Acquisition). As a result of the Pending Acquisition, both Medtronic and Covidien will become wholly-owned direct or indirect subsidiaries of New Medtronic.

At the effective time of the Arrangement, (a) Covidien shareholders will be entitled to receive \$35.19 in cash and 0.956 of a newly issued New Medtronic share (the Arrangement Consideration) in exchange for each Covidien share held by such shareholders, and (b) each share of Medtronic common stock will be converted into the right to receive one New Medtronic share. The total cash and stock value of the Pending Acquisition is approximately \$42.9 billion based on Medtronic's closing share price of \$60.70 on June 13, 2014. It is expected that immediately after the closing of the Pending Acquisition, Covidien shareholders will own approximately 30 percent of New Medtronic on a fully diluted basis. Shares of New Medtronic are expected to trade on the New York Stock Exchange.

The Transaction Agreement may be terminated by mutual written consent of the parties. The Transaction Agreement also contains certain termination rights, including, among others, the right of either party to terminate if (a) the Arrangement has not become effective by March 15, 2015 (the End Date), subject to certain conditions, provided that the End Date will be extended to June 15, 2015 in certain circumstances, (b) the Covidien or Medtronic shareholder approvals are not obtained, (c) the other party breaches its representations and covenants and such breach would result in the closing conditions not being satisfied, subject to a cure period, (d) the Irish High Court declines to sanction the Arrangement, unless both parties agree to appeal the decision, or (e) there is a failure of the tax condition as described in Medtronic's Current Report on Form 8-K filed with the SEC on June 16, 2014. Covidien also has the right, prior to the receipt of Covidien shareholder approval, to terminate the Transaction Agreement to accept a Covidien Superior Proposal (as defined in the Transaction Agreement) in certain circumstances.

The Transaction Agreement also provides that Medtronic must pay Covidien a termination fee of \$850 million if the Transaction Agreement is terminated because the Medtronic board of directors changes its recommendation for the transaction and the Medtronic shareholders vote against the Transaction, and either (i) Covidien obtained the requisite Covidien shareholder approval or (ii) Medtronic effected such termination prior to the completion of the Covidien shareholder meeting.

The consummation of the Pending Acquisition is subject to certain conditions, including approvals by Medtronic and Covidien shareholders. In addition, the proposed transaction requires regulatory clearances in the U.S., the E.U., China, and certain other countries. The Pending Acquisition is expected to close in the fourth calendar quarter of 2014 or early 2015.

For further information regarding the Pending Acquisition, see the section entitled "Risks relating to our pending acquisition of Covidien plc" contained in "Item 1A. Risk Factors," the section entitled "Executive Overview - Pending Acquisition of Covidien plc" contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 21 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K, and the full text of the Transaction Agreement, a copy of which is filed as exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2014.

Fiscal Year 2014

On December 30, 2013, the Company acquired TYRX, Inc. (TYRX), a privately-held developer of antibiotic drug and implanted medical device combinations. TYRX's products include those designed to reduce surgical site infections associated with implantable pacemakers, defibrillators, and spinal cord neurostimulators. Under the terms of the agreement, the transaction included an initial up-front payment of \$159 million, representing a purchase price net of acquired cash, including the assumption and settlement of existing TYRX debt and direct acquisition costs. Total consideration for the transaction was approximately \$222 million, which included estimated fair values for product development-based and revenue-based contingent

consideration of \$25 million and \$35 million, respectively. The product development-based contingent consideration includes a future potential payment of \$40 million upon achieving certain milestones, and the revenue-based contingent consideration payments equal TYRX's actual annual revenue growth for the Company's fiscal years 2015 and 2016.

On August 7, 2013, the Company acquired Cardiocom, LLC (Cardiocom), a privately-held developer and provider of integrated solutions for the management of chronic diseases such as heart failure, diabetes, and hypertension. Cardiocom's products and services include remote monitoring and patient-centered software to enable efficient care coordination and specialized telehealth nurse support. Total consideration for the transaction was approximately \$193 million.

Fiscal Year 2013

On November 1, 2012, we acquired Kanghui. Kanghui is a Chinese manufacturer and distributor of orthopedic products in trauma, spine, and joint reconstruction. Total consideration for the transaction was approximately \$816 million. The total value of the transaction, net of Kanghui's cash, was approximately \$797 million.

Fiscal Year 2012

On August 31, 2011, we acquired Salient Surgical Technologies, Inc. (Salient). Salient develops and markets devices for haemostatic sealing of soft tissue and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic procedures. Total consideration for the transaction was approximately \$497 million. We had previously invested in Salient and held an 8.9 percent ownership position in the company. In connection with the acquisition of Salient, we recognized a gain on our previously-held investment of \$32 million, which was recorded within *acquisition-related items* in the consolidated statements of earnings in fiscal year 2012. Net of this ownership position, the transaction value was approximately \$452 million.

On August 31, 2011, we acquired PEAK Surgical, Inc. (PEAK). PEAK develops and markets tissue dissection devices incorporating advanced energy technology. Total consideration for the transaction was approximately \$113 million. We had previously invested in PEAK and held an 18.9 percent ownership position in the company. In connection with the acquisition of PEAK, we recognized a gain on our previously-held investment of \$6 million, which was recorded within *acquisition-related items* in the consolidated statements of earnings in fiscal year 2012. Net of this ownership position, the transaction value was approximately \$96 million.

Patents and Licenses

We rely on a combination of patents, trademarks, copyrights, trade secrets, and non-disclosure and non-competition agreements to establish and protect our proprietary technology. We have filed and obtained numerous patents in the U.S. and abroad, and regularly file patent applications worldwide in our continuing effort to establish and protect our proprietary technology. U.S. patents typically have a 20-year term from the application date while patent protection outside the U.S. varies from country to country. In addition, we have entered into exclusive and non-exclusive licenses relating to a wide array of third-party technologies. We have also obtained certain trademarks and tradenames for our products to distinguish our genuine products from our competitors' products, and we maintain certain details about our processes, products, and strategies as trade secrets. In the aggregate, these intellectual property assets and licenses are of material importance to our business; however, we believe that no single patent, technology, trademark, intellectual property asset or license is material in relation to any segment of our business as a whole. Our efforts to protect our intellectual property and avoid disputes over proprietary rights have included ongoing review of third-party patents and patent applications. For additional information see "Item 1A. Risk Factors" and Note 18 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Markets and Distribution Methods

We sell most of our medical devices through direct sales representatives in the U.S. and a combination of direct sales representatives and independent distributors in markets outside the U.S. The three largest markets for our medical devices are the U.S., Western Europe, and Japan. Emerging markets are an area of increasing focus and opportunity as we believe they remain underpenetrated.

Our marketing and sales strategy is focused on rapid, cost-effective delivery of high-quality products to a diverse group of customers worldwide - including physicians, hospitals, other medical institutions, and group purchasing organizations. To

achieve this objective, we organize our marketing and sales teams around physician specialties. This focus enables us to develop highly knowledgeable and dedicated sales representatives who are able to foster strong relationships with physicians and other customers and enhance our ability to cross-sell complementary products. We believe that we maintain excellent working relationships with physicians and others in the medical industry that enable us to gain a detailed understanding of therapeutic and diagnostic developments, trends, and emerging opportunities and respond quickly to the changing needs of physicians and patients. We attempt to enhance our presence in the medical community through active participation in medical meetings and by conducting comprehensive training and educational activities. We believe that these activities contribute to physician expertise.

In keeping with the increased emphasis on cost-effectiveness in health care delivery, the current trend among hospitals and other customers of medical device manufacturers is to consolidate into larger purchasing groups to enhance purchasing power. As a result, transactions with customers have become increasingly significant and more complex. This enhanced purchasing power may also lead to pressure on pricing and increased use of preferred vendors. Our customer base continues to evolve to reflect such economic changes across the geographic markets we serve. We are not dependent on any single customer for more than 10 percent of our total net sales.

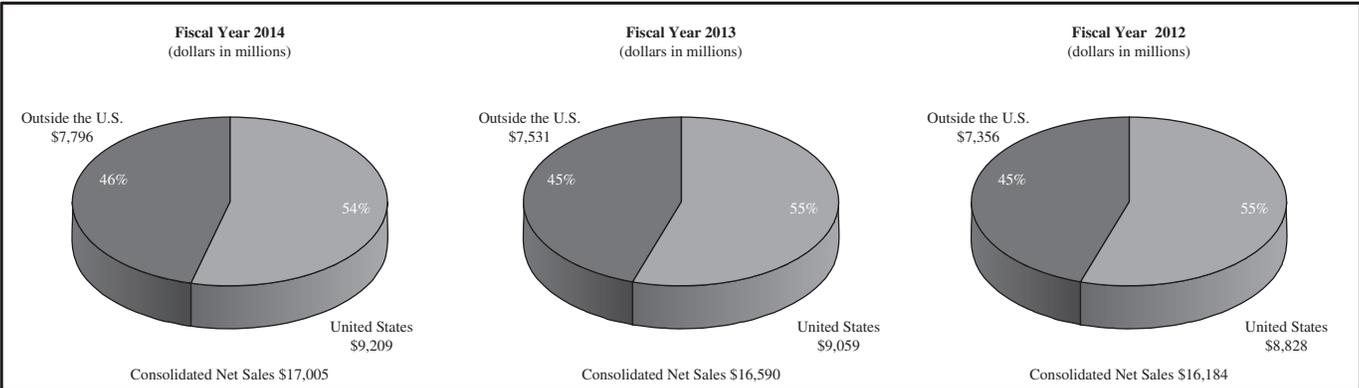
Competition and Industry

We compete in both the therapeutic and diagnostic medical markets in more than 140 countries throughout the world. These markets are characterized by rapid change resulting from technological advances and scientific discoveries. The product lines in which we compete face a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers offering a limited selection of products. In addition, we face competition from providers of alternative medical therapies such as pharmaceutical companies.

Major shifts in industry market share have occurred in connection with product problems, physician advisories, safety alerts, and publications about our products, reflecting the importance of product quality, product efficacy, and quality systems in the medical device industry. In addition, in the current environment of managed care, economically motivated customers, consolidation among health care providers, increased competition, and declining reimbursement rates, we have been increasingly required to compete on the basis of price. In order to continue to compete effectively, we must continue to create or acquire advanced technology, incorporate this technology into proprietary products, obtain regulatory approvals in a timely manner, maintain high-quality manufacturing processes, and successfully market these products.

Worldwide Operations

For financial reporting purposes, net sales and property, plant, and equipment attributable to significant geographic areas are presented in Note 20 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.



Impact of Business Outside of the U.S.

Our operations in countries outside the U.S. are accompanied by certain financial and other risks. Relationships with customers and effective terms of sale vary by country, often with longer-term receivables than are typical in the U.S. Foreign currency exchange rate fluctuations can affect revenues, net of expenses, and cash flows from operations outside the U.S. We use operational and economic hedges, as well as currency exchange rate derivative contracts, to manage the impact of currency

exchange rate changes on earnings and cash flow. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” and Note 9 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K. In addition, the repatriation of certain earnings of subsidiaries outside the U.S. may result in substantial U.S. tax cost.

Production and Availability of Raw Materials

We manufacture most of our products at 41 manufacturing facilities located in various countries throughout the world. The largest of these manufacturing facilities are located in Arizona, California, Colorado, Connecticut, Florida, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, Texas, Puerto Rico, Canada, France, Germany, Ireland, Italy, Mexico, The Netherlands, The People’s Republic of China, Singapore, and Switzerland. We purchase many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. For reasons of quality assurance, sole source availability, or cost effectiveness, certain components and raw materials are available only from a sole supplier. We work closely with our suppliers to help ensure continuity of supply while maintaining high quality and reliability. Due to the U.S. FDA’s requirements regarding manufacturing of our products, we may not be able to quickly establish additional or replacement sources for certain components or materials. Generally, we have been able to obtain adequate supplies of such raw materials and components. However, a sudden or unexpected reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our operations. Moreover, as directed by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), the SEC has implemented reporting and disclosure requirements related to the use of certain minerals, known as “conflict minerals”: tantalum, tin, tungsten (or their ores), and gold; which are mined from the Democratic Republic of the Congo and adjoining countries. Pursuant to these requirements, we are required to report on Form SD the procedures we employ to determine the sourcing of such minerals and metals produced from those minerals. There are costs associated with complying with these disclosure requirements, including for diligence in regards to the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. In addition, the implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. As of the date of our conflict minerals report for the 2013 calendar year, we were unable to obtain the necessary information on conflict minerals from all of our suppliers and were unable to determine that all of our products are conflict free. We may continue to face difficulties in gathering this information in the future. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we implement.

Working Capital Practices

Our goal is to carry sufficient levels of inventory to ensure adequate supply of raw materials from suppliers and meet the product delivery needs of our customers. We also provide payment terms to customers in the normal course of business and rights to return product under warranty to meet the operational demands of our customers.

Employees

On April 25, 2014, we employed more than 49,000 employees (including full-time equivalent employees). Our employees are vital to our success. We believe we have been successful in attracting and retaining qualified personnel in a highly competitive labor market due to our competitive compensation and benefits, and our rewarding work environment.

Seasonality

Worldwide sales, including U.S. sales, do not reflect any significant degree of seasonality; however, the number of medical procedures incorporating Medtronic products is generally lower during summer months, due to summer vacation schedules in the northern hemisphere, particularly in European countries.

Government Regulation and Other Considerations

Our medical devices are subject to regulation by numerous government agencies, including the U.S. FDA and similar agencies outside the U.S. To varying degrees, each of these agencies requires us to comply with laws and regulations governing the development, testing, manufacturing, labeling, marketing, and distribution of our medical devices. Our business is also affected by U.S. and foreign patient privacy laws, cost containment initiatives and environmental health and safety laws and regulations. The primary laws and regulations that affect our business are described below.

The laws applicable to us are subject to change, and subject to evolving interpretations. If a governmental authority were to conclude that we are not in compliance with applicable laws and regulations, Medtronic and its officers and employees could be subject to severe criminal and civil penalties including substantial fines and damages, and exclusion from participation as a supplier of product to beneficiaries covered by Medicare or Medicaid.

Product Approval Processes

Authorization to commercially distribute a new medical device in the U.S. is generally received in one of two ways. The first, known as pre-market notification or the 510(k) process, requires us to demonstrate that our new medical device is substantially equivalent to a legally marketed medical device. In this process, we must submit data that supports our equivalence claim. If human clinical data is required, it must be gathered in compliance with U.S. FDA investigational device exemption regulations. We must receive an order from the U.S. FDA finding substantial equivalence to another legally marketed medical device before we can commercially distribute the new medical device. Modifications to cleared medical devices can be made without using the 510(k) process if the changes do not significantly affect safety or effectiveness. A very small number of our devices are exempt from pre-market review.

The second, more rigorous process, known as pre-market approval (PMA), requires us to independently demonstrate that the new medical device is safe and effective. We do this by collecting data regarding design, materials, bench and animal testing, and human clinical data for the medical device. The U.S. FDA will authorize commercial distribution if it determines there is reasonable assurance that the medical device is safe and effective. This determination is based on the benefit outweighing the risk for the population intended to be treated with the device. This process is much more detailed, time-consuming, and expensive than the 510(k) process. A third, seldom used, process for approval exists for humanitarian use devices, intended for patient populations of less than 4,000 patients per year in the U.S. This exemption is similar to the PMA process; however, a full showing of product effectiveness from large clinical trials is not required. The threshold for approving these products is probable benefit and safety.

Many countries outside the U.S. to which we export medical devices also subject such medical devices to their own regulatory requirements. Frequently, regulatory approval may first be obtained in a foreign country prior to application in the U.S. due to differing regulatory requirements; however, other countries, such as China for example, require approval in the country of origin first. Most countries outside of the U.S. require that product approvals be recertified on a regular basis, generally every five years. The recertification process requires that we evaluate any device changes and any new regulations or standards relevant to the device and, where needed, conduct appropriate testing to document continued compliance. Where recertification applications are required, they must be approved in order to continue selling our products in those countries. Because export control and economic sanctions laws and regulations are complex and constantly changing, we cannot assure you that laws and regulations may not be enacted, amended, enforced or interpreted in a manner materially impacting our ability to sell or distribute products.

In the EU, a single regulatory approval process exists, and conformity with the legal requirements is represented by the CE Mark. To obtain a CE Mark, defined products must meet minimum standards of performance, safety, and quality (i.e., the essential requirements), and then, according to their classification, comply with one or more of a selection of conformity assessment routes. A notified body assesses the quality management systems of the manufacturer and the product conformity to the essential and other requirements within the medical device directive. Medtronic is subject to inspection by notified bodies for compliance. The competent authorities of the EU countries, generally in the form of their ministries or departments of health, oversee the clinical research for medical devices and are responsible for market surveillance of products once they are placed on the market. We are required to report device failures and injuries potentially related to product use to these authorities in a timely manner. Various penalties exist for non-compliance with the laws transcribing the medical device directives.

To be sold in Japan, most medical devices must undergo thorough safety examinations and demonstrate medical efficacy before they are granted approval, or “shonin.” The Japanese government, through the Ministry of Health, Labour, and Welfare (MHLW), regulates medical devices under the Pharmaceutical Affairs Law (PAL). Oversight for medical devices is conducted with participation by the Pharmaceutical and Medical Devices Agency (PMDA), a quasi-government organization performing many of the review functions for MHLW. Penalties for a company’s noncompliance with PAL could be severe, including revocation or suspension of a company’s business license and criminal sanctions. MHLW and PMDA also assess the quality management systems of the manufacturer and the product conformity to the requirements of the PAL. Medtronic is subject to inspection for compliance by these agencies.

Our global regulatory environment is becoming increasingly stringent, and unpredictable, which could increase the time, cost and complexity of obtaining regulatory approvals for our products. Several countries that did not have regulatory requirements for medical devices have established such requirements in recent years and other countries have expanded, or plan to expand, on existing regulations. Certain regulators are requiring local clinical data in addition to global clinical data. While harmonization of global regulations has been pursued, requirements continue to differ significantly among countries. We expect this global regulatory environment will continue to evolve, which could impact our ability to obtain future approvals for our products, or could increase the cost and time to obtain such approvals in the future. We cannot assure you that any new medical devices we develop will be approved in a timely or cost-effective manner or approved at all.

Ongoing U.S. FDA Regulations

Both before and after a product is commercially released, we have ongoing responsibilities under U.S. FDA regulations. The U.S. FDA reviews design and manufacturing practices, labeling and record keeping, and manufacturers' required reports of adverse experiences and other information to identify potential problems with marketed medical devices. We are also subject to periodic inspection by the U.S. FDA for compliance with the U.S. FDA's quality system regulations, which govern the methods used in, and the facilities and controls used for, the design, manufacture, packaging, and servicing of all finished medical devices intended for human use. In addition, the U.S. FDA and other U.S. regulatory bodies (including the Federal Trade Commission, the Office of the Inspector General of the Department of Health and Human Services, the Department of Justice (DOJ), and various state Attorneys General) monitor the manner in which we promote and advertise our products. Although surgeons are permitted to use their medical judgment to employ medical devices for indications other than those cleared or approved by the U.S. FDA, we are prohibited from promoting products for such "off-label" uses, and can only market our products for cleared or approved uses. If the U.S. FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the U.S. FDA could require us to notify health professionals and others that the devices present unreasonable risks of substantial harm to the public health, order a recall, repair, replacement, or refund of such devices, detain or seize adulterated or misbranded medical devices, or ban such medical devices. The U.S. FDA may also impose operating restrictions, enjoin and/or restrain certain conduct resulting in violations of applicable law pertaining to medical devices, including a hold on approving new devices until issues are resolved to its satisfaction, and assess civil or criminal penalties against our officers, employees, or us. The U.S. FDA may also recommend prosecution to the DOJ. Conduct giving rise to civil or criminal penalties may also form the basis for private civil litigation by third-party payers or other persons allegedly harmed by our conduct.

Governmental Trade Regulations

The sale and shipment of our products and services across international borders, as well as the purchase of components and products from international sources, subject us to extensive governmental trade regulations. A variety of laws and regulations, both in the U.S. and in the countries in which we transact business, apply to the sale, shipment and provision of goods, services and technology across international borders. Because we are subject to extensive regulations in the countries in which we operate, we are subject to the risk that laws and regulations could change in a way that would expose us to additional costs, penalties or liabilities. These laws and regulations govern, among other things, our import and export activities.

The U.S. FDA, in cooperation with U.S. Customs and Border Protection (CBP), administers controls over the import of medical devices into the U.S. The CBP imposes its own regulatory requirements on the import of our products, including inspection and possible sanctions for noncompliance. Medtronic is also subject to foreign trade controls administered by several U.S. government agencies, including the Bureau of Industry and Security within the Commerce Department and the Office of Foreign Assets Control within the Treasury Department. We import raw materials, components and finished products into the countries in which we transact business. We act as the importer of record in many instances, but we also sell and ship goods to third parties who are themselves responsible for complying with applicable trade laws and regulations. In our role as importer of record, we are directly responsible for complying with customs laws and regulations concerning the importation of our raw materials, components and finished products. If third parties violate U.S. FDA or customs laws and regulations when engaging in cross-border transactions involving our products, we may be subject to varying degrees of liability depending on our participation in the transaction. In addition, the activities of third parties may cause supply chain disruptions and delays in the distribution of our products that impact our business activities.

Many countries, including the U.S., control the export and re-export of goods, technology and services for reasons including public health, national security, regional stability, antiterrorism policies and other reasons. In certain circumstances, approval from governmental authorities may be required before goods, technology or services are exported or re-exported to certain destinations, to certain end-users and for certain end-uses. In addition, international sales of our medical devices that have not

received U.S. FDA approval are subject to U.S. FDA export requirements. Some governments may also impose economic sanctions against certain countries, persons or entities. In addition to our need to comply with such regulations in connection with our direct export activities, we also sell and provide goods, technology and services to agents, representatives and distributors who may export such items to customers and end-users. If third parties violate applicable export control and economic sanctions laws and regulations when engaging in transactions involving our products, we may be subject to varying degrees of liability dependent upon our participation in the transaction. The activities of our third parties may cause disruption or delays in the distribution and sales of our products, or result in restrictions being placed upon our international distribution and sales of products which may materially impact our business activities.

Anti-Boycott Laws

Under U.S. laws and regulations, U.S. companies and their controlled-in-fact foreign subsidiaries and affiliates are prohibited from participating or agreeing to participate in unsanctioned foreign boycotts in connection with certain business activities, including the sale, purchase, transfer, shipping or financing of goods or services within the U.S. or between the U.S. and a foreign country. Currently, the U.S. considers the Arab League boycott of Israel to constitute an unsanctioned foreign boycott. We are responsible for ensuring we comply with the requirements of U.S. anti-boycott laws for all transactions in which we are involved. If we or third parties violate U.S. anti-boycott laws and regulations when engaging in transactions involving our products, we may be subject to varying degrees of liability dependent upon the nature of the transaction and our participation in the transaction. Penalties for any violations of anti-boycott laws and regulations could include criminal penalties and civil sanctions such as fines, imprisonment, debarment from government contracts, loss of export privileges and the denial of certain tax benefits, including foreign tax credits, and foreign subsidiary deferrals.

Patient Privacy Laws

U.S. federal and state laws protect the confidentiality of certain patient health information, including patient medical records, and restrict the use and disclosure of patient health information by health care providers. In particular, in April 2003, the U.S. Department of Health and Human Services (HHS) published patient privacy rules under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and, in April 2005, published security rules for protected health information. The HIPAA privacy and security rules govern the use, disclosure, and security of protected health information by “Covered Entities,” which are health care providers that submit electronic claims, health plans, and health care clearinghouses. In 2009, Congress passed the HITECH Act, which modified certain provisions of the HIPAA privacy and security rules for Covered Entities and their Business Associates (which is anyone that performs a service on behalf of a Covered Entity involving the use or disclosure of protected health information and is not a member of the Covered Entity’s workforce). These included directing HHS to publish more specific security standards, and increasing breach notification requirements, as well as tightening certain aspects of the privacy rules. HHS published the final versions of these new rules in January 2013, and Covered Entities and Business Associates were expected to be in compliance by September 2013. In addition, the HITECH Act provided that Business Associates will now be subject to the same security requirements as Covered Entities, and that with regard to both the security and privacy rule, Business Associates will be subject to direct enforcement by HHS, including civil and criminal liability, just as Covered Entities are. In the past, HIPAA has generally affected us indirectly. Medtronic is generally not a Covered Entity, except for a few units such as our Diabetes business and our health insurance plans. Medtronic only operates as a Business Associate to Covered Entities in a limited number of instances. In those cases, the patient data that we receive and analyze may include protected health information. We are committed to maintaining the security and privacy of patients’ health information and believe that we meet the expectations of the HIPAA rules. Some modifications to our systems and policies may be necessary, but the framework is already in place. However, the potential for enforcement action against us is now greater, as HHS can take action directly against Business Associates. Thus, while we believe we are and will be in substantial compliance with HIPAA standards, there is no guarantee that the government will not disagree. Enforcement actions can be costly and interrupt regular operations of our business. Nonetheless, these requirements affect a limited subset of our business. We believe the ongoing costs and impacts of assuring compliance with the HIPAA privacy and security rules are not material to our business. In addition, there has been a developing trend of civil lawsuits and class actions brought relating to breaches of consumer data held by large companies. While Medtronic has not been named in any such suits, if a substantial breach or loss of data from our records were to occur, we could become a target of such litigation.

In 2013, Medtronic provided notification regarding certain records related to patients of our Diabetes business unit. While we found no evidence of a breach or inadvertent disclosure of the patient records, we were unable to locate them for retrieval. The HHS Office of Civil Rights contacted us following the disclosure, as is their regular practice, and we have provided them information on the issue and our information security practices. In addition, Medtronic, along with two other large medical device manufacturers, discovered an unauthorized intrusion to our systems that was believed to originate from hackers in Asia.

We concluded that the intrusion did not breach any of the databases where we store patient data. We received inquiries from some State Attorneys General regarding whether notification to patients was necessary, and provided them information about our analysis and conclusions that patient data was not affected.

We are also impacted by the privacy requirements of countries outside the U.S. Privacy standards in Europe and Asia are becoming increasingly strict. Enforcement action and financial penalties related to privacy in the EU are growing, and new laws and restrictions are being passed. The management of cross border transfers of information among and outside of EU member countries is becoming more complex, which may complicate our clinical research activities, as well as product offerings that involve transmission or use of clinical data. We will continue our efforts to comply with those requirements and to adapt our business processes to the standards.

Cost Containment Initiatives

Government and private sector initiatives to limit the growth of health care costs, including price regulation, competitive pricing, bidding and tender mechanics, coverage and payment policies, comparative effectiveness of therapies, technology assessments, and managed-care arrangements, are continuing in many countries where we do business, including the U.S. These changes are causing the marketplace to put increased emphasis on the delivery of more cost-effective medical devices and therapies. Government programs, including Medicare and Medicaid, private health care insurance, and managed-care plans have attempted to control costs by limiting the amount of reimbursement they will pay for particular procedures or treatments, tying reimbursement to outcomes, shifting to population health management, and other mechanisms designed to constrain utilization and contain costs. Hospitals, which purchase implants, are also seeking to reduce costs through a variety of mechanisms, including, for example, creating centralized purchasing functions that set pricing and in some cases limiting the number of vendors that can participate in the purchasing program. Hospitals are also aligning interests with physicians through employment and other arrangements, such as gainsharing, where a hospital agrees with physicians to share any realized cost savings resulting from the physicians' collective change in practice patterns such as standardization of devices where medically appropriate. This has created an increasing level of price sensitivity among customers for our products. Some third-party payers must also approve coverage and set reimbursement levels for new or innovative devices or therapies before they will reimburse health care providers who use the medical devices or therapies. Even though a new medical device may have been cleared for commercial distribution, we may find limited demand for the device until coverage and sufficient reimbursement levels have been obtained from governmental and private third-party payers. In addition, some private third-party payers require that certain procedures or that the use of certain products be authorized in advance as a condition of reimbursement. International examples of cost containment initiatives and health care reforms in markets significant to Medtronic's business include Japan, where the government reviews reimbursement rate benchmarks every two years, which may significantly reduce reimbursement for procedures using our medical devices or deny coverage for those procedures. As a result of our manufacturing efficiencies, cost controls and other cost-savings initiatives, we believe we are well-positioned to respond to changes resulting from the worldwide trend toward cost-containment; however, uncertainty remains as to the nature of any future legislation or other reforms, making it difficult for us to predict the potential impact of cost-containment trends on future operating results.

Regulations Governing Reimbursement

The delivery of our devices is subject to regulation by HHS and comparable state and non-U.S. agencies responsible for reimbursement and regulation of health care items and services. U.S. laws and regulations are imposed primarily in connection with the Medicare and Medicaid programs, as well as the government's interest in regulating the quality and cost of health care. Foreign governments also impose regulations in connection with their health care reimbursement programs and the delivery of health care items and services.

U.S. federal health care laws apply when we or customers submit claims for items or services that are reimbursed under Medicare, Medicaid, or other federally-funded health care programs. The principal U.S. federal laws include: (1) the Anti-kickback Statute which prohibits offers to pay or receive remuneration of any kind for the purpose of including or rewarding referrals of items or services reimbursable by a federal health care program; (2) the False Claims Act which prohibits the submission of false or otherwise improper claims for payment to a federally-funded health care program, including claims resulting from a violation of the Anti-kickback Statute; (3) the Stark law which prohibits physicians from referring Medicare or Medicaid patients to a provider that bills these programs for the provision of certain designated health services if the physician (or a member of the physician's immediate family) has a financial relationship with that provider; and (4) health care fraud statutes that prohibit false statements and improper claims to any third-party payer. There are often similar state false claims, anti-kickback, and anti-self-referral and insurance laws that apply to state-funded Medicaid and other health care programs and private third-party payers. In addition, the U.S. Foreign Corrupt Practices Act (FCPA) can be used to prosecute companies in the

U.S. for arrangements with physicians, or other parties outside the U.S. if the physician or party is a government official of another country and the arrangement violates the law of that country.

Environmental Health and Safety Laws

We are also subject to various environmental health and safety laws and regulations both within and outside the U.S. Like other medical device companies, our manufacturing and other operations involve the use and transportation of substances regulated under environmental health and safety laws including those related to the transportation of hazardous materials. To the best of our knowledge at this time, we do not expect that compliance with environmental protection laws will have a material impact on our consolidated results of operations, financial position, or cash flows.

Litigation Risks

Patent Litigation. We operate in an industry characterized by extensive patent litigation. Patent litigation can result in significant damage awards and injunctions that could prevent the manufacture and sale of affected products or result in significant royalty payments in order to continue selling the products. At any given time, we are involved as both a plaintiff and a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. While it is not possible to predict the outcome of patent litigation incidents to our business, we believe the costs associated with this type of litigation could have a material adverse impact on our consolidated results of operations, financial position, or cash flows. For additional information, see “Item 1A. Risk Factors” and Note 18 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Product Liability and Other Claims. We operate in an industry susceptible to significant product liability claims. These claims may be brought by individuals seeking relief on their own behalf or purporting to represent a class. We are also susceptible to other litigation, including private securities litigation, shareholder derivative suits and contract litigation. These claims may be asserted against us in the future based on events we are not aware of at the present time. For additional information, see “Item 1A. Risk Factors” and Note 18 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Self-Insurance

We have elected to self-insure most of our insurable risks. We made this decision based on conditions in the insurance marketplace that have led to increasingly higher levels of self-insurance retentions, increasing numbers of coverage limitations, and dramatically higher insurance premium rates. We maintain a directors and officers insurance policy providing limited coverage and we continue to monitor the insurance marketplace to evaluate the value to us of obtaining insurance coverage for other categories of losses in the future. Based on historical loss trends, we believe that our self-insurance program accruals and our existing insurance coverage will be adequate to cover future losses. Historical trends, however, may not be indicative of future losses. The absence of third-party insurance coverage for other categories of losses increases our exposure to unanticipated claims and these losses could have a material adverse impact on our consolidated earnings, financial condition and/or cash flows.

Executive Officers of Medtronic

Set forth below are the names and ages of current Section 16(b) executive officers of Medtronic, Inc., as well as information regarding their positions with Medtronic, their periods of service in these capacities, and their business experiences. There are no family relationships among any of the officers named, nor is there any arrangement or understanding pursuant to which any person was selected as an officer.

Omar Ishrak, age 58, has been Chairman and Chief Executive Officer of Medtronic since June 2011. Prior to joining Medtronic, Mr. Ishrak served as President and Chief Executive Officer of GE Healthcare Systems, a division of GE Healthcare, from 2009 to 2011. Before that, Mr. Ishrak was President and Chief Executive Officer of GE Healthcare Clinical Systems from 2005 to 2008 and President and Chief Executive Officer of GE Healthcare Ultrasound and BMD from 1995 to 2004.

Michael J. Coyle, age 51, has been Executive Vice President and Group President, Cardiac and Vascular Group since December 2009. Prior to that, he served as President of the Cardiac Rhythm Management division at St. Jude from 2001 to 2007, and prior positions included serving St. Jude as President of the company’s Daig Catheter division and numerous leadership positions at Eli Lilly & Company.

Gary L. Ellis, age 57, has been Executive Vice President and Chief Financial Officer since April 2014. Prior to that, he was Senior Vice President and Chief Financial Officer from May 2005 to April 2014; Vice President, Corporate Controller and Treasurer from October 1999 to May 2005 and Vice President and Corporate Controller from August 1994 to October 1999. Mr. Ellis joined Medtronic in 1989 as Assistant Corporate Controller and was promoted to Vice President of Finance for Medtronic Europe in 1992, until being named as Corporate Controller in 1994. Mr. Ellis is a member of the board of directors of The Toro Company and past chairman of the American Heart Association.

Richard Kuntz, M.D., age 57, has been Senior Vice President and Chief Scientific, Clinical and Regulatory Officer since August 2009. Prior to that, he was Senior Vice President and President, Neuromodulation from October 2005 to August 2009; and prior to that, he was an interventional cardiologist and Chief of the Division of Clinical Biometrics at Brigham and Women's Hospital and Associate Professor of Medicine and Chief Scientific Officer of the Harvard Clinical Research Institute. Mr. Kuntz is a member of the board of directors of Tengion, Inc.

Hooman C. Hakami, age 44, joined Medtronic in June 2014 as Executive Vice President and President, Diabetes. Prior to joining Medtronic, he was President and Chief Executive Officer of Detection and Guidance Solutions at GE Healthcare from April 2012 to May 2014. Prior to that, he served as President and Chief Executive Officer of Interventional Systems from July 2009 to April 2012; Global Business Transformation leader for GE Healthcare from December 2008 to July 2009; Vice President and General Manager, Global Ultrasound Services from June 2004 to December 2008. Mr. Hakami started his career with GE and has held the following financial roles: Chief Financial Officer for the Global Ultrasound division from 2001 to 2004; Chief Financial Officer for Clinical and Multi-vendor Services from 1999 to 2001; as well as various finance roles at GE Capital from 1994 to 1999; GE's Aerospace Division from 1992 to 1994 and GE Power Systems from 1991 to 1992.

Bradley E. Lerman, age 57, joined Medtronic, Inc. in May 2014 as Senior Vice President, General Counsel and Corporate Secretary. Prior to joining Medtronic, he was Executive Vice President, General Counsel, and Corporate Secretary at Federal National Mortgage Association (Fannie Mae) from October 2012 to May 2014; Senior Vice President and Chief Litigation Counsel at Pfizer, Inc. from January 2009 to September 2012; Partner at Winston & Strawn from August 1998 to January 2009; partner at Kirkland & Ellis from March 1996 to July 1998; Associate Independent Counsel from October 1994 to March 1996; and Assistant U.S. Attorney in the Northern District of Illinois from February 1986 to September 1994.

Geoffrey S. Martha, age 44, has been Senior Vice President of Strategy and Business Development since August 2011. Prior to joining Medtronic, he served as Managing Director of Business Development at GE Healthcare from April 2007 to July 2011; General Manager for GE Capital Technology Finance Services from November 2003 to March 2007; Senior Vice President, Business Development for GE Capital Vendor Financial Services from February 2002 to October 2003; General Manager for GE Capital Colonial Pacific Leasing from February 2001 to January 2002; and Vice President, Business Development for Potomac Federal, the GE Capital federal financing investment bank from May 1998 to January 2001.

Christopher J. O'Connell, age 47, has been Executive Vice President and Group President, Restorative Therapies Group since August 2009. Prior to that, he was Senior Vice President and President, Diabetes from October 2006 to August 2009; President of Medtronic's Emergency Response Systems division from May 2005 to October 2006; and Vice President of Sales and Marketing of Medtronic's Cardiac Rhythm Disease Management division from November 2001 to May 2005. Mr. O'Connell has served in various management positions since joining the Company in 1994.

Carol A. Surface, age 48, has been Senior Vice President and Chief Human Resources Officer at Medtronic since September 2013. Prior to that, she was the Executive Vice President and Chief Human Resources Officer at Best Buy Co., Inc. from March 2010 to September 2013, and held a series of HR leadership roles at PepsiCo Inc., from May 2000 to March 2010.

Robert ten Hoedt, age 53, has been Executive Vice President and President, EMEAC since May 2014. Prior to that, he was Senior Vice President and President, EMEA and Canada from 2009 to 2014; Vice President CardioVascular Europe and Central Asia from 2006 to 2009; Vice President and General Manager, Vitatron from 1999 to 2006; Gastro-Uro leader from 1994 to 1999; and Marketing Manager, Neurological from 1991 to 1994.

Item 1A. Risk Factors

Investing in Medtronic involves a variety of risks and uncertainties, known and unknown, including, among others, those discussed below.

The medical device industry is highly competitive and we may be unable to compete effectively.

We compete in both the therapeutic and diagnostic medical markets in more than 140 countries throughout the world. These markets are characterized by rapid change resulting from technological advances and scientific discoveries. In the product lines in which we compete, we face a mixture of competitors ranging from large manufacturers with multiple business lines to small manufacturers that offer a limited selection of niche products. Development by other companies of new or improved products, processes, or technologies may make our products or proposed products less competitive. In addition, we face competition from providers of alternative medical therapies such as pharmaceutical companies. Competitive factors include:

- product reliability,
- product performance,
- product technology,
- product quality,
- breadth of product lines,
- product services,
- customer support,
- price, and
- reimbursement approval from health care insurance providers.

Major shifts in industry market share have occurred in connection with product problems, physician advisories, safety alerts, and publications about our products; reflecting the importance of product quality, product efficacy, and quality systems in the medical device industry. In the current environment of managed care, consolidation among health care providers, increased competition, and declining reimbursement rates, we have been increasingly required to compete on the basis of price. In order to continue to compete effectively, we must continue to create, invest in, or acquire advanced technology, incorporate this technology into our proprietary products, obtain regulatory approvals in a timely manner, and manufacture and successfully market our products. Given these factors, we cannot guarantee that we will be able to continue our level of success in the industry.

Reduction or interruption in supply and an inability to develop alternative sources for supply may adversely affect our manufacturing operations and related product sales.

We manufacture most of our products at 41 manufacturing facilities located throughout the world. We purchase many of the components and raw materials used in manufacturing these products from numerous suppliers in various countries. Generally we have been able to obtain adequate supplies of such raw materials and components. However, for reasons of quality assurance, cost effectiveness, or availability, we procure certain components and raw materials from a sole supplier. We work closely with our suppliers to try to ensure continuity of supply while maintaining high quality and reliability. However, we cannot guarantee that these efforts will be successful. In addition, due to the stringent regulations and requirements of the U.S. FDA regarding the manufacture of our products, we may not be able to quickly establish additional or replacement sources for certain components or materials. A reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our ability to manufacture our products in a timely or cost-effective manner and to make our related product sales. Moreover, pursuant to the conflict minerals requirements promulgated by the SEC as a part of Dodd-Frank, we are required to report on the source of any conflict minerals used in our products, as well as the process we use to determine the source of such materials. We will incur expenses as we work with our suppliers to evaluate the source of any conflict minerals in our products, and compliance with these requirements could adversely affect the sourcing, supply, and pricing of our raw materials.

Our industry is experiencing greater scrutiny and regulation by governmental authorities, which may lead to greater regulation in the future.

Our medical devices and our business activities are subject to rigorous regulation, including by the U.S. FDA, DOJ, and numerous other federal, state, and foreign governmental authorities. These authorities and members of Congress have been increasing their scrutiny of our industry. For example, we have received inquiries from members of Congress and other government agencies regarding a variety of matters. In addition, certain state governments and the federal government have enacted legislation aimed at increasing transparency of our interactions with health care providers. As a result, we are required by law to disclose payments and other transfers of value to health care providers licensed by certain states and, starting with payments or other transfers of value made on or after August 1, 2013, to all U.S. physicians and U.S. teaching hospitals at the federal level. Any failure to comply with these legal and regulatory requirements could impact our business. In addition, we may continue to devote substantial additional time and financial resources to further develop and implement policies, systems, and processes to comply with enhanced legal and regulatory requirements, which may also impact our business. We anticipate that governmental authorities will continue to scrutinize our industry closely, and that additional regulation may increase compliance and legal costs, exposure to litigation, and other adverse effects to our operations.

We are subject to many laws and governmental regulations and any adverse regulatory action may materially adversely affect our financial condition and business operations.

Our medical devices are subject to regulation by numerous government agencies, including the U.S. FDA and comparable agencies outside the U.S. To varying degrees, each of these agencies requires us to comply with laws and regulations governing the development, testing, manufacturing, labeling, marketing, and distribution of our medical devices. We cannot guarantee that we will be able to obtain marketing clearance for our new products or enhancements or modifications to existing products. If such approval is obtained, it may:

- take a significant amount of time,
- require the expenditure of substantial resources,
- involve stringent clinical and pre-clinical testing, as well as increased post-market surveillance,
- involve modifications, repairs, or replacements of our products, and
- result in limitations on the proposed uses of our products.

Both before and after a product is commercially released, we have ongoing responsibilities under U.S. FDA regulations. We are also subject to periodic inspections by the U.S. FDA to determine compliance with the U.S. FDA's requirements, including primarily the quality system regulations and medical device reporting regulations. The results of these inspections can include inspectional observations on U.S. FDA's Form-483, warning letters, or other forms of enforcement. Since 2009, the U.S. FDA has significantly increased its oversight of companies subject to its regulations, including medical device companies, by hiring new investigators and stepping up inspections of manufacturing facilities. The U.S. FDA has recently also significantly increased the number of warning letters issued to companies. If the U.S. FDA were to conclude that we are not in compliance with applicable laws or regulations, or that any of our medical devices are ineffective or pose an unreasonable health risk, the U.S. FDA could ban such medical devices, detain or seize adulterated or misbranded medical devices, order a recall, repair, replacement, or refund of such devices, refuse to grant pending pre-market approval applications or require certificates of foreign governments for exports, and/or require us to notify health professionals and others that the devices present unreasonable risks of substantial harm to the public health. The U.S. FDA may also impose operating restrictions on a company-wide basis, enjoin and/or restrain certain conduct resulting in violations of applicable law pertaining to medical devices, and assess civil or criminal penalties against our officers, employees, or us. The U.S. FDA may also recommend prosecution to the DOJ. Any adverse regulatory action, depending on its magnitude, may restrict us from effectively marketing and selling our products.

In addition, device manufacturers are permitted to promote products solely for the uses and indications set forth in the approved product labeling. A number of enforcement actions have been taken against manufacturers that promote products for "off-label" uses, including actions alleging that federal health care program reimbursement of products promoted for "off-label" uses are false and fraudulent claims to the government. The failure to comply with "off-label" promotion restrictions can result in significant administrative obligations and costs, and potential penalties from, and/or agreements with, the federal government.

Pursuant to Dodd-Frank, the SEC promulgated final rules regarding disclosure of the use of certain minerals, known as “conflict minerals”: tantalum, tin, tungsten (or their ores), and gold; which are mined from the Democratic Republic of the Congo and adjoining countries. Under the rules, we are now required to disclose the procedures we employ to determine the sourcing of such minerals and metals produced from those minerals. There are costs associated with complying with these disclosure requirements, including for diligence in regards to the sources of any conflict minerals used in our products, in addition to the cost of remediation and other changes to products, processes, or sources of supply as a consequence of such verification activities. In addition, the implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. As of the date of our conflict minerals report for the 2013 calendar year, we were unable to obtain the necessary information on conflict minerals from all of our suppliers and were unable to determine that all of our products are conflict free. We may continue to face difficulties in gathering this information in the future. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we implement.

Foreign governmental regulations have become increasingly stringent and more common, and we may become subject to more rigorous regulation by foreign governmental authorities in the future. Penalties for a company’s non-compliance with foreign governmental regulation could be severe, including revocation or suspension of a company’s business license and criminal sanctions. Any domestic or foreign governmental law or regulation imposed in the future may have a material adverse effect on us. Our worldwide operations are also required to comply with the FCPA and similar anti-bribery laws in other jurisdictions and with U.S. and foreign export control, trade embargo and customs laws. If we fail to comply with them, we could suffer civil and/or criminal sanctions.

We are also subject to various environmental laws and regulations both within and outside the U.S. Our operations involve the use of substances regulated under environmental laws, primarily those used in manufacturing and sterilization processes. We cannot guarantee that compliance with environmental protection laws and regulations will not have a material impact on our consolidated earnings, financial condition, and/or cash flows.

Our failure to comply with rules relating to reimbursement and regulation of health care goods and services may subject us to penalties and adversely impact our reputation and business operations.

Our devices and therapies are subject to regulation regarding quality and cost by HHS, including the Centers for Medicare & Medicaid Services (CMS) as well as comparable state and non-U.S. agencies responsible for reimbursement and regulation of health care goods and services. U.S. federal government health care laws apply when we submit a claim on behalf of a U.S. federal health care program beneficiary, or when a customer submits a claim for an item or service that is reimbursed under a U.S. federal government-funded health care program, such as Medicare or Medicaid. The principal U.S. federal laws implicated include those that prohibit the filing of false or improper claims for federal payment, known as the false claims laws; those that prohibit unlawful inducements for the referral of business reimbursable under federally-funded health care programs, known as the anti-kickback laws; and that which prohibits health care service providers seeking reimbursement for providing certain services to a patient who was referred by a physician who has certain types of direct or indirect financial relationships with the service provider, known as the Stark law.

The laws applicable to us are subject to evolving interpretations. If a governmental authority were to conclude that we are not in compliance with applicable laws and regulations, we and our officers and employees could be subject to severe criminal and civil penalties, including, for example, exclusion from participation as a supplier of product to beneficiaries covered by CMS. If we are excluded from participation based on such an interpretation it could adversely affect our reputation and business operations.

Quality problems with our processes, goods, and services could harm our reputation for producing high-quality products and erode our competitive advantage, sales, and market share.

Quality is extremely important to us and our customers due to the serious and costly consequences of product failure. Our quality certifications are critical to the marketing success of our goods and services. If we fail to meet these standards, our reputation could be damaged, we could lose customers, and our revenue and results of operations could decline. Aside from specific customer standards, our success depends generally on our ability to manufacture to exact tolerances precision-engineered components, subassemblies, and finished devices from multiple materials. If our components fail to meet these standards or fail to adapt to evolving standards, our reputation as a manufacturer of high-quality components will be harmed, our competitive advantage could be damaged, and we could lose customers and market share.

We are substantially dependent on patent and other proprietary rights and failing to protect such rights or to be successful in litigation related to our rights or the rights of others may result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and other proprietary rights against others.

We operate in an industry characterized by extensive patent litigation. Patent litigation against us can result in significant damage awards and injunctions that could prevent our manufacture and sale of affected products or require us to pay significant royalties in order to continue to manufacture or sell affected products. At any given time, we are generally involved as both a plaintiff and a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. While it is not possible to predict the outcome of patent litigation, we believe the results associated with any such litigation could result in our payment of significant monetary damages and/or royalty payments, negatively impact our ability to sell current or future products, or prohibit us from enforcing our patent and proprietary rights against others, which would generally have a material adverse impact on our consolidated earnings, financial condition, and/or cash flows.

We rely on a combination of patents, trade secrets, and non-disclosure and non-competition agreements to protect our proprietary intellectual property, and we will continue to do so. While we intend to defend against any threats to our intellectual property, these patents, trade secrets, or other agreements may not adequately protect our intellectual property. Further, pending patent applications owned by us may not result in patents being issued to us, patents issued to or licensed by us in the past or in the future may be challenged or circumvented by competitors and such patents may be found invalid, unenforceable or insufficiently broad to protect our technology or to provide us with any competitive advantage. Third parties could obtain patents that may require us to negotiate licenses to conduct our business, and the required licenses may not be available on reasonable terms or at all. We also rely on non-disclosure and non-competition agreements with certain employees, consultants, and other parties to protect, in part, trade secrets and other proprietary rights. We cannot be certain that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information, or that third parties will not otherwise gain access to our trade secrets or proprietary knowledge.

In addition, the laws of certain countries in which we market some of our products do not protect our intellectual property rights to the same extent as the laws of the U.S. If we are unable to protect our intellectual property in these countries, it could have a material adverse effect on our business, financial condition or results of operations.

Product liability claims could adversely impact our financial condition and our earnings and impair our reputation.

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, and marketing of medical devices. In addition, many of the medical devices we manufacture and sell are designed to be implanted in the human body for long periods of time or indefinitely. Component failures, manufacturing defects, design flaws, or inadequate disclosure of product-related risks or product-related information with respect to our products could result in an unsafe condition or injury to, or death of, a patient. The occurrence of such a problem could result in product liability claims or a recall of, or safety alert relating to, one or more of our products which could ultimately result, in certain cases, in the removal from the body of such products and claims regarding costs associated therewith. We have elected to self-insure with respect to product liability risks. Product liability claims or product recalls in the future, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers for our products.

Health care policy changes, including U.S. health care reform legislation signed in 2010, may have a material adverse effect on us.

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators, and third-party payers to control these costs and, more generally, to reform the U.S. health care system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products and could limit the acceptance and availability of our products. The adoption of some or all of these proposals could have a material adverse effect on our financial position and results of operations.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010. Certain provisions of the law will not be effective for a number of years and there are many programs and requirements for which the details have not yet been fully established or consequences not fully understood, and it is unclear what the full impacts will be from the law. The legislation imposes significant new taxes on

medical device makers in the form of a 2.3 percent excise tax on all U.S. medical device sales that commenced in January 2013. Under the legislation, the total cost to the medical device industry is expected to be approximately \$20 billion over 10 years. We expect the new tax will materially and adversely affect our business, cash flows and results of operations. The law also focuses on a number of Medicare provisions aimed at improving quality and decreasing costs. It is uncertain at this point what negative unintended consequences these provisions will have on patient access to new technologies. The Medicare provisions include value-based payment programs, increased funding of comparative effectiveness research, reduced hospital payments for avoidable readmissions and hospital acquired conditions, and pilot programs to evaluate alternative payment methodologies that promote care coordination (such as bundled physician and hospital payments). Additionally, the law includes a reduction in the annual rate of inflation for Medicare payments to hospitals that began in 2011 and the establishment of an independent payment advisory board to recommend ways of reducing the rate of growth in Medicare spending. We cannot predict what health care programs and regulations will be ultimately implemented at the federal or state level, or the effect of any future legislation or regulation. However, any changes that lower reimbursement for our products or reduce medical procedure volumes could adversely affect our business and results of operations.

Our self-insurance program may not be adequate to cover future losses.

We have elected to self-insure most of our insurable risks. We made this decision based on conditions in the insurance marketplace that have led to increasingly higher levels of self-insurance retentions, increasing numbers of coverage limitations, and dramatically higher insurance premium rates. We maintain a directors and officers policy providing limited coverage and continue to monitor the insurance marketplace to evaluate the value to us of obtaining insurance coverage for other categories of losses in the future. While based on historical loss trends we believe that our self-insurance program accruals and our existing insurance coverage will be adequate to cover future losses, we cannot guarantee that this will remain true. Historical trends may not be indicative of future losses. The fact that we do not maintain third-party insurance coverage for all categories of losses increases our exposure to unanticipated claims and these losses could have a material adverse impact on our consolidated earnings, financial condition, and/or cash flows.

If we experience decreasing prices for our goods and services and we are unable to reduce our expenses, our results of operations will suffer.

We may experience decreasing prices for our goods and services due to pricing pressure experienced by our customers from managed care organizations and other third-party payers, increased market power of our customers as the medical device industry consolidates, and increased competition among medical engineering and manufacturing services providers. If the prices for our goods and services decrease and we are unable to reduce our expenses, our results of operations will be adversely affected.

Continuing worldwide economic instability, including challenges faced by the Eurozone countries, could adversely affect our revenues, financial condition or results of operations.

Since fiscal year 2008, the global economy has been impacted by the sequential effects of an ongoing global financial crisis. This global financial crisis, including the European sovereign debt crisis, has caused extreme disruption in the financial markets, including severely diminished liquidity and credit availability. There can be no assurance that there will not be further deterioration in the global economy. Our customers and vendors may experience financial difficulties or be unable to borrow money to fund their operations which may adversely impact their ability to purchase our products or to pay for our products on a timely basis, if at all. As with our customers and vendors, these economic conditions make it more difficult for us to accurately forecast and plan our future business activities. In addition, a significant amount of our trade receivables are with national health care systems in many countries (including, but not limited to, Greece, Ireland, Portugal, and Spain). Repayment of these receivables is dependent upon the financial stability of the economies of those countries.

In light of these global economic fluctuations, we continue to monitor the creditworthiness of customers located outside the U.S. Failure to receive payment of all or a significant portion of these receivables could adversely affect our results of operations. Further, there are concerns for the overall stability and suitability of the Euro as a single currency, given the economic and political challenges facing individual Eurozone countries. Continuing deterioration in the creditworthiness of the Eurozone countries, the withdrawal of one or more member countries from the EU, or the failure of the Euro as a common European currency could adversely affect our revenues, financial condition or results of operations.

We are subject to a variety of market and financial risks due to our international operations that could adversely affect those operations or our profitability and operating results.

Our operations in countries outside the U.S., which accounted for 46 percent of our net sales for the fiscal year ended April 25, 2014, are accompanied by certain financial and other risks. We intend to continue to pursue growth opportunities in sales outside the U.S., especially in emerging markets, which could expose us to greater risks associated with international sales and operations. Our profitability and international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- local product preferences and product requirements,
- longer-term receivables than are typical in the U.S.,
- fluctuations in foreign currency exchange rates,
- less intellectual property protection in some countries outside the U.S. than exists in the U.S.,
- trade protection measures and import and export licensing requirements,
- workforce instability,
- political and economic instability, and
- the potential payment of U.S. income taxes on certain earnings of our subsidiaries outside the U.S. upon repatriation.

In particular, the Obama Administration has announced potential legislative proposals to tax profits of U.S. companies earned abroad. While it is impossible for us to predict whether these and other proposals will be implemented, or how they will ultimately impact us, they may materially impact our results of operations if, for example, our profits earned abroad are subject to U.S. income tax, or we are otherwise disallowed deductions as a result of these profits.

Finally, changes in foreign currency exchange rates may reduce the reported value of our foreign currency revenues, net of expenses, and cash flows. We cannot predict changes in currency exchange rates, the impact of exchange rate changes, nor the degree to which we will be able to manage the impact of currency exchange rate changes.

Our international operations expose us to legal and regulatory risks, which could have a material effect on our business.

In addition to market and financial risks, our profitability and international operations are, and will continue to be, subject to risks relating to changes in foreign medical reimbursement programs and policies and changes in foreign legal and regulatory requirements. In addition, our international operations are governed by various U.S. laws and regulations, including FCPA and other similar laws that prohibit us and our business partners from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. Global enforcement of anti-corruption laws has increased substantially in recent years, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by U.S. and foreign governmental agencies, and assessment of significant fines and penalties against companies and individuals. Our international operations create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or distributors, because these parties are not always subject to our control. It is our policy to implement safeguards to discourage these practices. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, sales agents, or distributors may engage in conduct for which we might be held responsible. Any alleged or actual violations of these regulations may subject us to government scrutiny, severe criminal or civil sanctions and other liabilities, including exclusion from government contracting, and could negatively affect our business, reputation, operating results, and financial condition. In addition, the government may seek to hold us liable for successor liability FCPA violations committed by any companies in which we invest or that we acquire.

Consolidation in the health care industry could have an adverse effect on our revenues and results of operations.

Many health care industry companies, including health care systems, are consolidating to create new companies with greater market power. As the health care industry consolidates, competition to provide goods and services to industry participants will become more intense. These industry participants may try to use their market power to negotiate price concessions or reductions for medical devices that incorporate components produced by us. If we are forced to reduce our prices because of consolidation

in the health care industry, our revenues would decrease and our consolidated earnings, financial condition, and/or cash flows would suffer.

Our business is indirectly subject to health care industry cost-containment measures that could result in reduced sales of medical devices containing our components.

Most of our customers, and the health care providers to whom our customers supply medical devices, rely on third-party payers, including government programs and private health insurance plans, to reimburse some or all of the cost of the procedures in which medical devices that incorporate components we manufacture or assemble are used. The continuing efforts of governmental authorities, insurance companies, and other payers of health care costs to contain or reduce these costs could lead to patients being unable to obtain approval for payment from these third-party payers. If third-party payer payment approval cannot be obtained by patients, sales of finished medical devices that include our components may decline significantly and our customers may reduce or eliminate purchases of our components. The cost-containment measures that health care providers are instituting, both in the U.S. and internationally, could harm our ability to operate profitably. For example, managed care organizations have successfully negotiated volume discounts for pharmaceuticals. While this type of discount pricing does not currently exist for medical devices, if managed care or other organizations were able to affect discount pricing for devices, it could result in lower prices to our customers from their customers and, in turn, reduce the amounts we can charge our customers for our medical devices.

Our research and development efforts rely upon investments and investment collaborations, and we cannot guarantee that any previous or future investments or investment collaborations will be successful.

Our strategy to provide a broad range of therapies to restore patients to fuller, healthier lives requires a wide variety of technologies, products, and capabilities. The rapid pace of technological development in the medical industry and the specialized expertise required in different areas of medicine make it difficult for one company alone to develop a broad portfolio of technological solutions. In addition to internally generated growth through our research and development efforts, historically we have relied, and expect to continue to rely, upon investments and investment collaborations to provide us access to new technologies both in areas served by our existing businesses as well as in new areas.

We expect to make future investments where we believe that we can stimulate the development of, or acquire, new technologies and products to further our strategic objectives and strengthen our existing businesses. Investments and investment collaborations in and with medical technology companies are inherently risky, and we cannot guarantee that any of our previous or future investments or investment collaborations will be successful or will not materially adversely affect our consolidated earnings, financial condition, and/or cash flows.

The continuing development of many of our products depends upon us maintaining strong relationships with health care professionals.

If we fail to maintain our working relationships with health care professionals, many of our products may not be developed and marketed in line with the needs and expectations of the professionals who use and support our products, which could cause a decline in our earnings and profitability. The research, development, marketing, and sales of many of our new and improved products is dependent upon our maintaining working relationships with health care professionals. We rely on these professionals to provide us with considerable knowledge and experience regarding the development, marketing, and sale of our products. Physicians assist us as researchers, marketing and product consultants, inventors, and public speakers. If we are unable to maintain our strong relationships with these professionals and continue to receive their advice and input, the development and marketing of our products could suffer, which could have a material adverse effect on our consolidated earnings, financial condition, and/or cash flows.

Negative conditions in the global credit market may impair our commercial paper program, our auction rate securities, and our other fixed income securities, which may cause us losses and liquidity issues.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include U.S. and foreign government and agency securities, corporate debt securities, certificates of deposit, debt funds, and mortgage-backed and other asset-backed securities, including auction rate securities. Market conditions over the past several years have included periods of significant economic uncertainty and at times general market distress, especially in the banking and financial services sector. During these periods of economic uncertainty, we may experience reduced liquidity across the fixed-income investment market, including the securities in which we invest. In the event we need to sell these securities, we

may not be able to do so in a timely manner or for a value that is equal to the underlying principal. In addition, we may be required to adjust the carrying value of the securities and record an impairment charge. If we determine that the fair value of such securities is temporarily impaired, we would record a temporary impairment as a component of accumulated other comprehensive loss within shareholders' equity. If it is determined that the fair value of these securities is other-than-temporarily impaired, we would record a loss in our consolidated statements of earnings, which could materially adversely impact our results of operations and financial condition.

Negative market conditions may also impair our ability to access the capital markets through the issuance of commercial paper or debt securities, or may impact our ability to sell such securities at a reasonable price and may negatively impact our ability to borrow from financial institutions.

Our products are continually the subject of clinical trials conducted by us, our competitors, or other third parties, the results of which may be unfavorable, or perceived as unfavorable, and could have a material adverse effect on our business, financial condition, and results of operations.

As a part of the regulatory process of obtaining marketing clearance for new products and new indications for existing products, we conduct and participate in numerous clinical trials with a variety of study designs, patient populations, and trial endpoints. Unfavorable or inconsistent clinical data from existing or future clinical trials conducted by us, by our competitors, or by third parties, or the market's or U.S. FDA's perception of this clinical data, may adversely impact our ability to obtain product approvals, our position in, and share of, the markets in which we participate, and our business, financial condition, and results of operations.

Failure to integrate acquired businesses into our operations successfully could adversely affect our business.

As part of our strategy to develop and identify new products and technologies, we have made several acquisitions in recent years and may make additional acquisitions in the future. Our integration of the operations of acquired businesses requires significant efforts, including the coordination of information technologies, research and development, sales and marketing, operations, manufacturing, and finance. These efforts result in additional expenses and involve significant amounts of management's time that cannot then be dedicated to other projects. Our failure to manage and coordinate the growth of the combined company successfully could also have an adverse impact on our business. In addition, we cannot be certain that the businesses we acquire will become profitable or remain so. If our acquisitions are not successful, we may record unexpected impairment charges. Factors that will affect the success of our acquisitions include:

- the presence or absence of adequate internal controls and/or significant fraud in the financial systems of acquired companies,
- adverse developments arising out of investigations by governmental entities of the business practices of acquired companies, including potential liability imposed by FCPA,
- any decrease in customer loyalty and product orders caused by dissatisfaction with the combined companies' product lines and sales and marketing practices, including price increases,
- our ability to retain key employees, and
- the ability of the combined company to achieve synergies among its constituent companies, such as increasing sales of the combined company's products, achieving cost savings, and effectively combining technologies to develop new products.

For additional information regarding risks relating to the Pending Acquisition of Covidien plc, see risk factors below under the heading "Risks relating to our pending acquisition of Covidien plc".

The medical device industry is the subject of numerous governmental investigations into marketing and other business practices. These investigations could result in the commencement of civil and/or criminal proceedings, substantial fines, penalties, and/or administrative remedies, divert the attention of our management, and have an adverse effect on our financial condition and results of operations.

We are subject to rigorous regulation by the U.S. FDA and numerous other federal, state, and foreign governmental authorities. These authorities have been increasing their scrutiny of our industry. We have received subpoenas and other requests for information from state and federal governmental agencies, including, among others, the U.S. DOJ and the Office of Inspector

General of HHS. These investigations have related primarily to financial arrangements with health care providers, regulatory compliance, and product promotional practices. Similar requests were made of our major competitors.

We are fully cooperating with these investigations and are responding to these requests. However, we cannot predict when these investigations will be resolved, the outcome of these investigations, or their impact on us. An adverse outcome in one or more of these investigations could include the commencement of civil and/or criminal proceedings, substantial fines, penalties, and/or administrative remedies, including exclusion from government reimbursement programs, entry into Corporate Integrity Agreements (CIAs) with governmental agencies and amendments to existing CIAs. In addition, resolution of any of these matters could involve the imposition of additional and costly compliance obligations. Finally, if these investigations continue over a long period of time, they could divert the attention of management from the day-to-day operations of our business and impose significant administrative burdens, including cost, on us. These potential consequences, as well as any adverse outcome from these investigations or other investigations initiated by the government at any time, could have a material adverse effect on our financial condition and results of operations.

Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition and results of operations.

We are subject to income taxes as well as non-income based taxes, in both the U.S. and various jurisdictions outside the U.S. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our consolidated earnings and financial condition. Additionally, changes in tax laws or tax rulings could materially impact our effective tax rate. For example, recent legislation imposed on medical device manufacturers a 2.3 percent excise tax on U.S. sales of medical devices beginning in January 2013. Proposals for fundamental U.S. corporate tax reform, if enacted, could have a material impact on our future results of operations.

We are increasingly dependent on sophisticated information technology and if we fail to properly maintain the integrity of our data or if our products do not operate as intended, our business could be materially affected.

We are increasingly dependent on sophisticated information technology for its products and infrastructure. As a result of technology initiatives, recently enacted regulations, changes in our system platforms and integration of new business acquisitions, we have been consolidating and integrating the number of systems we operate and have upgraded and expanded our information systems capabilities. Our information systems require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards, the increasing need to protect patient and customer information, and changing customer patterns. In addition, third parties may attempt to hack into our products or systems and may obtain data relating to patients with our products or the Company's proprietary information. If we fail to maintain or protect our information systems and data integrity effectively, we could lose existing customers, have difficulty attracting new customers, have problems in determining product cost estimates and establishing appropriate pricing, have difficulty preventing, detecting, and controlling fraud, have disputes with customers, physicians, and other health care professionals, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences. There can be no assurance that our process of consolidating the number of systems we operate, upgrading and expanding our information systems capabilities, protecting and enhancing our systems and developing new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future. Any significant breakdown, intrusion, interruption, corruption, or destruction of these systems, as well as any data breaches, could have a material adverse effect on our business.

Risks relating to our pending acquisition of Covidien plc

Medtronic and Covidien must obtain required approvals and governmental and regulatory consents to consummate the Pending Acquisition, which, if delayed, not granted or granted with unacceptable conditions, may jeopardize or delay the consummation of the Pending Acquisition, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the transaction.

The Pending Acquisition is subject to customary closing conditions. These closing conditions include, among others, the receipt of required approvals of Medtronic and Covidien shareholders, the effectiveness of the registration statement, the approval of the Arrangement by the Irish High Court and the expiration or termination of the waiting period under the HSR Act, and the

relevant approvals under the antitrust, competition, and foreign investment laws of certain foreign countries under which filings or approvals are or may be required.

The governmental agencies from which the parties will seek certain of these approvals have broad discretion in administering the governing regulations. As a condition to their approval of the Pending Acquisition, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of New Medtronic's businesses after the closing. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the transaction or may reduce the anticipated benefits of the transaction. Further, no assurance can be given that the required shareholder approvals will be obtained or that the required closing conditions will be satisfied, and, if all required consents and approvals are obtained and the closing conditions are satisfied, no assurance can be given as to the terms, conditions, and timing of the approvals. Pursuant to the transaction agreement, Medtronic would generally be required to commit to make, and make, any divestitures needed to obtain any antitrust or competition-related regulatory approvals so long as the divestitures would not result in a material adverse effect on the combined company, taken as a whole. If Medtronic and Covidien agree to any material requirements, limitations, costs, divestitures or restrictions in order to obtain any approvals required to consummate the Pending Acquisition, these requirements, limitations, costs, divestitures or restrictions could adversely affect New Medtronic's ability to integrate Medtronic's operations with Covidien's operations or reduce the anticipated benefits of the transaction. This could result in a failure to consummate the Pending Acquisition or have a material adverse effect on New Medtronic's business and results of operations.

Future potential changes to the tax laws under which New Medtronic is expected to be treated as a foreign corporation for U.S. federal tax purposes may jeopardize or delay the consummation of the Pending Acquisition, and any such changes or changes in other tax laws relating to multinational corporations, whether enacted before or after consummation, may materially adversely affect New Medtronic.

Under current law, New Medtronic is expected to be treated as a foreign corporation for U.S. federal tax purposes. Changes to Section 7874 of the U.S. Internal Revenue Code of 1986, as amended ("Section 7874"), or the U.S. Treasury regulations promulgated thereunder could affect New Medtronic's status as a foreign corporation for U.S. federal tax purposes. Any such changes could have prospective or retroactive application, and may apply even if enacted after the Pending Acquisition is consummated. If New Medtronic were to be treated as a U.S. corporation for federal tax purposes, it could be subject to substantially greater U.S. tax liability than currently contemplated as a foreign corporation. In addition, recent legislative proposals have aimed to limit the ability of foreign-owned corporations to deduct interest expense, and to make other changes in the taxation of multinational corporations. Any of these changes to such laws or regulations could materially adversely affect New Medtronic.

Each of Medtronic's and Covidien's respective obligations to consummate the Pending Acquisition is subject to a condition that there shall have been no change in applicable law (whether or not such change in law is yet effective) with respect to Section 7874 (or any other U.S. tax law), or certain official interpretations thereof, and there having been no bill that would implement such a change which has been passed in identical (or substantially identical such that a conference committee is not required prior to submission of such legislation for the President's approval or veto) form by both Houses of Congress and for which the time period for the President of the United States to sign or veto such bill has not yet elapsed, in each case, that, once effective, in the opinion of nationally recognized U.S. tax counsel, would cause New Medtronic to be treated as a United States domestic corporation for United States federal income tax purposes.

Failure to consummate the Pending Acquisition could have a materially adverse effect on our financial condition and results and could negatively impact our stock price.

We will incur significant transaction costs relating to the Pending Acquisition, including legal, accounting, financial advisory, regulatory, and other expenses. In general, these expenses are payable by us whether or not the merger is completed. In addition, if the transaction agreement is terminated under specified circumstances, we may be required to pay to Covidien a termination fee equal to \$850 million. The payment of any of these costs could have an adverse effect on our financial condition, results of operations or cash flows. The current market price of our stock may reflect an assumption that the pending merger will occur and failure to complete the merger could result in a decline in our stock price.

If completed, the Pending Acquisition may not achieve the intended benefits or may disrupt our current plans and operations.

There can be no assurance that we will be able to successfully integrate the businesses of Medtronic and Covidien or otherwise realize the expected benefits of the Pending Acquisition. The expected cost savings and synergies of the merger may not be fully realized, which could result in increased costs and have an adverse effect on the combined company's financial results and prospects. Our business may be negatively impacted following the Pending Acquisition if we are unable to effectively manage our expanded operations. The integration will require significant time and focus from management following the merger and may divert attention from the day-to-day operations of the combined business. Additionally, consummation of the Pending Acquisition could disrupt current plans and operations, which could delay the achievement of our strategic objectives.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal offices are owned by us and located in the Minneapolis, Minnesota metropolitan area. Manufacturing or research facilities are located in Arizona, California, Colorado, Connecticut, Florida, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, Tennessee, Texas, Puerto Rico, Canada, Denmark, France, Germany, Ireland, Israel, Italy, Mexico, The Netherlands, The People's Republic of China, Singapore, and Switzerland. Our total manufacturing and research space is approximately 4.5 million square feet. Approximately 40 percent of the manufacturing or research facilities are owned by us and the balance is leased.

We also maintain sales and administrative offices in the U.S. at 39 locations in 25 states or jurisdictions and outside the U.S. at 118 locations in 50 countries. Most of these locations are leased. We are using substantially all of our currently available productive space to develop, manufacture, and market our products. Our facilities are in good operating condition, suitable for their respective uses, and adequate for current needs.

Item 3. Legal Proceedings

A discussion of the Company's policies with respect to legal proceedings is discussed in our contingencies footnote as described in Note 18 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Medtronic’s Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

The Company’s common stock is listed on the New York Stock Exchange under the symbol “MDT.”

In June 2013 and June 2011, the Company’s Board of Directors authorized the repurchase of 80 million and 75 million shares of the Company’s common stock, respectively. As of April 25, 2014, the Company had used the entire amount authorized under the June 2011 repurchase program and 20.6 million of the 80 million shares authorized under the June 2013 repurchase program. As authorized by the Board of Directors our program expires when its total number of authorized shares has been repurchased.

The following table provides information about shares repurchased by the Company during the fourth quarter of fiscal year 2014:

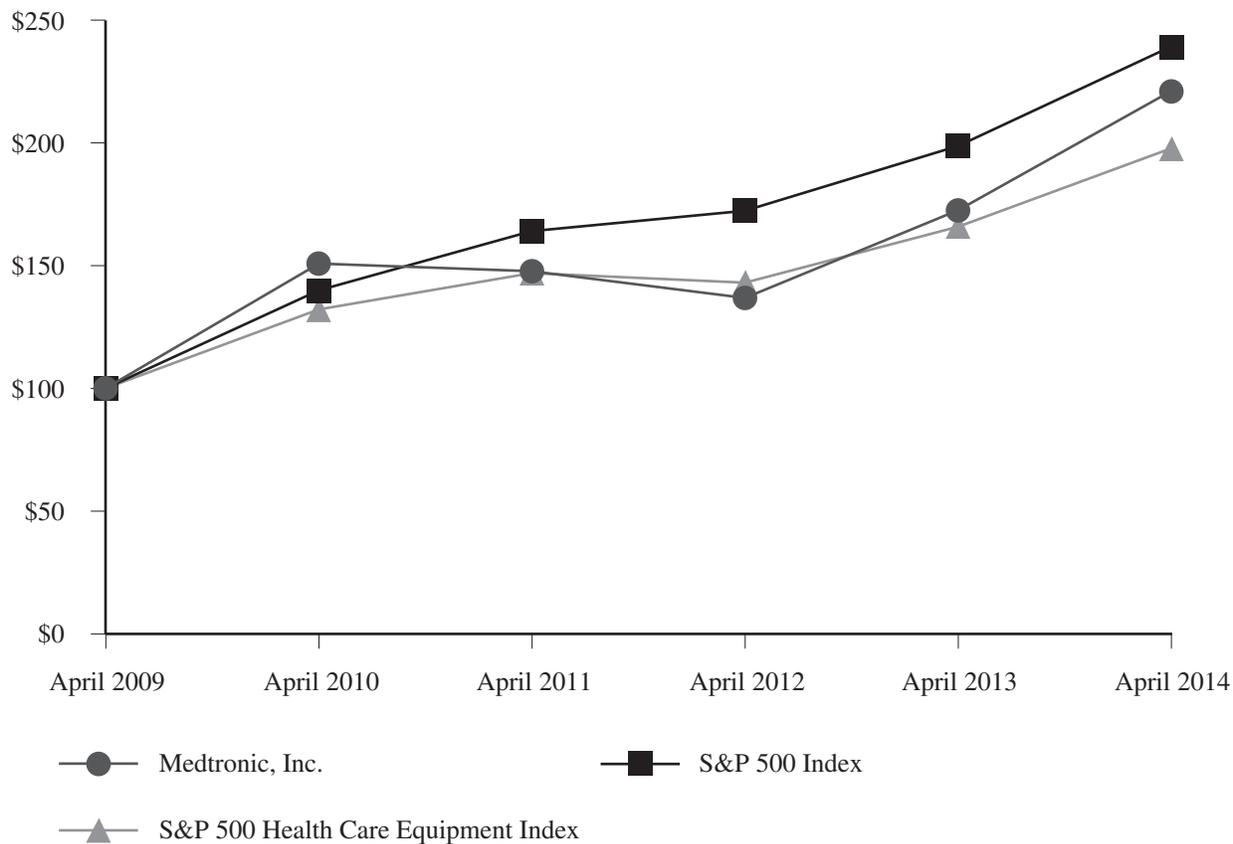
<u>Fiscal Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as a Part of Publicly Announced Program</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Program</u>
1/25/2014-2/21/2014	—	\$ —	—	66,113,875
2/22/2014-3/28/2014	3,358,500	59.55	3,358,500	62,755,375
3/29/2014-4/25/2014	3,337,272	59.94	3,337,272	59,418,103
Total	<u>6,695,772</u>	\$ 59.74	<u>6,695,772</u>	59,418,103

On June 18, 2014, there were approximately 46,350 shareholders of record of the Company’s common stock. Cash dividends declared and paid totaled 28 cents per share for each quarter of fiscal year 2014 and 26 cents per share for each quarter of fiscal year 2013. The following prices are the high and low market sales quotations per share of the Company’s common stock for the quarters indicated:

<u>Fiscal</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
2014 High	\$ 55.63	\$ 57.88	\$ 60.93	\$ 62.90
2014 Low	46.17	51.22	55.56	53.33
2013 High	39.17	44.79	46.49	47.98
2013 Low	35.67	38.53	40.28	43.51

Stock Performance Graph

The following graph compares the cumulative total shareholder return on Medtronic's common stock with the cumulative total shareholder return on the Standard & Poor's (S&P) 500 Index and the S&P 500 Health Care Equipment Index for the last five fiscal years. The graph assumes that \$100 was invested at market close on April 24, 2009 in Medtronic's common stock, the S&P 500 Index, and the S&P 500 Health Care Equipment Index and that all dividends were reinvested.



Company/Index	April 2009	April 2010	April 2011	April 2012	April 2013	April 2014
Medtronic, Inc.	\$ 100.00	\$ 150.81	\$ 147.70	\$ 136.89	\$ 172.52	\$ 220.99
S&P 500 Index	100.00	139.90	163.99	172.46	198.88	239.18
S&P 500 Health Care Equipment Index	100.00	132.12	146.91	143.18	166.01	197.70

For information on our equity compensation plans, see "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" in this Annual Report on Form 10-K.

Item 6. Selected Financial Data

	Fiscal Year				
	2014	2013	2012	2011	2010
<i>(in millions, except per share data and additional information)</i>					
Operating Results for the Fiscal Year:					
Net sales	\$ 17,005	\$ 16,590	\$ 16,184	\$ 15,508	\$ 15,392
Cost of products sold	4,333	4,126	3,889	3,700	3,582
Gross margin percentage	74.5%	75.1%	76.0%	76.1%	76.7%
Research and development expense	\$ 1,477	\$ 1,557	\$ 1,490	\$ 1,472	\$ 1,424
Selling, general, and administrative expense	5,847	5,698	5,623	5,427	5,282
Special charges	40	—	—	—	—
Restructuring charges, net	78	172	87	259	50
Certain litigation charges, net	770	245	90	245	374
Acquisition-related items	117	(49)	12	14	23
Amortization of intangible assets	349	331	335	339	317
Other expense, net	181	108	364	110	150
Interest expense, net	108	151	149	278	246
Earnings from continuing operations before income taxes	3,705	4,251	4,145	3,664	3,944
Provision for income taxes	640	784	730	609	861
Earnings from continuing operations	3,065	3,467	3,415	3,055	3,083
Earnings from discontinued operations, net of tax	—	—	202	41	16
Net earnings	<u>\$ 3,065</u>	<u>\$ 3,467</u>	<u>\$ 3,617</u>	<u>\$ 3,096</u>	<u>\$ 3,099</u>
Per Share of Common Stock:					
Basic - Earnings from continuing operations	\$ 3.06	\$ 3.40	\$ 3.24	\$ 2.84	\$ 2.79
Basic - Net earnings	3.06	3.40	3.43	2.87	2.80
Diluted - Earnings from continuing operations	3.02	3.37	3.22	2.82	2.78
Diluted - Net earnings	3.02	3.37	3.41	2.86	2.79
Cash dividends declared	1.12	1.04	0.97	0.90	0.82
Financial Position at Fiscal Year-end:					
Working capital	\$ 15,651	\$ 13,902	\$ 10,409	\$ 9,437	\$ 8,482
Current ratio	3.8:1.0	4.5:1.0	2.8:1.0	3.0:1.0	2.6:1.0
Total assets	\$ 37,943	\$ 34,900	\$ 32,818	\$ 30,662	\$ 28,305
Long-term debt	10,315	9,741	7,359	8,112	6,944
Shareholders' equity	19,443	18,671	17,113	15,968	14,629
Additional Information:*					
Full-time employees at year-end	43,305	42,466	40,601	40,346	38,339
Full-time equivalent employees at year-end	49,247	46,659	44,944	44,315	42,208

* Employee counts include continuing operations only.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Understanding Our Financial Information

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Medtronic, Inc. and its subsidiaries (Medtronic or the Company, or we, us, or our). You should read this discussion and analysis along with our consolidated financial statements and related notes thereto as of April 25, 2014 and April 26, 2013 and for each of the three fiscal years ended April 25, 2014, April 26, 2013, and April 27, 2012.

Beginning in the third quarter of fiscal year 2012, the results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations. All information in the following management’s discussion and analysis of financial condition and results of operations includes only results from continuing operations (excluding Physio-Control) for all periods presented, unless otherwise noted. For further information regarding discontinued operations, see Note 17 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Organization of Financial Information Management’s discussion and analysis, presented on pages 35 to 61 of this report, provides material historical and prospective disclosures designed to enable investors and other users to assess our financial condition and results of operations.

Statements that are forward-looking and not historical in nature are subject to risks and uncertainties. See “Item 1A. Risk Factors” in this Annual Report on Form 10-K and “Cautionary Factors That May Affect Future Results” in this management’s discussion and analysis for more information.

The consolidated financial statements are presented on pages 63 to 129 of this report, and include the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of shareholders’ equity, consolidated statements of cash flows, and the related notes, which are an integral part of the consolidated financial statements.

Financial Trends Throughout this management’s discussion and analysis, you will read about transactions or events that materially contribute to or reduce earnings and materially affect financial trends. We refer to these transactions and events as special charges (such as contributions to the Medtronic Foundation), restructuring charges, net, certain litigation charges, net, acquisition-related items (such as asset impairments), or certain tax adjustments. These charges, or benefits, result from facts and circumstances that vary in frequency and/or impact to operations. While understanding these charges or benefits is important to understanding and evaluating financial trends, other transactions or events may also have a material impact on financial trends. A complete understanding of the special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments is necessary in order to estimate the likelihood that they may affect financial trends in the future.

Our fiscal year-end is the last Friday in April, and therefore, the total weeks in a fiscal year can fluctuate between 52 and 53 weeks. Fiscal years 2014, 2013, and 2012 were 52-week years. Fiscal year 2016 will be the next 53-week year.

Executive Level Overview

Medtronic is the global leader in medical technology - alleviating pain, restoring health, and extending life for millions of people around the world. We develop, manufacture, and market our medical devices in more than 140 countries. Our primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, and ear, nose, and throat and diabetes conditions.

In the first quarter of fiscal year 2014, we amended the way in which we evaluate performance and allocate resources for the Diabetes business including separating the Diabetes business from the Restorative Therapies Group. As a result, we began to operate under three reportable segments and three operating segments, the Cardiac and Vascular Group (composed of the CRDM, Coronary, Structural Heart, and Endovascular businesses), the Restorative Therapies Group (composed of the Spine, Neuromodulation, and Surgical Technologies businesses), and the Diabetes Group. See Note 20 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional discussion related to our segment reporting.

Net earnings for the fiscal year ended April 25, 2014 were \$3.065 billion, or \$3.02 per diluted share, as compared to net earnings of \$3.467 billion, or \$3.37 per diluted share for the fiscal year ended April 26, 2013, representing a decrease of 12 percent and 10 percent, respectively. Fiscal year 2014 net earnings included after-tax special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments that decreased net earnings by an aggregate of \$803 million (\$1.015 billion pre-tax). Fiscal year 2013 net earnings included after-tax restructuring charges, net, certain litigation charges, net, and acquisition-related items that decreased net earnings by an aggregate of \$331 million (\$378 million pre-tax). See further discussion of these items in the “Special Charges, Restructuring Charges, Net, Certain Litigation Charges, Net, Acquisition-Related Items, and Certain Tax Adjustments” section of this management’s discussion and analysis.

The table below illustrates net sales by operating segments for fiscal years 2014 and 2013:

(dollars in millions)	Net Sales		% Change
	Fiscal Year		
	2014	2013	
Cardiac and Vascular Group	\$ 8,847	\$ 8,695	2%
Restorative Therapies Group	6,501	6,369	2
Diabetes Group	1,657	1,526	9
Total Net Sales	\$ 17,005	\$ 16,590	3%

Net sales in fiscal year 2014 were \$17.005 billion, an increase of 3 percent from the prior fiscal year. Foreign currency translation had an unfavorable impact of \$175 million on net sales compared to the prior fiscal year. Net sales growth for fiscal year 2014 was driven by 2 percent growth in our Cardiac and Vascular Group, 2 percent growth in our Restorative Therapies Group, and 9 percent growth in our Diabetes Group compared to the prior fiscal year. The Cardiac and Vascular Group’s performance was primarily a result of strong net sales in AF and Other, and solid growth in Structural Heart and Endovascular, partially offset by slight declines in Coronary and CRDM defibrillation and pacing systems which is primarily due to pricing pressures. Additionally, the Cardiac and Vascular Group’s performance was favorably affected by new products and the August 2013 acquisition of Cardiocom and January 2014 acquisition of TYRX. The Restorative Therapies Group’s performance was a result of strong net sales in Surgical Technologies and growth in Neuromodulation, partially offset by declines in Spine, primarily driven by BMP (composed of INFUSE bone graft (InductOs in the EU)) and balloon kyphoplasty (BKP). The Diabetes Group’s performance was due to strong net sales in the U.S. driven by the launch of the MiniMed 530G System with Enlite Sensor as well as strong net sales in international markets driven by the continued adoption and use of the Veo insulin pump with low-glucose suspend and Enlite CGM sensor. See our discussion in the “Net Sales” section of this management’s discussion and analysis for more information on the results of our operating segments.

We remain committed to our Mission of developing lifesaving and life-enhancing therapies to alleviate pain, restore health, and extend life.

Pending Acquisition of Covidien plc On June 15, 2014, Medtronic entered into a Transaction Agreement (the Transaction Agreement) by and among Medtronic, Covidien public limited company, an Irish public limited company (Covidien), Kalani I Limited, a private limited company organized under the laws of Ireland (New Medtronic), Makani II Limited, a private limited company organized under the laws of Ireland and a wholly-owned subsidiary of New Medtronic (IrSub), Aviation Acquisition Co., Inc., a Minnesota corporation (U.S. AcquisitionCo), and Aviation Merger Sub, LLC, a Minnesota limited liability company and a wholly-owned subsidiary of U.S. AcquisitionCo (MergerSub). Under the terms of the Transaction Agreement, (i) New Medtronic and IrSub will acquire Covidien (the Acquisition) pursuant to the Irish Scheme of Arrangement under Section 201, and a capital reduction under Sections 72 and 74, of the Irish Companies Act of 1963 (the Arrangement) and (ii) MergerSub will merge with and into Medtronic, with Medtronic as the surviving corporation in the merger (such merger, the Merger, and the Merger together with the Acquisition, the Pending Acquisition). As a result of the Pending Acquisition, both Medtronic and Covidien will become wholly-owned direct or indirect subsidiaries of New Medtronic.

At the effective time of the Arrangement, (a) Covidien shareholders will be entitled to receive \$35.19 in cash and 0.956 of a newly issued New Medtronic share (the Arrangement Consideration) in exchange for each Covidien share held by such shareholders, and (b) each share of Medtronic common stock will be converted into the right to receive one New Medtronic share. The total cash and stock value of the Pending Acquisition is approximately \$42.9 billion based on Medtronic’s closing share price of \$60.70 on June 13, 2014. It is expected that immediately after the closing of the Pending Acquisition, Covidien shareholders will own approximately 30 percent of New Medtronic on a fully diluted basis. Shares of New Medtronic are expected to trade on the New York Stock Exchange.

The Transaction Agreement may be terminated by mutual written consent of the parties. The Transaction Agreement also contains certain termination rights, including, among others, the right of either party to terminate if (a) the Arrangement has not become effective by March 15, 2015 (the End Date), subject to certain conditions, provided that the End Date will be extended to June 15, 2015 in certain circumstances, (b) the Covidien or Medtronic shareholder approvals are not obtained, (c) the other party breaches its representations and covenants and such breach would result in the closing conditions not being satisfied, subject to a cure period, (d) the Irish High Court declines to sanction the Arrangement, unless both parties agree to appeal the decision, or (e) there is a failure of the tax condition as described in Medtronic's Current Report on Form 8-K filed with the SEC on June 16, 2014. Covidien also has the right, prior to the receipt of Covidien shareholder approval, to terminate the Transaction Agreement to accept a Covidien Superior Proposal (as defined in the Transaction Agreement) in certain circumstances.

The Transaction Agreement also provides that Medtronic must pay Covidien a termination fee of \$850 million if the Transaction Agreement is terminated because the Medtronic board of directors changes its recommendation for the transaction and the Medtronic shareholders vote against the Transaction, and either (i) Covidien obtained the requisite Covidien shareholder approval or (ii) Medtronic effected such termination prior to the completion of the Covidien shareholder meeting.

The consummation of the Pending Acquisition is subject to certain conditions, including approvals by Medtronic and Covidien shareholders. In addition, the proposed transaction requires regulatory clearances in the U.S., the E.U., China, and certain other countries. The Pending Acquisition is expected to close in the fourth calendar quarter of 2014 or early 2015.

For further information regarding the Pending Acquisition, see the section entitled "Acquisition and Investments - Pending Acquisition of Covidien plc" contained in "Item 1. Business," the section entitled "Risks relating to our pending acquisition of Covidien plc" contained in "Item 1A. Risk Factors," and Note 21 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K, and the full text of the Transaction Agreement, a copy of which is filed as exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2014.

Critical Accounting Estimates

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, asset impairment, legal proceedings, in-process research and development (IPR&D), contingent consideration, warranty obligations, product liability, self-insurance, pension and post-retirement obligations, sales returns and discounts, stock-based compensation, valuation of equity and debt securities, and income tax reserves are updated as appropriate, which in most cases is quarterly. We base our estimates on historical experience, actuarial valuations, or various assumptions that are believed to be reasonable under the circumstances.

Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) material changes in the estimates are reasonably likely to occur from period to period. Our critical accounting estimates include the following:

Legal Proceedings We are involved in a number of legal actions involving product liability, intellectual property disputes, shareholder derivative actions, securities class actions, and other class actions. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief (including injunctions barring the sale of products that are the subject of the lawsuit), that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, we record a liability in our consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible, but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company

are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete scientific facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines, or punitive damages; or could result in a change in business practice. Our significant legal proceedings are discussed in Note 18 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K. While it is not possible to predict the outcome for most of the matters discussed in Note 18 to the consolidated financial statements, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position, or cash flows.

Tax Strategies Our effective tax rate is based on income, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may or may not prevail. These reserves are established and adjusted in accordance with the principles of U.S. GAAP. Under U.S. GAAP, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that is greater than 50 percent likely of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and tax liabilities. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although we believe that we have adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on our effective tax rate in future periods.

In the event there is a special charge, restructuring charge, net, certain litigation charge, net, and/or acquisition-related items recognized in our operating results, the tax cost or benefit attributable to that item is separately calculated and recorded. Because the effective rate can be significantly impacted by these discrete items that take place in the period, we often refer to our tax rate using both the effective rate and the non-GAAP nominal tax rate. The non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments. We believe this resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods. Investors should consider this non-GAAP measure in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be the same or similar to measures presented by other companies.

Tax regulations require certain items to be included in the tax return at different times than when those items are required to be recorded in the consolidated financial statements. As a result, our effective tax rate reflected in our consolidated financial statements is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our consolidated statements of earnings. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in our consolidated financial statements for which payment has been deferred or expense has already been taken as a deduction on our tax return but has not yet been recognized as an expense in our consolidated statements of earnings.

The Company’s overall tax rate from continuing operations including the tax impact of special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments resulted in an effective tax rate of 17.3 percent for fiscal year 2014. Excluding the impact of the special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments, our operational and tax strategies have resulted in a non-GAAP nominal tax rate of 18.0 percent versus the U.S. federal statutory rate of 35.0 percent. An increase in our nominal tax rate of 1 percent would result in an additional income tax provision for the fiscal year ended April 25, 2014 of approximately \$47 million. See discussion of our tax rate and the tax adjustments in the “Income Taxes” section of this management’s discussion and analysis.

Valuation of Other Intangible Assets, Including IPR&D, Goodwill, and Contingent Consideration When we acquire a business, the assets acquired, including IPR&D, and liabilities assumed are recorded at their respective fair values as of the acquisition date. Our policy defines IPR&D as the fair value of those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the fair value of intangible assets, including IPR&D,

acquired as part of a business combination requires us to make significant estimates. These estimates include the amount and timing of projected future cash flows, the discount rate used to discount those cash flows to present value, the assessment of the asset's life cycle, and the consideration of legal, technical, regulatory, economic, and competitive risks. The fair value assigned to other intangible assets, including IPR&D, is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of measurement in accordance with accepted valuation methodologies.

IPR&D acquired in a business combination is capitalized as an indefinite-lived intangible asset. Development costs incurred after the acquisition are expensed as incurred. Upon receipt of regulatory approval, the indefinite-lived intangible asset is then accounted for as a finite-lived intangible asset and amortized on a straight-line basis or accelerated basis, as appropriate, over its estimated useful life. If the R&D project is subsequently abandoned, the indefinite-lived intangible asset is charged to expense. IPR&D acquired outside of a business combination is expensed immediately.

Due to the uncertainty associated with R&D projects, there is risk that actual results will differ materially from the original cash flow projections and that the R&D project will result in a successful commercial product. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, delay or failure to obtain required market clearances, delays or issues with patent issuance, or validity and litigation.

Goodwill is the excess of the purchase price (consideration) over the estimated fair value of net assets, including IPR&D, of acquired businesses. Goodwill is tested for impairment annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment test are considered critical due to the amount of goodwill recorded on our consolidated balance sheets and the judgment required in determining fair value, including projected future cash flows. The results of our annual impairment test are discussed in Note 6 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. Goodwill was \$10.593 billion and \$10.329 billion as of April 25, 2014 and April 26, 2013, respectively.

Other intangible assets include patents, trademarks, purchased technology, and IPR&D (since April 25, 2009). Intangible assets with a definite life are amortized on a straight-line or accelerated basis, as appropriate, with estimated useful lives ranging from three to 20 years. IPR&D is tested for impairment annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. We review other definite-lived intangible assets for impairment whenever events or circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. Refer to Note 1 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K for additional information. Our impairment reviews are based on an estimated future cash flow approach that requires significant judgment with respect to future revenue and expense growth rates, selection of appropriate discount rate, asset groupings, and other assumptions and estimates. We use estimates that are consistent with our business plans and a market participant view of the assets being evaluated. The results of our annual impairment test are discussed in Note 6 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. Actual results may differ from our estimates due to a number of factors including, among others, changes in competitive conditions, timing of regulatory approval, results of clinical trials, changes in worldwide economic conditions, and fluctuations in foreign currency exchange rates. These risk factors are discussed in "Item 1A. Risk Factors" in this Annual Report on Form 10-K. Other intangible assets, net of accumulated amortization, were \$2.286 billion and \$2.673 billion as of April 25, 2014 and April 26, 2013, respectively.

Contingent consideration is recorded at the acquisition date at the estimated fair value of the contingent consideration for all acquisitions subsequent to April 24, 2009. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of measurement in accordance with accepted valuation methodologies. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within *acquisition-related items* in our consolidated statements of earnings. Changes to the fair value of contingent consideration can result from changes in discount rates, the timing and amount of revenue estimates, or in the timing or likelihood of achieving the milestones which trigger payment. Using different valuation assumptions including revenue or cash flow projections, growth rates, discount rates, or probabilities of achieving the milestones result in different fair value measurements, future amortization expense, and expense in the current or future periods. The fair value of contingent consideration was \$68 million and \$142 million as of April 25, 2014 and April 26, 2013, respectively.

Discontinued Operations

On January 30, 2012, we completed the sale of the Physio-Control business to Bain Capital Partners, LLC. We have classified the results of operations of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, as discontinued operations in the consolidated statements of earnings for all periods presented. For more information regarding discontinued operations, refer to Note 17 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Net Sales

The table below illustrates net sales by product line and operating segment for fiscal years 2014, 2013, and 2012:

(dollars in millions)	Net Sales			Net Sales		
	Fiscal Year		% Change	Fiscal Year		% Change
	2014	2013		2013	2012	
Defibrillation Systems	\$ 2,757	\$ 2,773	(1)%	\$ 2,773	\$ 2,822	(2)%
Pacing Systems	1,892	1,906	(1)	1,906	1,978	(4)
AF and Other	347	243	43	243	207	17
CARDIAC RHYTHM DISEASE MANAGEMENT	4,996	4,922	2	4,922	5,007	(2)
CORONARY	1,744	1,773	(2)	1,773	1,598	11
STRUCTURAL HEART	1,212	1,133	7	1,133	1,094	4
ENDOVASCULAR	895	867	3	867	783	11
TOTAL CARDIAC AND VASCULAR GROUP	8,847	8,695	2	8,695	8,482	3
Core Spine	2,570	2,603	(1)	2,603	2,643	(2)
BMP	471	528	(11)	528	624	(15)
SPINE	3,041	3,131	(3)	3,131	3,267	(4)
NEUROMODULATION	1,898	1,812	5	1,812	1,700	7
SURGICAL TECHNOLOGIES	1,562	1,426	10	1,426	1,254	14
TOTAL RESTORATIVE THERAPIES GROUP	6,501	6,369	2	6,369	6,221	2
DIABETES GROUP	1,657	1,526	9	1,526	1,481	3
TOTAL	\$ 17,005	\$ 16,590	3%	\$ 16,590	\$ 16,184	3%

In fiscal years 2014 and 2013, net sales were unfavorably impacted by foreign currency translation of \$175 million and \$328 million, respectively. The primary exchange rate movements that impacted our consolidated net sales growth were the U.S. dollar as compared to the Euro and the Japanese Yen. The impact of foreign currency fluctuations on net sales was not indicative of the impact on net earnings due to the offsetting foreign currency impact on operating costs and expenses and our hedging activities. See “Item 7A. Qualitative and Quantitative Disclosures about Market Risk” and Note 9 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for further details on foreign currency instruments and our related risk management strategies.

Cardiac and Vascular Group The Cardiac and Vascular Group is composed of the CRDM, Coronary, Structural Heart, and Endovascular businesses. The Cardiac and Vascular Group’s products include pacemakers, insertable cardiac monitor, implantable defibrillators, leads and delivery systems, ablation products, electrophysiology catheters, products for the treatment of atrial fibrillation, information systems for the management of patients with CRDM devices, products designed to reduce surgical site infections, coronary and peripheral stents and related delivery systems, therapies for uncontrolled hypertension, endovascular stent graft systems, heart valve replacement technologies, cardiac tissue ablation systems, and open heart and coronary bypass grafting surgical products. The Cardiac and Vascular Group also includes Cardiocom and Cath Lab Managed Services (CLMS). The Cardiac and Vascular Group’s net sales for fiscal year 2014 were \$8.847 billion, an increase of 2 percent compared to the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of \$118 million compared

to the prior fiscal year. The Cardiac and Vascular Group's performance was primarily a result of strong net sales in AF and Other, and solid growth in Structural Heart and Endovascular, partially offset by slight declines in Coronary and CRDM defibrillation and pacing systems which is primarily due to pricing pressures. Additionally, the Cardiac and Vascular Group's performance was favorably affected by new products and the August 2013 acquisition of Cardiocom and January 2014 acquisition of TYRX. See the more detailed discussion of each business's performance below.

CRDM net sales for fiscal year 2014 were \$4.996 billion, an increase of 2 percent compared to the prior fiscal year. Net sales of our defibrillation system products were negatively impacted by unfavorable foreign currency translation. In addition, declines in the U.S. market were offset by increases in international market growth rates and market share gains, as well as the continued acceptance of our shock reduction and lead integrity alert technologies, and our recently launched Viva/Brava family of CRT-D devices and Evera family of ICDs. Fiscal year 2014 net sales of our defibrillation system products in the U.S. were impacted by declines in implant volumes, partially offset by increased inventory levels at U.S. hospitals. In addition, we continue to face pricing pressures in certain international markets. Worldwide net sales of our pacing system products declined slightly due to unfavorable foreign currency translation. Fiscal year 2014 net sales of our pacing system products were impacted by sales of our recently launched Advisa DR MRI SureScan in the U.S. and Japan in the fourth and second quarters of fiscal year 2013, respectively, and a strong launch of Reveal LINQ, our next generation insertable cardiac monitor, in Western Europe and the U.S. in the second half of fiscal year 2014. The growth in net sales of our pacing system products was partially offset by declines in the U.S. market and pricing pressures in certain international markets. Worldwide net sales of our AF and Other products offset the above declines. AF and Other net sales increased primarily due to the continued global acceptance of the Arctic Front Advance Cardiac CryoAblation Catheter (Arctic Front) system and net sales from the acquisition of Cardiocom and CLMS.

Coronary net sales for fiscal year 2014 were \$1.744 billion, a decrease of 2 percent compared to the prior fiscal year. The decrease in Coronary net sales was primarily driven by unfavorable foreign currency translation and pricing pressures in the U.S., Western Europe, and India, partially offset by worldwide share gains in drug-eluting stents, driven by the continued strength of our Resolute Integrity drug-eluting coronary stent. We received U.S. FDA approval for longer lengths of this product in the fourth quarter of fiscal year 2013 and launched small vessel sizes of this product in Japan in the second quarter of fiscal year 2014.

Structural Heart net sales for fiscal year 2014 were \$1.212 billion, an increase of 7 percent compared to the prior fiscal year. The increase in Structural Heart net sales was primarily driven by strong sales of the CoreValve transcatheter aortic heart valves in Western Europe and of our perfusion system and blood management products in emerging markets. Growth was also driven by a strong initial U.S. launch of CoreValve transcatheter aortic heart valves for extreme risk patients in the fourth quarter of fiscal year 2014. Growth was partially offset by declines in our cardiopulmonary product lines driven principally by a competitor's full reentry into the market following a supply disruption and by unfavorable foreign currency translation.

Endovascular net sales for fiscal year 2014 were \$895 million, an increase of 3 percent compared to the prior fiscal year. The increase in Endovascular net sales was driven by strong sales of our Valiant Captivia Thoracic Stent Graft System, as well as the launch of the Endurant II Abdominal Aortic Aneurysm (AAA) Stent Graft System in Japan in the first quarter of fiscal year 2014. Growth was partially offset by the divestiture of a reentry catheter product line in the second quarter of fiscal year 2014, the removal of a peripheral below-the-knee product from the market, unfavorable foreign currency translation, and increased competitive and pricing pressures in the U.S., Western Europe, and Japan.

The Cardiac and Vascular Group net sales for fiscal year 2013 were \$8.695 billion, an increase of 3 percent compared to the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of \$224 million compared to the prior fiscal year. The Cardiac and Vascular Group's performance was primarily a result of strong net sales in Coronary, Endovascular, AF Solutions, and solid growth in Structural Heart, partially offset by declines in CRDM defibrillation and pacing systems. Additionally, the Cardiac and Vascular Group's performance was favorably affected by new products, partially offset by competitive pricing pressures and negative growth of certain markets, particularly defibrillation and pacing systems. Further, declining growth rates in Western Europe beginning in the third quarter of fiscal year 2013 negatively impacted the Cardiac and Vascular Group's performance. See the more detailed discussion of each business's performance below.

CRDM net sales for fiscal year 2013 were \$4.922 billion, a decrease of 2 percent compared to the prior fiscal year. Net sales of our defibrillation system products declined primarily due to market declines in the U.S. and Western Europe and unfavorable foreign currency translation. In fiscal year 2012, CRDM net sales were unfavorably affected by a declining U.S. defibrillation systems market. However, during fiscal year 2013, the U.S. defibrillation systems market showed signs of stabilization. In addition, U.S. procedure volumes increased slightly in fiscal year 2013, while the rate of pricing declines was fairly consistent

with the prior year. The U.S. and Western Europe markets were adversely affected by a number of factors, including competition and pricing pressures. The continued acceptance of our shock reduction and lead integrity alert technologies, our recently launched Viva/Brava family of CRT-D devices, increasing lead-to-port ratios, and share gains partially offset the decline in net sales of our defibrillation system products. Worldwide net sales of our pacing system products declined primarily due to unfavorable foreign currency translation, declines in the U.S. market caused by pricing pressures and declining implant volumes, and to a lesser extent, pricing pressures in the Western Europe market. The decline in net sales of our pacing system products was partially offset by international share gains driven mostly by the launch of our Advisa DR MRI SureScan pacemaker in Japan in the second quarter of fiscal year 2013. Worldwide net sales of our AF Solutions products increased primarily due to the continued global acceptance of the Arctic Front system.

Coronary net sales for fiscal year 2013 were \$1.773 billion, an increase of 11 percent compared to the prior fiscal year. The increase in Coronary net sales was primarily due to the continued strength of our Resolute Integrity drug-eluting coronary stent. We launched Resolute Integrity in Japan in the second quarter of fiscal year 2013 and in the U.S. in the fourth quarter of fiscal year 2012. Resolute Integrity's deliverability and unique diabetes indication has continued to receive strong customer acceptance and we received U.S. FDA approval for longer lengths of this product in the fourth quarter of fiscal year 2013. Growth was partially offset by unfavorable foreign currency translation as well as pricing pressures and competitive launches in Western Europe.

Structural Heart net sales for fiscal year 2013 were \$1.133 billion, an increase of 4 percent compared to the prior fiscal year. The increase in Structural Heart net sales was primarily driven by strong sales of transcatheter aortic heart valves and growth in our cardiopulmonary product lines driven principally by a competitor's supply disruption. Growth was partially offset by unfavorable foreign currency translation and slowing market growth rates and increased competitive pressure for transcatheter aortic heart valves in Western Europe.

Endovascular net sales for fiscal year 2013 were \$867 million, an increase of 11 percent compared to the prior fiscal year. The increase in Endovascular net sales was led by new product launches. Growth was driven by the Endurant Abdominal Aortic Aneurysm (AAA) Stent Graft System, which launched in Japan in the third quarter of fiscal year 2012, as well as the Valiant Captivia Thoracic Stent Graft System, which launched in the U.S. in the fourth quarter of fiscal year 2012 and in Japan and China in the first quarter of fiscal year 2013. Strong worldwide sales of our peripheral stent products and drug-eluting balloons also contributed to the growth. Growth was partially offset by unfavorable foreign currency translation and increased competitive pressure in the U.S.

Looking ahead, we expect our Cardiac and Vascular Group could be impacted by the following:

- Increasing competition, fluctuations in foreign currency, and continued pricing pressures. We have seen a reduction of pricing pressure in fiscal year 2014 with the launch of several new products and believe our new technologies may continue to partially mitigate near-term pricing pressures.
- The launch of Reveal LINQ, our next-generation insertable cardiac monitor, in international and U.S. markets in the third and fourth quarters of fiscal year 2014, respectively.
- Continued and future growth from the Arctic Front system, including the second generation Arctic Front Advance Cardiac Cryoballoon launched in the second quarter of fiscal year 2013. The Arctic Front system is a cryoballoon indicated for the treatment of drug refractory paroxysmal atrial fibrillation. The cryoballoon treatment involves a minimally invasive procedure that efficiently creates circumferential lesions around the pulmonary vein, which studies have indicated is the source of erratic electrical signals that cause irregular heartbeat.
- Integration of TYRX into the Cardiac and Vascular Group. TYRX was acquired in January 2014. We believe that this proprietary technology reduces infections that can result from device implants. We intend to leverage this technology initially in CRDM, and ultimately in other businesses such as Neuromodulation.
- Continued acceptance and future growth from the Evera family of ICDs, which received CE Mark approval in February 2013 and U.S. FDA and Japan PMDA approval in May 2013. The Evera family of ICDs have increased battery longevity, advanced shock reduction technology, and a contoured shape with thin, smooth edges that better fits inside the body. We received CE Mark approval for our Evera MRI SureScan ICD, the only ICD system approved for full-body MRI scans, late in the fourth quarter of fiscal year 2014.

- Continued acceptance and future growth from the Viva/Brava family of CRT-D devices and the Attain Performa portfolio of quadripolar leads. The Viva/Brava family of CRT-D devices utilizes a new algorithm, called AdaptivCRT, which improves patients' response rates to CRT-D therapy by preserving the patients' normal heart rhythms and continually adapts to individual patient needs. Our Viva/Brava CRT-D devices received CE Mark approval in August 2012, received U.S. FDA approval in May 2013, and launched in Japan in the third quarter of fiscal year 2014. Paired with Viva/Brava Quad CRT-D, Attain Performa leads provide additional options for physicians to optimize patient therapy. Our Attain Performa left-heart leads received CE Mark approval in March 2013 and launched in Japan in the third quarter of fiscal year 2014.
- Continued acceptance and future growth from the Advisa DR MRI SureScan pacing system. The Advisa DR MRI SureScan is our second-generation MRI pacing system and is the first system to combine advanced pacing technology with proven MRI access. The Advisa DR MRI SureScan was launched in Europe during the fourth quarter of fiscal year 2010, in Japan in the second quarter of fiscal year 2013, and in the U.S. in February 2013. In the third quarter of fiscal year 2014, we received expanded labeling for full-body MRI scans from the U.S. FDA.
- Acceptance of Cardiocom's integrated solutions for the management of chronic diseases such as heart failure, diabetes, and hypertension. Cardiocom was acquired in August 2013. In the third quarter of fiscal year 2014, Cardiocom launched Re30, a 30-day readmission reduction program focused on minimizing heart failure readmission penalties for U.S. hospitals.
- Acceptance of our CLMS business. CLMS provides a unique service offering, whereby we enter into long-term contracts with hospitals to upgrade and more effectively manage their cath lab and hybrid operating rooms.
- Continued evaluation of the long-term strategy of our renal denervation therapy. In January 2014, we announced our U.S. pivotal trial in renal denervation for treatment-resistant hypertension, Symplicity HTN-3, failed to meet its primary efficacy endpoint, while its primary safety endpoint was achieved. Based on the results of the trial, we have suspended enrollment of our renal denervation hypertension trials that were being conducted in the U.S., Japan, and India. We will continue to provide access to the Symplicity system in countries where it has regulatory approval and we remain in discussions with the U.S. FDA regarding a potential approval path for the U.S.
- Continued acceptance of the Resolute Integrity drug-eluting coronary stent and the Integrity bare metal stent. In February 2013, the U.S. FDA approved longer lengths of our Resolute Integrity drug-eluting coronary stent, providing access to a larger portion of the U.S. drug-eluting stent market. We launched small vessel sizes and longer lengths of our Resolute Integrity drug-eluting coronary stent in Japan during the second and third quarters of fiscal year 2014, respectively. The global stent market continues to experience year-over-year declines, including increasing pricing pressure resulting from government austerity programs and reimbursement cuts in Western Europe, Japan, and India.
- Continued acceptance of our CoreValve transcatheter heart valve technologies for the replacement of the aortic valve. The CoreValve 31 millimeter received CE Mark approval in the first quarter of fiscal year 2012. The CoreValve Evolut 23 millimeter valve, which promotes better sealing and provides future recapturability, was launched in Europe in the first quarter of fiscal year 2013. The CoreValve System received CE Mark approval and is currently available outside the U.S. Late in the third quarter of fiscal year 2014, we received U.S. FDA approval for our CoreValve transcatheter aortic heart valve for extreme risk patients in the U.S. We received U.S. approval for high risk patients in June 2014. Additionally, CoreValve related patent litigation with Edwards was settled in May 2014, requiring ongoing royalty payments through April 2022. For additional information, see Note 18 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.
- Continued worldwide growth of the Valiant Captivia Thoracic Stent Graft System. The Valiant Captivia Thoracic Stent Graft System was launched in the U.S. in the fourth quarter of fiscal year 2012 and in Japan and China in the first quarter of fiscal year 2013. We received U.S. FDA approval of a dissection indication for the Valiant Captivia Thoracic Stent Graft System in January 2014.

- Continued and future acceptance of the Endurant II AAA Stent Graft System. Our Endurant II AAA Stent Graft System was launched in Europe in the third quarter of fiscal year 2012, in the U.S. in the first quarter of fiscal year 2013, and in Japan in the first quarter of fiscal year 2014.

Restorative Therapies Group The Restorative Therapies Group is composed of the Spine, Neuromodulation, and Surgical Technologies businesses. The Restorative Therapies Group includes products for various areas of the spine, bone graft substitutes, biologic products, trauma, implantable neurostimulation therapies and drug delivery systems for the treatment of chronic pain, movement disorders, obsessive-compulsive disorder (OCD), overactive bladder, urinary retention, fecal incontinence and gastroparesis, products to treat conditions of the ear, nose, and throat, and systems that incorporate advanced energy surgical instruments. Additionally, this group manufactures and sells image-guided surgery and intra-operative imaging systems. The Restorative Therapies Group's net sales for fiscal year 2014 were \$6.501 billion, an increase of 2 percent over the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately \$58 million when compared to the prior fiscal year. The Restorative Therapies Group's performance for fiscal year 2014 was favorably impacted by strong net sales in Surgical Technologies and growth in Neuromodulation, partially offset by declines in Spine, primarily driven by BMP and BKP. See the more detailed discussion of each business's performance below.

Spine net sales for fiscal year 2014 were \$3.041 billion, a decrease of 3 percent over the prior fiscal year. The decrease in Spine's net sales for fiscal year 2014 was primarily driven by declines in BMP and BKP of 11 percent and 9 percent, respectively, and unfavorable foreign currency translation. Net sales in BKP for fiscal year 2014 declined 9 percent compared to the prior fiscal year due to increased competition, pricing pressures, and reimbursement challenges with select payers. Significant declines in U.S. sales of INFUSE bone graft have continued since the June 2011 articles in *The Spine Journal*, as further described in the Restorative Therapies Group's looking ahead discussion below. In addition, some surgeons continue to reduce their usage through both patient selection and the use of smaller kits. Core Spine net sales declined 1 percent for fiscal year 2014 compared to the same period in the prior fiscal year primarily due to unfavorable foreign currency translation and negative performance in BKP as discussed above, which were substantially offset by recent launches of our new products and therapies, including product line extensions to our Vertex platform and BRYAN artificial cervical disc, as well as the continued adoption of other biologics products. The global Core Spine markets were relatively flat on a year-over-year basis. During fiscal year 2014, Core Spine benefited from our focus on enabling technologies, including the O-Arm imaging system, StealthStation navigation, and Powerease powered surgical instruments. Our Kanghui orthopedics business in China continues to perform well and offset the revenues in the previous year from our former joint venture with Shandong Weigao Group Medical Polymer Company Limited.

Neuromodulation net sales for fiscal year 2014 were \$1.898 billion, an increase of 5 percent over the prior fiscal year. The increase in net sales was primarily due to 8 percent growth in international markets, strong global growth of our Activa DBS systems for movement disorders driven by new implant growth, and strong performance from our conditionally safe SureScan MRI system. We received U.S. FDA approval for our conditionally safe SureScan MRI system earlier than anticipated and transitioned manufacturing in the first quarter of fiscal year 2014 to the SureScan MRI system, resulting in supply constraints which continued through early in the second fiscal quarter of 2014. Growth in sales of our InterStim Therapy for overactive bladder, urinary retention, and bowel incontinence continued during fiscal year 2014, although at a slower rate compared to the prior fiscal year as a result of increased competition from non-device therapies.

Surgical Technologies net sales for fiscal year 2014 were \$1.562 billion, an increase of 10 percent over the prior fiscal year. The increase in net sales was driven by continued worldwide net sales growth across the portfolio of ENT, Neurosurgery, and Advanced Energy, partially offset by unfavorable foreign currency translation. Growth was driven by strong sales of navigation, power systems, monitoring, Aquamantys Transcollation, PEAK PlasmaBlade technologies, and Strata adjustable valves. Additionally, net sales growth was positively impacted by the late fiscal year 2013 launches of the Trivantage EMG tube in the U.S. and Indigo high-speed otologic drill internationally.

The Restorative Therapies Group's net sales for fiscal year 2013 were \$6.369 billion, an increase of 2 percent over the prior fiscal year. Foreign currency translation had an unfavorable impact on net sales of approximately \$78 million when compared to the prior fiscal year. The Restorative Therapies Group's performance was a result of strong net sales in Surgical Technologies, as well as solid growth in Neuromodulation, partially offset by declines in Spine, primarily driven by BMP and BKP. The Restorative Therapies Group's performance was favorably affected by the recent launches and continued adoption of new products, strong sales of capital equipment, the acquisitions of Salient and PEAK in the second quarter of fiscal year 2012, and continued signs of stabilization in the U.S. Core Spine market, and negatively affected by continued pricing and competitive pressures. See the more detailed discussion of each business's performance below.

Spine net sales for fiscal year 2013 were \$3.131 billion, a decrease of 4 percent over the prior fiscal year. Core Spine and BMP net sales decreased 2 percent and 15 percent, respectively, as a result of continued pricing and competitive pressures, a challenging reimbursement environment in certain of our major markets, and unfavorable foreign currency translation. The U.S. Core Spine market showed signs of stabilization during fiscal year 2013, as supported by the flat fiscal year 2013 market and no significant changes in the underlying market conditions, including procedure trends, pricing pressure, or competitive dynamics. The net sales decline in Core Spine over the prior fiscal year was primarily driven by negative performance in BKP. Net sales in BKP declined 10 percent when compared to the prior fiscal year due to the continued decrease in demand, competitive pricing pressures, and reimbursement challenges with select payers. The decline in Core Spine from BKP was partially offset by recent launches of new products and therapies, including the second quarter launch of AMT implants, the Capstone Control, and Bryan ACD Instrument Set, as well as the continued adoption of Solera, Atlantis Vision Elite, and other biologics products. Core Spine also benefited from our focus on enabling technologies, including the O-Arm imaging, StealthStation surgical navigation, and Powerease powered surgical instruments. A strong contributing factor to the decline in Spine net sales was the decline in BMP net sales over the prior fiscal year. Significant declines in U.S. sales of INFUSE bone graft have continued since the June 2011 articles in *The Spine Journal* as further described below.

Neuromodulation net sales for fiscal year 2013 were \$1.812 billion, an increase of 7 percent over the prior fiscal year. The increase in net sales was primarily due to the continued U.S. adoption of RestoreSensor spinal cord stimulator, new implant growth of Activa DBS system for movement disorders, and sales of InterStim Therapy for overactive bladder, urinary retention, and bowel control. Additionally, revenue growth in Western Europe was driven by sales of the SureScan spinal cord stimulation system, approved for full-body MRI scans. Growth was partially offset by unfavorable foreign currency translation.

Surgical Technologies net sales for fiscal year 2013 were \$1.426 billion, an increase of 14 percent over the prior fiscal year. The increase in net sales was driven by sales of capital equipment, including O-arm imaging and StealthStation S7 surgical navigation systems, Midas Rex powered surgical equipment, and Advanced Energy products, including the Aquamantys bipolar sealers and PEAK PlasmaBlade electrosurgical products. Additionally, net sales were positively affected by balanced growth of disposables and service revenue in our Neurosurgery and ENT businesses. Growth was partially offset by unfavorable foreign currency translation.

Looking ahead, we expect our Restorative Therapies Group could be affected by the following:

- Changes in procedural volumes, competitive and pricing pressure, reimbursement challenges, impacts from changes in the mix of our product offerings, and fluctuations in foreign currency.
- Market acceptance and continued adoption of innovative new products, such as our Solera product line, Bryan ACD Instrument Set, second generation MAST MidLF set, and other biologics products, including MAGNIFUSE and GRAFTON products, and POWEREASE, a powered instrument solution for Solera.
- Market acceptance of BKP. We remain focused on communicating the clinical and economic benefits for BKP. We will continue to tailor this product offering to meet market needs and respond to competitive challenges. We anticipate additional continued pricing pressures and competitive alternatives in the U.S. and European markets. Additionally, opportunities for growth exist in vertebroplasty and other vertebral compression fractures (VCF) treatments. We continue to evaluate global markets and specific therapies for ways to treat more patients with VCF.
- Spine sales continue to be negatively affected by the June 2011 articles in *The Spine Journal*, and by the reaction from inquiries by governmental authorities, relating to our INFUSE bone graft product. *The Spine Journal* articles suggested that some physicians' peer-reviewed studies may have underreported complications and adverse events associated with INFUSE. These articles did not question the integrity of the data provided by Medtronic to the U.S. FDA for product approval or the disclosure of safety issues on the product's Instructions for Use for approved indications. In August 2011, we provided a grant to Yale University to oversee two independent, systematic reviews of data from completed clinical studies of INFUSE bone graft, as well as data from other Medtronic studies of rhBMP-2, the protein used in INFUSE. The two systematic reviews, which were summarized in articles published in the *Annals of Internal Medicine* in June 2013, concluded, among other things, that INFUSE is an effective therapy in certain types of spine surgery, and that INFUSE entails a number of risks that should be considered by physicians and patients. Looking ahead, the Company expects continued scientific and clinical research scrutiny focused on the safety and efficacy of INFUSE in real-world, clinical experience. Medtronic remains committed to the safe use of INFUSE bone graft for the approved indications, as supported by the safety data reported to the U.S. FDA.

- Acceptance of Kanghui's broad portfolio of trauma, spine, and large-joint reconstruction products focused on the growing global value segment.
- Adoption rates of stimulators and leads approved for full-body MRI scans to treat chronic pain in major markets around the world. Our European launch occurred in fiscal year 2013. U.S. FDA approval was received for the SureScan MRI system in the first quarter of fiscal year 2014 and the full launch began in the second quarter of fiscal year 2014. We also launched the SureScan MRI system in Japan in January 2014 and in Australia in the fourth quarter of fiscal year 2014.
- Continued acceptance of the non-MRI pain stimulators to treat chronic pain, including RestoreSensor, which is currently available in the U.S. and certain international markets. RestoreSensor is a neurostimulator for chronic pain that automatically adjusts to the patients' position changes.
- Resolution of issues with the U.S. FDA relating to our Neuromodulation business. In July 2012, we received a U.S. FDA warning letter regarding findings related primarily to our Neuromodulation corrective and preventative action (CAPA) and complaint handling processes. We are currently working with the U.S. FDA to resolve the issues. This warning letter may limit our ability to launch certain new Neuromodulation products in the U.S. until it is resolved.
- Continued and future acceptance of our current indications for Medtronic DBS Therapy for the treatment of movement disorders, epilepsy (approved in Europe), and OCD. The DBS Therapy portfolio includes Activa PC, our small and advanced primary cell battery, and Activa RC, a rechargeable DBS device.
- Continued acceptance of InterStim Therapy for the treatment of the symptoms of overactive bladder, urinary retention, and bowel incontinence. We launched InterStim Therapy for the treatment of the symptoms of bowel incontinence in Japan during the fourth quarter of fiscal year 2014.
- Continued growth from Advanced Energy products and strategies to focus on its four core markets of orthopedic, spine, breast surgery, and CRDM replacements.
- Continued acceptance of the Surgical Technologies StealthStation S7 and O-Arm Imaging Systems.
- Continued acceptance and growth of intraoperative nerve monitoring during surgical procedures utilizing the NIM-Response 3.0 during head and neck surgical procedures. Additionally, continued growth in nerve monitoring utilizing the NIM Eclipse system during spinal surgical procedures.

Diabetes Group

The Diabetes Group products include insulin pumps, CGM systems, insulin pump consumables, and therapy management software. The Diabetes Group's net sales for fiscal year 2014 were \$1.657 billion, an increase of 9 percent over the prior fiscal year. The Diabetes Group's performance was primarily the result of 8 percent growth in the U.S. compared to the prior fiscal year. Growth in the U.S. was driven by the launch of the MiniMed 530G System with Enlite Sensor. Approval was obtained late in the second quarter of fiscal year 2014. In fiscal year 2014, we recognized \$23 million of revenue that was deferred in fiscal year 2013 as some customers upgraded to the MiniMed 530G System after it was released in the U.S. Net sales in the international markets increased 9 percent compared to the prior fiscal year. The Diabetes Group's performance in international markets was favorably affected by the continued adoption and use of the Veo insulin pump with low-glucose suspend and Enlite CGM sensor.

The Diabetes Group's net sales for fiscal year 2013 were \$1.526 billion, an increase of 3 percent over the prior fiscal year. The increase in net sales was driven by international sales of our Paradigm Veo insulin pump along with the Enlite CGM sensor, partially offset by a decline in insulin pump sales in the U.S. as we awaited U.S. FDA approval of MiniMed 530G and unfavorable foreign currency translation.

Looking ahead, we expect our Diabetes Group could be impacted by the following:

- Potential risk of pricing pressures, reduction in reimbursement rates, and fluctuations in foreign currency.
- Changes in medical reimbursement policies and programs. Continued acceptance and improved reimbursement of CGM technologies.

- Continued acceptance from both physicians and patients of insulin-pump and CGM therapy.
- Continued and future growth of the MiniMed 530G System, available in the U.S., which includes the insulin pump and Enlite sensor. This is the first system in the U.S. that assists in protecting against the risk of hypoglycemia by automatically suspending insulin delivery when glucose falls below a specified threshold.
- We are working with the U.S. FDA to address its questions on the Diabetes quality system, included in its September 2013 warning letter. This warning letter may limit our ability to launch certain new diabetes products in the U.S. until it is resolved.
- Acceptance and future growth from our next-generation pump system the MiniMed 640G. In the first half of fiscal year 2015, we expect to launch the MiniMed 640G pump system in certain international markets.

Costs and Expenses

The following is a summary of major costs and expenses as a percent of net sales:

	Fiscal Year		
	2014	2013	2012
Cost of products sold	25.5%	24.9%	24.0%
Research and development expense	8.7	9.4	9.2
Selling, general, and administrative expense	34.4	34.3	34.7
Special charges	0.2	—	—
Restructuring charges, net	0.5	1.0	0.5
Certain litigation charges, net	4.5	1.5	0.6
Acquisition-related items	0.7	(0.3)	0.1
Amortization of intangible assets	2.1	2.0	2.1
Other expense, net	1.1	0.7	2.2
Interest expense, net	0.6	0.9	0.9

Cost of Products Sold Cost of products sold was \$4.333 billion in fiscal year 2014, representing 25.5 percent of net sales, reflecting an increase of 0.6 of a percentage point from fiscal year 2013. Cost of products sold as a percent of net sales was negatively impacted primarily by unfavorable foreign currency, additional spending to address quality issues in the Neuromodulation business and Diabetes Group, and \$10 million of expense recorded within cost of products sold during fiscal year 2014 related to the fiscal year 2014 restructuring initiative for inventory write-offs of discontinued product lines. The additional spending to address quality issues is expected to continue until the issues are resolved. However, our cost of materials as a percentage of net sales was flat year-over-year for both periods. We continue to mitigate pricing pressure through our five-year, \$1.2 billion cost of products sold reduction program.

Cost of products sold was \$4.126 billion in fiscal year 2013, representing 24.9 percent of net sales, reflecting an increase of 0.9 of a percentage point from fiscal year 2012. Cost of products sold as a percent of net sales was negatively impacted primarily by unfavorable foreign currency, and to a lesser extent, shifts in product mix and \$10 million of expense recorded within cost of products sold during fiscal year 2013 related to the fiscal year 2013 restructuring initiative for inventory write-offs of discontinued product lines and production-related asset impairments.

Research and Development During fiscal year 2014, we continued to invest in new technologies to drive future growth. Research and development expense for fiscal year 2014 was \$1.477 billion, representing 8.7 percent of net sales, a decrease of 0.7 of a percentage point from fiscal year 2013. The decrease for fiscal year 2014 was driven by a shift in research and development resources to investment in product support to enhance our quality systems in the Neuromodulation business and Diabetes Group, which is expected to continue until the enhancements are complete.

Research and development expense for fiscal year 2013 was \$1.557 billion, representing 9.4 percent of net sales, an increase of 0.2 of a percentage point from fiscal year 2012.

We remain committed to developing technological enhancements and new indications for existing products, and less invasive and new technologies for new and emerging markets to address unmet medical needs. That commitment leads to our initiation and participation in many clinical trials each fiscal year as the demand for clinical and economic evidence remains high.

Furthermore, we expect our development activities to help reduce patient care costs and the length of hospital stays in the future. In addition to our investment in research and development, we continue to access new technologies in areas served by our existing businesses, as well as in new areas, through acquisitions, licensing agreements, alliances, and certain strategic equity investments.

Selling, General, and Administrative Fiscal year 2014 selling, general, and administrative expense was \$5.847 billion, representing 34.4 percent of net sales, reflecting an increase of 0.1 of a percentage point from fiscal year 2013. This increase was primarily driven by unfavorable foreign currency. Fiscal year 2013 selling, general, and administrative expense was \$5.698 billion, representing 34.3 percent of net sales, reflecting a decrease of 0.4 of a percentage point from fiscal year 2012. This decrease was driven by several initiatives focused on leveraging our expenses.

Special Charges, Restructuring Charges, Net, Certain Litigation Charges, Net, Acquisition-Related Items, and Certain Tax Adjustments We believe that in order to properly understand our short-term and long-term financial trends, investors may find it useful to consider the impact of special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments. Special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments recorded during fiscal years 2014, 2013, and 2012 were as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Special charges	\$ 40	\$ —	\$ —
Restructuring charges, net ⁽¹⁾	88	182	87
Certain litigation charges, net	770	245	90
Acquisition-related items	117	(49)	12
Total special charges, restructuring charges, net, certain litigation charges, net, and acquisition-related items	1,015	378	189
Net tax impact of special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments ⁽¹⁾	(212)	(47)	(56)
Total special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments, net of tax ⁽¹⁾	\$ 803	\$ 331	\$ 133

(1) For fiscal years 2014 and 2013, restructuring charges, net and the related tax impact within this table include the impact of amounts recorded within *cost of products sold* in the consolidated statements of earnings related to the fiscal year 2014 initiative and fiscal year 2013 initiative, respectively.

Special Charges During fiscal year 2014, consistent with our commitment to improving the health of people and communities throughout the world, we made a \$40 million charitable contribution to the Medtronic Foundation, which is a related party non-profit organization.

During fiscal years 2013 and 2012, there were no special charges.

Restructuring Charges, Net

Fiscal Year 2014 Initiative

In the fourth quarter of fiscal year 2014, we recorded a \$116 million restructuring charge, which consisted of employee termination costs of \$65 million, asset write-downs of \$26 million, contract termination costs of \$3 million, and other related costs of \$22 million. Of the \$26 million of asset write-downs, \$10 million related to inventory write-offs of discontinued product lines and production-related asset impairments, and therefore, was recorded within *cost of products sold* in the consolidated statements of earnings. The fiscal year 2014 initiative primarily relates to our renal denervation business, certain manufacturing shut-downs, and a reduction of back-office support functions in Europe.

As of the end of the fourth quarter of fiscal year 2014, we identified approximately 600 positions for elimination to be achieved primarily through involuntary separation. The fiscal year 2014 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2015 and is expected to produce annualized operating savings of approximately \$60 to \$75 million. These savings will arise mostly from reduced compensation expense. In the first quarter of fiscal year 2015, we expect to incur an additional restructuring charge of \$25 to \$40 million, primarily related to contract termination fees.

Fiscal Year 2013 Initiative

The fiscal year 2013 initiative was designed to scale back our infrastructure in slower growing areas of our business, while continuing to invest in geographies, businesses, and products where we anticipate faster growth. A number of factors have contributed to ongoing challenging market dynamics, including increased pricing pressure, various governmental austerity measures, and the U.S. medical device excise tax. In the fourth quarter of fiscal year 2013, we recorded a \$192 million restructuring charge, which consisted of employee termination costs of \$150 million, asset write-downs of \$13 million, contract termination costs of \$18 million, and other related costs of \$11 million. Of the \$13 million of asset write-downs, \$10 million related to inventory write-offs of discontinued product lines and production-related asset impairments, and therefore, was recorded within *cost of products sold* in the consolidated statements of earnings. In the first quarter of fiscal year 2014, we recorded an \$18 million restructuring charge, which was the final charge related to the fiscal year 2013 initiative and consisted primarily of contract termination costs of \$14 million and other related costs of \$4 million.

As of the end of the fourth quarter of fiscal year 2013, we identified approximately 2,000 positions for elimination to be achieved through involuntary and voluntary separation.

In fiscal year 2014, we recorded a \$46 million reversal of excess restructuring reserves related to the fiscal year 2013 initiative. The reversal was primarily a result of revisions to particular strategies and certain employees identified for elimination finding other positions within the Company.

As a result of certain legal requirements outside the U.S., the fiscal year 2013 initiative is scheduled to be substantially complete by the end of the third quarter of fiscal year 2016.

Fiscal Year 2012 Initiative

In the fourth quarter of fiscal year 2012, we recorded a \$118 million restructuring charge, which consisted of employee termination costs of \$66 million, asset write-downs of \$9 million, contract termination costs of \$30 million, and other related costs of \$13 million. The fiscal year 2012 initiative was designed to reduce general, administrative, and indirect distribution costs in certain organizations within the Company while prioritizing investment in research and development, and sales and marketing in those organizations within the Company where faster growth is anticipated, such as emerging markets and new technologies.

As of the end of the fourth quarter of fiscal year 2012, we identified approximately 1,000 positions for elimination to be achieved through involuntary and voluntary separation. As of April 26, 2013, the fiscal year 2012 initiative was substantially complete.

In the fourth quarter of fiscal year 2013, we recorded a \$10 million reversal of excess restructuring reserves related to the fiscal year 2012 initiative. This reversal was primarily a result of revisions to particular strategies and certain employees identified for elimination finding other positions within the Company.

For additional information, see Note 3 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

Certain Litigation Charges, Net We classify material litigation charges and gains recognized as certain litigation charges, net.

During fiscal year 2014, we recorded certain litigation charges, net of \$770 million, which primarily includes the global patent settlement agreement with Edwards of \$589 million, accounting charges for probable and reasonably estimable INFUSE product liability litigation of \$140 million, and other litigation. See Note 18 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information.

During fiscal year 2013, we recorded certain litigation charges, net of \$245 million related to probable and reasonably estimated damages resulting from patent litigation with Edwards. See Note 18 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information.

During fiscal year 2012, we recorded certain litigation charges, net of \$90 million related to the agreement to settle the federal securities class action initiated in December 2008 by the Minneapolis Firefighters’ Relief Association. During the fourth quarter of fiscal year 2012, Medtronic settled all of these class claims for \$85 million and incurred \$5 million in additional litigation fees.

Acquisition-Related Items During fiscal year 2014, we recorded net charges from acquisition-related items of \$117 million, primarily including IPR&D and long-lived asset impairment charges of \$236 million related to the Ardian, Inc. (Ardian) acquisition and income of \$(138) million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. The Ardian impairment resulted from our January 2014 announcement that the U.S. pivotal trial in renal denervation for treatment-resistant hypertension, Symplicity HTN-3, failed to meet its primary efficacy endpoint. Based on the results of the trial, we suspended enrollment of our renal denervation hypertension trials that were being conducted in the U.S., Japan, and India. These impairment charges consisted of \$192 million related to IPR&D and \$44 million related to other long-lived assets. For additional information regarding these impairment assessments, refer to Note 6 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K. The change in fair value of contingent consideration primarily related to adjustments for Ardian, which are based on annual revenue growth through fiscal year 2015. As there is no projected revenue growth through fiscal year 2015, no contingent consideration remained as of April 25, 2014.

During fiscal year 2013, we recorded net income from acquisition-related items of \$49 million, primarily including income of \$62 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. The change in fair value of contingent consideration primarily related to the reduction in fair value of contingent consideration associated with Ardian due to a slower commercial ramp in Europe. Additionally, we recorded transaction-related expenses of \$13 million.

During fiscal year 2012, we recorded net charges from acquisition-related items of \$12 million, primarily including \$45 million of charges related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. In connection with the acquisitions of Salient and PEAK, we recognized gains of \$32 million and \$6 million, respectively, on our previously-held investments.

See Note 4 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for further discussion on IPR&D charges.

We are responsible for the valuation of IPR&D charges. The values assigned to IPR&D are based on valuations that have been prepared using methodologies and valuation techniques consistent with those used by independent appraisers. All values were determined by identifying research projects in areas for which technological feasibility had not been established. Additionally, the values were determined by estimating the revenue and expenses associated with a project’s sales cycle and the amount of after-tax cash flows attributable to these projects. The future cash flows were discounted to present value utilizing an appropriate risk-adjusted rate of return. The rate of return included a factor that takes into account the uncertainty surrounding the successful development of the IPR&D.

At the time of acquisition, we expect that all acquired IPR&D will reach technological feasibility, but there can be no assurance that the commercial viability of these products will actually be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing, and conducting clinical trials necessary to obtain regulatory approvals. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, delay or failure to obtain required market clearances, or delays or issues with patent issuance, or validity and litigation. If commercial viability were not achieved, we would likely look to other alternatives to provide these therapies.

See the “Acquisitions” section of this management’s discussion and analysis for detailed discussion of each material acquisition in fiscal years 2014, 2013, and 2012.

Certain Tax Adjustments In fiscal year 2014, we recorded a \$63 million certain tax benefit associated with the resolution of certain issues in the fourth quarter of fiscal year 2014 with the U.S. Internal Revenue Service (IRS) relating to their review of our fiscal year 2009 through 2011 domestic income tax returns. The \$63 million certain tax benefit was recorded in the provision for income taxes in the consolidated statement of earnings for fiscal year 2014.

In fiscal years 2013 and 2012, there were no certain tax adjustments.

See the “Income Taxes” section of this management’s discussion and analysis for further discussion of the certain tax adjustments.

Amortization of Intangible Assets Amortization of intangible assets includes the amortization expense of our definite-lived intangible assets consisting of purchased patents, trademarks, tradenames, purchased technology, and other intangible assets. In

fiscal year 2014, amortization expense was \$349 million as compared to \$331 million in fiscal year 2013. The \$18 million increase in amortization expense for fiscal year 2014 was primarily due to the third quarter fiscal year 2013 acquisition of Kanghui and the second quarter fiscal year 2014 acquisition of Cardiocom, partially offset by reduced ongoing amortization expense from certain intangible assets that became fully amortized.

In fiscal year 2013, amortization expense was \$331 million, a decrease of \$4 million from \$335 million in fiscal year 2012. The decrease was primarily due to certain intangible assets that became fully amortized and life extension of certain patents, thereby reducing ongoing amortization expense, partially offset by amortization expense related to the third quarter fiscal year 2013 acquisition of Kanghui and the second quarter fiscal year 2012 acquisitions of Salient and PEAK.

Other Expense, Net Other expense, net includes royalty income and expense, realized equity security gains and losses, realized foreign currency transaction and derivative gains and losses, impairment charges on equity securities, the Puerto Rico excise tax, and the U.S. medical device excise tax. In fiscal year 2014, other expense, net was \$181 million, an increase of \$73 million from \$108 million in the prior fiscal year. The increase was primarily due to the full year impact of the U.S. medical device excise tax that went into effect January 1, 2013, partially offset by net realized foreign currency gains. In addition, the increase for fiscal year 2014 was partially offset by income from a license related to our Endovascular business. The U.S. medical device excise tax for fiscal year 2014 was \$112 million compared to \$21 million in the prior fiscal year. Total net realized foreign currency gains recorded in other expense, net were \$43 million in fiscal year 2014 compared to gains of \$27 million in the prior fiscal year.

In fiscal year 2013, other expense, net was \$108 million, a decrease of \$256 million from \$364 million in the prior fiscal year. The decrease was primarily due to the impact of foreign currency gains and losses. Total foreign currency gains recorded in fiscal year 2013 were \$27 million compared to losses of \$195 million in the prior fiscal year. In addition, the realized gains on certain available-for-sale marketable equity securities increased compared to the prior fiscal year, which were substantially offset by the U.S. medical device excise tax of \$21 million that went into effect January 1, 2013.

Interest Expense, Net Interest expense, net includes interest earned on our cash, cash equivalents and investments, interest incurred on our outstanding borrowings, amortization of debt issuance costs and debt discounts, the net realized and unrealized gain or loss on trading securities, ineffectiveness on interest rate derivative instruments, and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. In fiscal year 2014, interest expense, net was \$108 million, as compared to \$151 million in fiscal year 2013. For fiscal year 2014, the decrease in interest expense, net was the result of decreased interest expense due to reduced amortization of debt discount as a result of the April 2013 repayment of \$2.200 billion of Senior Convertible Notes, partially offset by increased debt. The decrease in interest expense, net during fiscal year 2014 was also due to increased interest income earned on higher investment balances, as compared to fiscal year 2013.

In fiscal year 2013, interest expense, net was \$151 million, as compared to \$149 million in fiscal year 2012. For fiscal year 2013, interest expense, net remained consistent with fiscal year 2012. Compared to fiscal year 2012, increased interest income from higher investment balances and increased realized gains on sales of available-for-sale debt securities were offset by increased interest expense from higher average outstanding long-term debt.

See our discussion in the “Liquidity and Capital Resources” section of this management’s discussion and analysis for more information regarding our investment portfolio.

Income Taxes

(dollars in millions)	Fiscal Year			Percentage Point Increase (Decrease)	
	2014	2013	2012	FY14/13	FY13/12
Provision for income taxes	\$ 640	\$ 784	\$ 730	N/A	N/A
Effective tax rate	17.3%	18.4%	17.6%	(1.1)	0.8
Net tax impact of special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments	0.7	(0.5)	0.5	1.2	(1.0)
Non-GAAP nominal tax rate ⁽¹⁾	18.0%	17.9%	18.1%	0.1	(0.2)

(1) Non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain

tax adjustments. We believe that the resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods. Investors should consider this non-GAAP measure in addition to, and not as a substitute for, financial performance measures prepared in accordance with U.S. GAAP. In addition, this non-GAAP financial measure may not be the same or similar to measures presented by other companies.

Our effective tax rate from continuing operations of 17.3 percent decreased by 1.1 percentage points from fiscal year 2013 to fiscal year 2014. The decrease in our effective tax rate was primarily due to the tax impact of special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, the certain tax adjustments recorded during fiscal year 2014, and other factors impacting our non-GAAP nominal rate as discussed below.

Our non-GAAP nominal tax rate for fiscal year 2014 was 18.0 percent compared to 17.9 percent in the prior fiscal year. The increase in our non-GAAP nominal tax rate for fiscal year 2014 as compared to the prior fiscal year was primarily due to the impact of the extension of the U.S. federal research and development tax credit on January 2, 2013 for calendar years 2012 and 2013 and the expiration of such extension on December 31, 2013, the finalization of certain income tax returns, changes to uncertain tax position reserves, the restoration of tax basis on certain assets for which depreciation and amortization deductions were previously limited, the tax impact of foreign dividend distributions, and year-over-year changes in operational results by jurisdiction.

During fiscal year 2014, we recorded \$42 million in operational tax benefits. This included a \$23 million benefit associated with the restoration of tax basis on certain assets for which depreciation and amortization deductions were previously limited and a \$19 million net benefit associated with the resolution of certain foreign and state income tax audits, finalization of certain tax returns, and changes to uncertain tax position reserves.

The fiscal year 2013 effective tax rate from continuing operations of 18.4 percent increased by 0.8 of a percentage point from the prior fiscal year. The increase in our effective tax rate was due to the net tax impact of restructuring charges, net, acquisition-related items, certain litigation charges, net, and the impact of operational tax benefits described below. Our non-GAAP nominal tax rate for fiscal year 2013 was 17.9 percent compared to 18.1 percent in the prior fiscal year. The decrease in our non-GAAP nominal tax rate for fiscal year 2013 as compared to the prior fiscal year was primarily due to the impact of operational tax benefits.

During fiscal year 2013, we recorded \$72 million in operational tax benefits. This included a \$30 million net benefit associated with the resolution of U.S. federal, state, and foreign income tax audits, finalization of certain tax returns, and changes to uncertain tax position reserves. As a result of the retroactive renewal and extension of the U.S. federal research and development tax credit, a \$12 million benefit was also recorded as an operational tax benefit during fiscal year 2013. In addition, we recorded a \$24 million benefit associated with foreign dividend distributions and a \$6 million benefit associated with the release of a valuation allowance associated with the usage of a capital loss carryover.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to our allocation are required between jurisdictions with different tax rates. Tax authorities periodically review our tax returns and propose adjustments to our tax filings. The IRS has settled its audits with us for all years through fiscal year 2004. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries. The major foreign jurisdictions where the Company conducts business have generally concluded all material tax matters through fiscal year 2004. In addition, substantially all material state and local tax matters have been concluded through fiscal year 2004.

In March 2009, the IRS issued its audit report for fiscal years 2005 and 2006. We reached agreement with the IRS on some but not all matters related to these fiscal years. On December 23, 2010, the IRS issued a statutory notice of deficiency with respect to the remaining issues. We filed a Petition with the U.S. Tax Court on March 21, 2011 objecting to the deficiency. During October and November 2012, we reached resolution with the IRS on various matters, including the deductibility of a settlement payment. The remaining unresolved issues relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, which is one of our key manufacturing sites.

In October 2011, the IRS issued its audit report for fiscal years 2007 and 2008. We reached agreement with the IRS on some but not all matters related to these fiscal years. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, and proposed adjustments associated with

the tax effects of our acquisition of Kyphon Inc. (Kyphon). Associated with the Kyphon acquisition, we entered into an intercompany transaction whereby the Kyphon U.S. tangible assets were sold to another wholly-owned Medtronic subsidiary in a taxable transaction. The IRS has disagreed with our valuation of these assets and proposed that all U.S. goodwill, the value of the ongoing business, and the value of the workforce in place related to the Kyphon acquisition be included in the tangible asset sale. We disagree that these items were sold, as well as with the IRS valuation of these items. The IRS continues to evaluate the overall transaction that Medtronic entered into and because a foreign subsidiary acquired part of Kyphon directly from the Kyphon shareholders, the IRS has argued that a deemed taxable event occurred. We disagree with the IRS and are currently attempting to resolve these matters at the IRS Appellate level and will proceed through litigation, if necessary.

In April 2014, the IRS issued its audit report for fiscal years 2009, 2010, and 2011. We reached agreement with the IRS on some but not all matters related to these fiscal years. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, and proposed adjustments associated with the tax effects of our acquisition structures for Ardian, CoreValve, Inc., and Ablation Frontiers, Inc. The IRS's positions are similar to those presented in the Kyphon proposed adjustments. We disagree with the IRS and will attempt to resolve these matters at the IRS Appellate level, however, we will proceed through litigation, if necessary.

Our reserves for uncertain tax positions relate to unresolved matters with the IRS and other taxing authorities. These reserves are subject to a high degree of estimation and management judgment. Resolution of these significant unresolved matters, or positions taken by the IRS or foreign tax authorities during future tax audits, could have a material impact on our financial results in future periods. We continue to believe that our reserves for uncertain tax positions are appropriate and that we have meritorious defenses for our tax filings and will vigorously defend them during the audit process, appellate process, and through litigation in courts, as necessary.

See Note 13 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K for additional information.

Liquidity and Capital Resources

(dollars in millions)	Fiscal Year	
	2014	2013
Working capital	\$ 15,651	\$ 13,902
Current ratio*	3.8:1.0	4.5:1.0
Cash, cash equivalents, and current investments	\$ 14,241	\$ 11,130
Non-current investments in debt, marketable equity, and trading securities**	155	293
Total	\$ 14,396	\$ 11,423
Short-term borrowings and long-term debt	11,928	10,651
Net cash position***	\$ 2,468	\$ 772

* Current ratio is the ratio of current assets to current liabilities.

** Non-current investments include debt, marketable equity, and trading securities that are not considered readily available to fund current operations.

*** Net cash position is the sum of cash, cash equivalents, current investments, and non-current investments in debt, marketable equity, and trading securities less short-term borrowings and long-term debt.

As of April 25, 2014, we believe our strong balance sheet and liquidity provide us with flexibility in the future. We believe our existing cash and investments, as well as our \$2.250 billion syndicated credit facility and related commercial paper program (no commercial paper outstanding as of April 25, 2014), will satisfy our foreseeable working capital requirements for at least the next 12 months. However, we periodically consider various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions. We also generally expect to refinance maturities of long-term debt. At April 25, 2014, our Moody's Investors Service (Moody's) ratings remain unchanged as compared to those ratings at April 26, 2013 with a long-term debt rating of A2 and short-term debt rating of P-1. On December 13, 2013, Standard & Poor's (S&P) Ratings Services raised our long-term debt rating to AA-, compared to A+ at April 26, 2013. This upgrade reflects S&P Ratings Services' reassessment of Medtronic's financial risk profile given its cash balances and sizable liquid investment portfolio. S&P Ratings Services' short-term debt rating remains unchanged at A-1+ as compared to the rating at April 26, 2013.

Subsequent to our announcement regarding our planned \$42.9 billion acquisition of Covidien, on June 16, 2014, S&P Ratings Services placed Medtronic's long-term debt rating of AA- on CreditWatch, reflecting its expectation of a potential future one- or two- notch downgrade, as a result of the anticipated increase in net leverage, if the transaction is consummated. S&P Ratings Services also noted that they expect to lower Medtronic's short-term debt rating from A-1+ to A-1 if the transaction goes through as expected. We do not expect this CreditWatch to have a significant impact on our liquidity or future flexibility to access additional liquidity given our strong balance sheet, our syndicated credit facility and related commercial paper program discussed above and within the "Debt and Capital" section of this management's discussion and analysis, and the subsequent Bridge Credit Agreement and Cash Bridge Credit Agreement (Credit Agreements) entered into in June 2014. See Note 21 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K for additional information regarding our planned acquisition of Covidien and related Credit Agreements.

Our net cash position in fiscal year 2014 increased by \$1.696 billion as compared to fiscal year 2013. See the "Summary of Cash Flows" section of this management's discussion and analysis for further information.

We have future contractual obligations and other minimum commercial commitments that are entered into in the normal course of business. We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position, or cash flows. See the "Off-Balance Sheet Arrangements and Long-Term Contractual Obligations" section of this management's discussion and analysis for further information.

Note 18 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K provides information regarding amounts we have accrued related to significant legal proceedings. In accordance with U.S. GAAP, we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. For the fiscal year ended April 25, 2014, we have made payments related to certain legal proceedings. For information regarding these charges, please see the "Special Charges, Restructuring Charges, Net, Certain Litigation Charges, Net, Acquisition-Related Items, and Certain Tax Adjustments" section of this management's discussion and analysis.

A significant amount of our earnings occur outside the U.S., and are indefinitely reinvested in non-U.S. subsidiaries, resulting in a majority of our cash, cash equivalents, and investments being held by non-U.S. subsidiaries. As of April 25, 2014 and April 26, 2013, approximately \$13.968 billion and \$10.930 billion, respectively, of cash, cash equivalents, and investments in marketable debt and equity securities were held by our non-U.S. subsidiaries. These funds are available for use by our non-U.S. operations. We continue to be focused on goals to grow our business through increased globalization of the Company, as demonstrated by the recent acquisition of Kanghui in China, as emerging markets continue to be a significant driver of potential growth. However, if these funds were repatriated to the U.S. or used for U.S. operations, the amounts would generally be subject to U.S. tax. As a result, we continue to accumulate earnings in non-U.S. subsidiaries for investment in operations outside the U.S. and to use cash generated from U.S. operations as well as short- and long-term borrowings to meet our U.S. cash needs. Should we require more capital for our U.S. operations, we could elect to repatriate these funds from our non-U.S. subsidiaries or raise additional capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or other dilution of our earnings.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include U.S. government and agency securities, foreign government and agency securities, corporate debt securities, certificates of deposit, mortgage-backed securities, other asset-backed securities, debt funds, and auction rate securities. Some of our investments may experience reduced liquidity due to changes in market conditions and investor demand. Our auction rate security holdings have experienced reduced liquidity in recent years due to changes in investor demand. Although our auction rate securities are currently illiquid and other securities could become illiquid, we believe we could liquidate a substantial amount of our portfolio without incurring a material impairment loss.

For the fiscal year ended April 25, 2014, the total other-than-temporary impairment losses on available-for-sale debt securities were not significant. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe we have recorded all necessary other-than-temporary impairments as we do not have the intent to sell, nor is it more likely than not that we will be required to sell, before recovery of the amortized cost. However, as of April 25, 2014, we have \$95 million of gross unrealized losses on our aggregate short-term and long-term available-for-sale debt securities of \$10.754 billion; if market conditions deteriorate, some of these holdings may experience other-than-temporary impairment in the future which could have a material impact on our financial results. Management is required to use estimates and assumptions in its valuation of our investments, which requires a high degree of judgment, and therefore, actual results could differ materially from those estimates. See Note 6 to the consolidated financial

statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding fair value measurements.

Summary of Cash Flows

(in millions)	Fiscal Year		
	2014	2013	2012
Cash provided by (used in):			
Operating activities	\$ 4,959	\$ 4,942	\$ 4,470
Investing activities	(3,594)	(3,101)	(2,662)
Financing activities	(918)	(2,101)	(1,882)
Effect of exchange rate changes on cash and cash equivalents	37	7	(71)
Net change in cash and cash equivalents	\$ 484	\$ (253)	\$ (145)

Operating Activities Our net cash provided by operating activities was \$4.959 billion, increasing \$17 million for the fiscal year ended April 25, 2014 compared to \$4.942 billion for the prior year.

Our net cash provided by operating activities was \$4.942 billion for the fiscal year ended April 26, 2013 compared to \$4.470 billion for the fiscal year ended April 27, 2012. The \$472 million increase in net cash provided by operating activities was primarily attributable to an increase in accounts receivable collections, primarily in certain Southern European countries, and a decrease in inventories, partially offset by a decrease in accrued income taxes due to the timing of certain tax payments during fiscal year 2013 as compared to the prior fiscal year.

Investing Activities Our net cash used in investing activities was \$3.594 billion for the fiscal year ended April 25, 2014 compared to \$3.101 billion for the prior year. The \$493 million increase in net cash used in investing activities was primarily attributable to increased net purchases of marketable securities compared to the prior fiscal year partially offset by higher levels of cash used in the prior year for acquisitions, primarily related to Kanghui.

Our net cash used in investing activities was \$3.101 billion for the fiscal year ended April 26, 2013 compared to \$2.662 billion for the prior year. The \$439 million increase in cash used in investing activities was primarily attributable to an increase in cash used for acquisitions in comparison to the prior fiscal year and the proceeds from divestiture of Physio-Control in fiscal year 2012, partially offset by a decrease in net purchases and sales and maturities of marketable securities.

Financing Activities We had net cash used in financing activities of \$918 million for the fiscal year ended April 25, 2014 compared to \$2.101 billion for the prior year. The \$1.183 billion decrease in cash used in financing activities primarily resulted from a \$1.457 billion decrease in net payments in excess of issuances on long-term debt and short-term borrowings, partially offset by a \$266 million increase in common stock repurchases net of issuances compared to the prior fiscal year.

We had net cash used in financing activities of \$2.101 billion for the fiscal year ended April 26, 2013 compared to \$1.882 billion for the prior fiscal year. The \$219 million increase in cash used in financing activities primarily resulted from a \$627 million decrease in net borrowings (long-term debt issuances and short-term borrowings in excess of payments), partially offset by higher levels of common stock issuances under employee stock purchase and award plans and a \$159 million net decrease in cash returned to shareholders in the form of dividends and common stock repurchases compared to the prior fiscal year.

Off-Balance Sheet Arrangements and Long-Term Contractual Obligations

We acquire assets still in development, enter into research and development arrangements, and sponsor certain clinical trials that often require milestone and/or royalty payments to a third-party, contingent upon the occurrence of certain future events. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. In addition, if required by the arrangement, we may have to make royalty payments based on a percentage of sales related to the product under development or in the event that regulatory approval for marketing is obtained. In situations where we have no ability to influence the achievement of the milestone or otherwise avoid the payment, we have included those milestone or minimum royalty payments in the following table. However, the majority of these arrangements give us the discretion to unilaterally make the decision to

stop development of a product or cease progress of a clinical trial, which would allow us to avoid making the contingent payments. Although we are unlikely to cease development if a device successfully achieves clinical testing objectives, these payments are not included in the table of contractual obligations because of the contingent nature of these payments and our ability to avoid them if we decided to pursue a different path of development or testing. See Note 4 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding contingent consideration.

In the normal course of business, we periodically enter into agreements that require us to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of our products or the negligence of our personnel or claims alleging that our products infringe third-party patents or other intellectual property. Our maximum exposure under these indemnification provisions cannot be estimated, and we have not accrued any liabilities within our consolidated financial statements or included any indemnification provisions in our commitments table. Historically, we have not experienced significant losses on these types of indemnification obligations.

We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position, or cash flows. Presented below is a summary of contractual obligations and other minimum commercial commitments as of April 25, 2014. See Notes 8 and 15 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding long-term debt and lease obligations, respectively. Additionally, see Note 13 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding accrued income tax obligations, which are not reflected in the table below.

(in millions)	Maturity by Fiscal Year						
	Total	2015	2016	2017	2018	2019	Thereafter
<i>Contractual obligations related to off-balance sheet arrangements:</i>							
Operating leases ⁽¹⁾	\$ 291	\$ 112	\$ 77	\$ 45	\$ 21	\$ 13	\$ 23
Inventory purchases ⁽²⁾	181	127	39	9	—	—	6
Commitments to fund minority investments/contingent acquisition consideration ⁽³⁾	637	86	56	158	50	51	236
Interest payments ⁽⁴⁾	5,019	404	350	320	324	311	3,310
Other ⁽⁵⁾	212	82	37	19	9	3	62
Total	\$ 6,340	\$ 811	\$ 559	\$ 551	\$ 404	\$ 378	\$ 3,637
<i>Contractual obligations reflected in the balance sheet:</i>							
Long-term debt, including current portion ⁽⁶⁾	\$ 11,375	\$ 1,250	\$ 1,100	\$ 500	\$ 1,000	\$ 400	\$ 7,125
Capital leases	153	14	12	31	18	19	59
Total	\$ 11,528	\$ 1,264	\$ 1,112	\$ 531	\$ 1,018	\$ 419	\$ 7,184

- (1) Certain leases require us to pay real estate taxes, insurance, maintenance, and other operating expenses associated with the leased premises. These future costs are not included in the schedule above.
- (2) We have included inventory purchase commitments which are legally binding and specify minimum purchase quantities. These purchase commitments do not exceed our projected requirements and are in the normal course of business. These commitments do not include open purchase orders.
- (3) Certain commitments related to the funding of cost or equity method investments and/or previous acquisitions are contingent upon the achievement of certain product-related milestones and various other favorable operational conditions, and estimated royalty obligations. While it is not certain if and/or when these payments will be made, the maturity dates included in this table reflect our best estimates.
- (4) Interest payments in the table above reflect the contractual interest payments on our outstanding debt, and exclude the impact of the debt discount amortization and impact of interest rate swap agreements. See Note 8 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding our debt agreements.

- (5) These obligations include certain research and development arrangements.
- (6) Long-term debt in the table above includes the \$2.000 billion of 2014 Senior Notes, \$3.000 billion of 2013 Senior Notes, \$1.075 billion of 2012 Senior Notes, \$1.000 billion of 2011 Senior Notes, \$3.000 billion of 2010 Senior Notes, \$700 million of 2009 Senior Notes, and \$600 million of 2005 Senior Notes. The table above excludes the debt discount, the fair value impact of outstanding interest rate swap agreements, and the unamortized gains from terminated interest rate swap agreements. See Notes 8 and 9 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding the interest rate swap agreements.

On June 15, 2014, we entered into a Transaction Agreement relating to the Pending Acquisition of Covidien, as described above within the “Executive Overview - Pending Acquisition of Covidien plc” section of this management’s discussion and analysis. Among other things the Transaction Agreement provides that Medtronic must pay Covidien a termination fee of \$850 million if the Transaction Agreement is terminated because the Medtronic board of directors changes its recommendation for the transaction and the Medtronic shareholders vote against the transaction, and either (i) Covidien obtained the requisite Covidien shareholder approval or (ii) Medtronic effected such termination prior to the completion of the Covidien shareholder meeting. For further information regarding the Pending Acquisition, see the “Executive Overview - Pending Acquisition of Covidien plc” section of this management’s discussion and analysis.

Debt and Capital

Our capital structure consists of equity and interest-bearing debt. Interest-bearing debt as a percentage of total interest-bearing debt and equity was 38 percent as of April 25, 2014 and 36 percent as of April 26, 2013.

As part of our focus on returning value to our shareholders, shares are repurchased from time to time. In June 2013 and June 2011, our Board of Directors authorized the repurchase of 80 million and 75 million shares of our common stock, respectively. During fiscal years 2014 and 2013, we repurchased approximately 47.8 million and 31.2 million shares at an average price of \$53.37 and \$39.97, respectively. As of April 25, 2014, we have used the entire amount authorized under the June 2011 repurchase program and have approximately 59.4 million shares remaining under the June 2013 repurchase program.

We use a combination of bank borrowings and commercial paper issuances to fund our short-term financing needs. Short-term debt, including the current portion of our long-term debt and capital lease obligations, as of April 25, 2014, was \$1.613 billion compared to \$910 million as of April 26, 2013. We utilize Senior Notes to meet our long-term financing needs. Long-term debt as of April 25, 2014 was \$10.315 billion compared to \$9.741 billion as of April 26, 2013.

We periodically issue Senior Notes that are unsecured, senior obligations that rank equally with all other secured and unsubordinated indebtedness. We use the net proceeds from the sale of the Senior Notes primarily for working capital and general corporate purposes. The indentures under which the Senior Notes have been issued contain customary covenants, all of which we remain in compliance with as of April 25, 2014.

In February 2014, the Company issued four tranches of Senior Notes (collectively, the 2014 Senior Notes) with an aggregate face value of \$2.000 billion. The first tranche consisted of \$250 million of floating rate Senior Notes due 2017. The second tranche consisted of \$250 million of 0.875 percent Senior Notes due 2017. The third tranche consisted of \$850 million of 3.625 percent Senior Notes due 2024. The fourth tranche consisted of \$650 million of 4.625 percent Senior Notes due 2044. Interest on the 2017 floating rate notes is payable quarterly and interest on the other 2014 Senior Notes are payable semi-annually. The Company used the net proceeds from the sale of the 2014 Senior Notes for working capital and general corporate purposes, including repayment of our indebtedness.

In March 2013, we issued three tranches of Senior Notes (collectively, the 2013 Senior Notes) with an aggregate face value of \$3.000 billion. The first tranche consisted of \$1.000 billion of 1.375 percent Senior Notes due 2018. The second tranche consisted of \$1.250 billion of 2.750 percent Senior Notes due 2023. The third tranche consisted of \$750 million of 4.000 percent Senior Notes due 2043. Interest on each series of the 2013 Senior Notes is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2013. The Company used the net proceeds from the sale of the 2013 Senior Notes for working capital and general corporate purposes, including repayment of our indebtedness.

As of April 25, 2014 and April 26, 2013, we had interest rate swap agreements designated as fair value hedges of underlying fixed-rate obligations including the Company’s \$1.250 billion 3.000 percent 2010 Senior Notes due 2015, \$600 million 4.750 percent 2005 Senior Notes due 2015, \$500 million 2.625 percent 2011 Senior Notes due 2016, \$500 million 4.125 percent 2011

Senior Notes due 2021, and \$675 million 3.125 percent 2012 Senior Notes due 2022. For additional information regarding the interest rate swap agreements, refer to Note 9 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

We maintain a commercial paper program that allows us to have a maximum of \$2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of April 26, 2013, outstanding commercial paper totaled \$125 million. No amounts were outstanding as of April 25, 2014. During fiscal years 2014 and 2013, the weighted average original maturity of the commercial paper outstanding was approximately 53 and 89 days, respectively, and the weighted average interest rate was 0.09 percent and 0.18 percent, respectively. The issuance of commercial paper reduces the amount of credit available under our existing line of credit.

We have a \$2.250 billion syndicated credit facility dated December 17, 2012 which expires on December 17, 2017 (Credit Facility). The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes. The Credit Facility provides us with the ability to increase its borrowing capacity by an additional \$750 million at any time during the term of the agreement. As of April 25, 2014 and April 26, 2013, no amounts were outstanding on the committed line of credit.

The \$337 million of outstanding bank borrowings as of April 25, 2014 were short-term advances to certain non-U.S. subsidiaries under credit agreements with various banks. These advances are guaranteed by the Company. We have bank borrowings at interest rates considered favorable by management and where natural hedges can be gained for foreign exchange purposes.

At April 25, 2014, our Moody’s ratings remain unchanged as compared to those at April 26, 2013 with a long-term debt rating of A2 and short-term debt rating of P-1. On December 13, 2013, S&P Ratings Services raised our long-term debt rating to AA-, compared to A+ at April 26, 2013. This upgrade reflects S&P Ratings Services’ reassessment of Medtronic’s financial risk profile given its cash balances and sizable liquid investment portfolio. S&P Ratings Services’ short-term debt rating remains unchanged at A-1+ as compared to the rating at April 26, 2013.

Subsequent to our announcement regarding our planned \$42.9 billion acquisition of Covidien, on June 16, 2014, S&P Ratings Services placed Medtronic’s long-term debt rating of AA- on CreditWatch, reflecting its expectation of a potential future one- or two- notch downgrade, as a result of the anticipated increase in net leverage, if the transaction is consummated. S&P Ratings Services also noted that they expect to lower Medtronic’s short-term debt rating from A-1+ to A-1 if the transaction goes through as expected. We do not expect this CreditWatch to have a significant impact on our liquidity or future flexibility to access additional liquidity given our strong balance sheet, our syndicated credit facility and related commercial paper program discussed above and within the “Liquidity and Capital Resources” section of this management’s discussion and analysis, and the subsequent Credit Agreements entered into in June 2014. See Note 21 to the consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K for additional information regarding our planned acquisition of Covidien and related Credit Agreements.

Interest rates on advances on our line of credit are determined by a pricing matrix, based on our long-term debt ratings assigned by S&P Ratings Services and Moody’s. Facility fees are payable on the credit facilities and are determined in the same manner as the interest rates. The agreements also contain customary covenants, all of which we remain in compliance with as of April 25, 2014.

Acquisitions

Fiscal Year 2014

On December 30, 2013, we acquired TYRX, a privately-held developer of antibiotic drug and implanted medical device combinations. TYRX’s products include those designed to reduce surgical site infections associated with implantable pacemakers, defibrillators, and spinal cord neurostimulators. Under the terms of the agreement, the transaction included an initial up-front payment of \$159 million, representing a purchase price net of acquired cash, including the assumption and settlement of existing TYRX debt and direct acquisition costs. Total consideration for the transaction was approximately \$222 million, which included estimated fair values for product development-based and revenue-based contingent consideration of \$25 million and \$35 million, respectively. The product development-based contingent consideration includes a future potential payment of \$40 million upon achieving certain milestones, and the revenue-based contingent consideration payments equal TYRX’s actual annual revenue growth for our fiscal years 2015 and 2016.

On August 7, 2013, we acquired Cardiocom, a privately-held developer and provider of integrated solutions for the management of chronic diseases such as heart failure, diabetes, and hypertension. Cardiocom's products and services include remote monitoring and patient-centered software to enable efficient care coordination and specialized telehealth nurse support. Total consideration for the transaction was approximately \$193 million.

Fiscal Year 2013

On November 1, 2012, we acquired Kanghui, a Chinese manufacturer and distributor of orthopedic products in trauma, spine, and joint reconstruction. Total consideration for the transaction was approximately \$816 million. The total value of the transaction, net of Kanghui's cash, was approximately \$797 million.

Fiscal Year 2012

On August 31, 2011, we acquired Salient. Salient develops and markets devices for haemostatic sealing of soft tissue and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic procedures. Total consideration for the transaction was approximately \$497 million. We had previously invested in Salient and held an 8.9 percent ownership position in the company. In connection with the acquisition of Salient, we recognized a gain on our previously-held investment of \$32 million, which was recorded within *acquisition-related items* in the consolidated statements of earnings in the second quarter of fiscal year 2012. Net of this ownership position, the transaction value was approximately \$452 million.

On August 31, 2011, we acquired PEAK. PEAK develops and markets tissue dissection devices incorporating advanced energy technology. Total consideration for the transaction was approximately \$113 million. We had previously invested in PEAK and held an 18.9 percent ownership position in the company. In connection with the acquisition of PEAK, we recognized a gain on our previously-held investment of \$6 million, which was recorded within *acquisition-related items* in the consolidated statements of earnings in the second quarter of fiscal year 2012. Net of this ownership position, the transaction value was approximately \$96 million.

The pro forma impact of the above acquisitions was not significant, individually or in the aggregate, to our results for the fiscal years ended April 25, 2014, April 26, 2013, or April 27, 2012. The results of operations related to each company acquired have been included in our consolidated statements of earnings since the date each company was acquired.

In addition to the acquisitions above, we periodically acquire certain tangible or intangible assets from enterprises that do not otherwise qualify for accounting as a business combination. These transactions are reflected in the consolidated statements of cash flows as a component of investing activities under *other investing activities, net*.

New Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 1 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Operations Outside of the United States

The table below illustrates U.S. net sales versus net sales outside the U.S. for fiscal years 2014, 2013, and 2012:

(in millions)	Fiscal Year		
	2014	2013	2012
U.S. net sales	\$ 9,209	\$ 9,059	\$ 8,828
Non-U.S. net sales	7,796	7,531	7,356
Total net sales	<u>\$ 17,005</u>	<u>\$ 16,590</u>	<u>\$ 16,184</u>

For fiscal year 2014, net sales outside the U.S. increased 4 percent compared to the prior fiscal year. Foreign currency had an unfavorable impact of \$175 million on net sales for fiscal year 2014. Net sales growth outside of the U.S. was led by strong growth in Surgical Technologies, Diabetes, and AF Solutions, and solid growth in CRDM defibrillation systems,

Neuromodulation, and Endovascular, partially offset by unfavorable foreign currency translation and a decline in Pacing Systems and Coronary.

For fiscal year 2013, net sales outside the U.S. increased 2 percent over the prior fiscal year. Foreign currency had an unfavorable impact of \$328 million on net sales for fiscal year 2013. Outside the U.S., net sales growth was led by strong growth in Endovascular, Diabetes, and Surgical Technologies, and solid growth in our Neuromodulation and Structural Heart businesses. Growth was partially offset by unfavorable foreign currency translation and slight declines in CRDM defibrillation and pacing systems and Core Spine.

Net sales outside the U.S. are accompanied by certain financial risks, such as changes in foreign currency exchange rates and collection of receivables, which typically have longer payment terms. We monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. However, a significant amount of our outstanding accounts receivable are with national health care systems in many countries. We continue to monitor the economic conditions in many countries outside the U.S. (particularly Italy, Spain, Portugal, and Greece) and the average length of time it takes to collect on our outstanding accounts receivable in these countries. As of April 25, 2014 and April 26, 2013, the aggregate accounts receivable balance for Italy, Spain, Portugal, and Greece, net of allowance for doubtful accounts, was \$628 million and \$770 million, respectively. We also continue to monitor the creditworthiness of customers located in these and other geographic areas. In the past, accounts receivable balances with certain customers in these countries accumulated over time and were subsequently settled as large lump sum payments. Although we do not currently foresee a significant credit risk associated with a material portion of these receivables, repayment is dependent upon the financial stability of the economies of those countries. For certain Greece customers, collectability is not reasonably assured for revenue transactions and we defer revenue recognition until all revenue recognition criteria are met. As of April 25, 2014 and April 26, 2013, our remaining deferred revenue balance for certain Greece distributors was \$15 million and \$21 million, respectively. Outstanding gross receivables from customers outside the U.S. totaled \$2.421 billion at April 25, 2014, or 61 percent of total outstanding accounts receivable, and \$2.349 billion as of April 26, 2013, or 61 percent of total outstanding accounts receivable.

Cautionary Factors That May Affect Future Results

This Annual Report, and other written reports and oral statements made by or with the approval of one of the Company's executive officers from time to time, may include "forward-looking" statements. Forward-looking statements broadly include our current expectations or forecasts of future results. Our forward-looking statements generally relate to our growth and growth strategies, financial results, product development, research and development strategy, regulatory approvals, competitive strengths, restructuring initiatives, intellectual property rights, litigation and tax matters, government investigations, mergers and acquisitions (including our pending acquisition of Covidien), divestitures, market acceptance of our products, accounting estimates, financing activities, ongoing contractual obligations, working capital adequacy, our effective tax rate, and sales efforts. Such statements can be identified by the use of terminology such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "looking ahead," "may," "plan," "possible," "potential," "project," "should," "will," and similar words or expressions. Forward-looking statements in this Annual Report include, but are not limited to, statements regarding our ability to drive long-term shareholder value, development and future launches of products and continued or future acceptance of products in our operating segments; expected timing for completion of research studies relating to our products; market positioning and performance of our products, including stabilization of certain product markets; unanticipated issues that may affect U.S. FDA and non-U.S. regulatory approval of new products; increased presence in new markets, including markets outside the U.S.; changes in the market and our market share; acquisitions and investment initiatives, as well as integration of acquired companies into our operations; the resolution of tax matters; the effectiveness of our development activities in reducing patient care costs and hospital stay lengths; our approach towards cost containment; our expectations regarding health care costs; the elimination of certain positions or costs related to restructuring initiatives; outcomes in our litigation matters and government investigations; general economic conditions; the adequacy of available working capital and our working capital needs; the continued strength of our balance sheet and liquidity; our accounts receivable exposure; and the potential impact of our compliance with governmental regulations and accounting guidance. One must carefully consider forward-looking statements and understand that such statements may be affected by inaccurate assumptions and may involve a variety of risks and uncertainties, known and unknown, including, among others, those discussed in the sections entitled "Government Regulation and Other Considerations" within "Item 1. Business" and "Item 1A. Risk Factors" in this Annual Report on Form 10-K, as well as those related to competition in the medical device industry, reduction or interruption in our supply, quality problems, liquidity, decreasing prices, changes in applicable tax rates, adverse regulatory action, litigation results, self-insurance, commercial insurance, health care policy changes, international operations, inability to obtain approvals required to complete the pending acquisition of Covidien, and failure to complete the pending acquisition of Covidien or, if completed, failure to achieve the intended benefits of the acquisition or disruption of our current plans and operations.

Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. We intend to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including this sentence for the express purpose of enabling us to use the protections of the safe harbor with respect to all forward-looking statements.

We undertake no obligation to update any statement we make, but investors are advised to consult all other disclosures by us in our filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q, and 8-K, in which we discuss in more detail various important factors that could cause actual results to differ from expected or historical results. In addition, actual results may differ materially from those anticipated due to a number of factors, including, among others, those discussed in the section entitled “Item 1A. Risk Factors” in this Annual Report on Form 10-K. It is not possible to foresee or identify all such factors. As such, investors should not consider any list of such factors to be an exhaustive statement of all risks, uncertainties, or potentially inaccurate assumptions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Due to the global nature of our operations, we are exposed to currency exchange rate changes. In a period where the U.S. dollar is strengthening/weakening as compared to other currencies, our revenues and expenses denominated in foreign currencies are translated into U.S. dollars at a lower/higher value than they would be in an otherwise constant currency exchange rate environment.

We use operational and economic hedges, as well as currency exchange rate derivative instruments, to manage the impact of currency exchange rate fluctuations on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate fluctuations, we enter into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities. At inception of the contract, the derivative instrument is designated as either a freestanding derivative or a cash flow hedge. The primary currencies of the derivative instruments are the Euro and Japanese Yen. Fluctuations in the currency exchange rates of currency exposures that are unhedged, such as in certain emerging markets, may result in future earnings and cash flow volatility. We do not enter into currency exchange rate derivative instruments for speculative purposes.

The gross notional amount of all currency exchange rate derivative instruments outstanding at April 25, 2014 and April 26, 2013 was \$8.051 billion and \$6.812 billion, respectively. At April 25, 2014, these contracts were in an unrealized loss position of \$27 million. A sensitivity analysis of changes in the fair value of all foreign currency exchange rate derivative contracts at April 25, 2014 indicates that, if the U.S. dollar uniformly strengthened/weakened by 10 percent against all currencies, the fair value of these contracts would increase/decrease by approximately \$617 million. Any gains and losses on the fair value of derivative contracts would generally be offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis. We are also exposed to interest rate changes affecting our investments in interest rate sensitive instruments, which include our marketable debt securities, fixed-to-floating interest rate swap agreements, and forward starting interest rate swap agreements. A sensitivity analysis of the impact on our interest rate sensitive financial instruments of a hypothetical 10 basis point change in interest rates, compared to interest rates as of April 25, 2014, indicates that the fair value of these instruments would correspondingly change by \$75 million.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include U.S. government and agency securities, foreign government and agency securities, corporate debt securities, certificates of deposit, mortgage-backed securities, other asset-backed securities, debt funds, and auction rate securities. For a discussion of current market conditions and the impact on our financial condition and results of operations, please see the "Liquidity and Capital Resources" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

For additional discussion of market risk, see Notes 5 and 9 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Medtronic, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Medtronic, Inc. and its subsidiaries (the Company) at April 25, 2014 and April 26, 2013, and the results of their operations and their cash flows for each of the three fiscal years in the period ended April 25, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 25, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

June 20, 2014

Medtronic, Inc.
Consolidated *Statements of Earnings*

	Fiscal Year		
	2014	2013	2012
<i>(in millions, except per share data)</i>			
Net sales	\$ 17,005	\$ 16,590	\$ 16,184
Costs and expenses:			
Cost of products sold	4,333	4,126	3,889
Research and development expense	1,477	1,557	1,490
Selling, general, and administrative expense	5,847	5,698	5,623
Special charges	40	—	—
Restructuring charges, net	78	172	87
Certain litigation charges, net	770	245	90
Acquisition-related items	117	(49)	12
Amortization of intangible assets	349	331	335
Other expense, net	181	108	364
Interest expense, net	108	151	149
Total costs and expenses	<u>13,300</u>	<u>12,339</u>	<u>12,039</u>
Earnings from continuing operations before income taxes	3,705	4,251	4,145
Provision for income taxes	640	784	730
Earnings from continuing operations	3,065	3,467	3,415
Discontinued operations, net of tax:			
Earnings from operations of Physio-Control	—	—	32
Physio-Control divestiture-related costs	—	—	(34)
Gain on sale of Physio-Control	—	—	204
Earnings from discontinued operations	—	—	<u>202</u>
Net earnings	<u>\$ 3,065</u>	<u>\$ 3,467</u>	<u>\$ 3,617</u>
Basic earnings per share:			
Earnings from continuing operations	\$ 3.06	\$ 3.40	\$ 3.24
Net earnings	<u>\$ 3.06</u>	<u>\$ 3.40</u>	<u>\$ 3.43</u>
Diluted earnings per share:			
Earnings from continuing operations	\$ 3.02	\$ 3.37	\$ 3.22
Net earnings	<u>\$ 3.02</u>	<u>\$ 3.37</u>	<u>\$ 3.41</u>
Basic weighted average shares outstanding	1,002.1	1,019.3	1,053.9
Diluted weighted average shares outstanding	1,013.6	1,027.5	1,059.9
Cash dividends declared per common share	\$ 1.12	\$ 1.04	\$ 0.97

The accompanying notes are an integral part of these consolidated financial statements.

Medtronic, Inc.
Consolidated Statements of Comprehensive Income

(in millions)	Fiscal Year		
	2014	2013	2012
Net earnings	\$ 3,065	\$ 3,467	\$ 3,617
Other comprehensive income (loss), net of tax:			
Unrealized loss on available-for-sale securities, net of tax benefit of \$(58), \$(19), and \$(38), respectively	(103)	(33)	(66)
Translation adjustment	13	(21)	(137)
Net change in retirement obligations, net of tax expense (benefit) of \$72, \$(4), and \$(130), respectively	87	(18)	(227)
Unrealized (loss) gain on derivatives, net of tax (benefit) expense of \$(60), \$30, and \$105, respectively	(102)	53	181
Other comprehensive income (loss)	<u>(105)</u>	<u>(19)</u>	<u>(249)</u>
Comprehensive income	<u>\$ 2,960</u>	<u>\$ 3,448</u>	<u>\$ 3,368</u>

The accompanying notes are an integral part of these consolidated financial statements.

Medtronic, Inc.
Consolidated Balance Sheets

	April 25, 2014	April 26, 2013
<u>(in millions, except per share data)</u>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,403	\$ 919
Investments	12,838	10,211
Accounts receivable, less allowances of \$115 and \$98, respectively	3,811	3,727
Inventories	1,725	1,712
Tax assets	736	539
Prepaid expenses and other current assets	697	744
Total current assets	21,210	17,852
Property, plant, and equipment, net	2,392	2,490
Goodwill	10,593	10,329
Other intangible assets, net	2,286	2,673
Long-term tax assets	300	232
Other assets	1,162	1,324
Total assets	\$ 37,943	\$ 34,900
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 1,613	\$ 910
Accounts payable	742	681
Accrued compensation	1,015	1,011
Accrued income taxes	164	88
Deferred tax liabilities	19	16
Other accrued expenses	2,006	1,244
Total current liabilities	5,559	3,950
Long-term debt	10,315	9,741
Long-term accrued compensation and retirement benefits	662	752
Long-term accrued income taxes	1,343	1,168
Long-term deferred tax liabilities	386	340
Other long-term liabilities	235	278
Total liabilities	18,500	16,229
Commitments and contingencies (Notes 4, 15, and 18)		
Shareholders' equity:		
Preferred stock— par value \$1.00; 2.5 million shares authorized, none outstanding	—	—
Common stock— par value \$0.10; 1.6 billion shares authorized, 998,999,125 and 1,016,014,005 shares issued and outstanding, respectively	100	102
Retained earnings	19,940	19,061
Accumulated other comprehensive loss	(597)	(492)
Total shareholders' equity	19,443	18,671
Total liabilities and shareholders' equity	\$ 37,943	\$ 34,900

The accompanying notes are an integral part of these consolidated financial statements.

Medtronic, Inc.
Consolidated Statements of Shareholders' Equity

(in millions)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance as of April 29, 2011	1,070	\$ 107	\$ 16,085	\$ (224)	\$ 15,968
Net earnings	—	—	3,617	—	3,617
Other comprehensive loss	—	—	—	(249)	(249)
Dividends to shareholders	—	—	(1,021)	—	(1,021)
Issuance of common stock under stock purchase and award plans	4	—	96	—	96
Repurchase of common stock	(37)	(3)	(1,437)	—	(1,440)
Tax deficit from exercise of stock-based awards	—	—	(19)	—	(19)
Stock-based compensation	—	—	161	—	161
Balance as of April 27, 2012	1,037	\$ 104	\$ 17,482	\$ (473)	\$ 17,113
Net earnings	—	—	3,467	—	3,467
Other comprehensive loss	—	—	—	(19)	(19)
Dividends to shareholders	—	—	(1,055)	—	(1,055)
Issuance of common stock under stock purchase and award plans	10	1	266	—	267
Repurchase of common stock	(31)	(3)	(1,244)	—	(1,247)
Tax deficit from exercise of stock-based awards	—	—	(7)	—	(7)
Stock-based compensation	—	—	152	—	152
Balance as of April 26, 2013	1,016	\$ 102	\$ 19,061	\$ (492)	\$ 18,671
Net earnings	—	—	3,065	—	3,065
Other comprehensive loss	—	—	—	(105)	(105)
Dividends to shareholders	—	—	(1,116)	—	(1,116)
Issuance of common stock under stock purchase and award plans	31	3	1,304	—	1,307
Repurchase of common stock	(48)	(5)	(2,548)	—	(2,553)
Tax benefit from exercise of stock-based awards	—	—	29	—	29
Stock-based compensation	—	—	145	—	145
Balance as of April 25, 2014	999	\$ 100	\$ 19,940	\$ (597)	\$ 19,443

The accompanying notes are an integral part of these consolidated financial statements.

Medtronic, Inc.
Consolidated Statements of Cash Flows

(in millions)	Fiscal Year		
	2014	2013	2012
Operating Activities:			
Net earnings	\$ 3,065	\$ 3,467	\$ 3,617
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	850	819	833
Amortization of debt discount and issuance costs	8	104	85
Gain on sale of Physio-Control	—	—	(218)
Acquisition-related items	110	(74)	45
Provision for doubtful accounts	43	51	66
Deferred income taxes	(207)	(7)	14
Stock-based compensation	145	152	161
Other, net	(28)	—	—
Change in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	(70)	1	(252)
Inventories	(39)	93	(185)
Accounts payable and accrued liabilities	(117)	481	300
Other operating assets and liabilities	444	(215)	155
Certain litigation charges, net	770	245	90
Certain litigation payments	(15)	(175)	(241)
Net cash provided by operating activities	4,959	4,942	4,470
Investing Activities:			
Acquisitions, net of cash acquired	(385)	(820)	(556)
Proceeds from divestiture of Physio-Control	—	—	386
Additions to property, plant, and equipment	(396)	(457)	(484)
Purchases of marketable securities	(10,895)	(12,321)	(9,704)
Sales and maturities of marketable securities	8,111	10,511	7,717
Other investing activities, net	(29)	(14)	(21)
Net cash used in investing activities	(3,594)	(3,101)	(2,662)
Financing Activities:			
Acquisition-related contingent consideration	(1)	(18)	(118)
Change in short-term borrowings, net	127	(720)	165
Repayment of short-term borrowings (maturities greater than 90 days)	(1,301)	(2,700)	(3,275)
Proceeds from short-term borrowings (maturities greater than 90 days)	1,176	2,628	2,525
Issuance of long-term debt	1,994	2,980	1,210
Payments on long-term debt	(565)	(2,214)	(24)
Dividends to shareholders	(1,116)	(1,055)	(1,021)
Issuance of common stock	1,307	267	96
Repurchase of common stock	(2,553)	(1,247)	(1,440)
Other financing activities	14	(22)	—
Net cash used in financing activities	(918)	(2,101)	(1,882)
Effect of exchange rate changes on cash and cash equivalents	37	7	(71)
Net change in cash and cash equivalents	484	(253)	(145)
Cash and cash equivalents at beginning of period	919	1,172	1,317
Cash and cash equivalents at end of period	\$ 1,403	\$ 919	\$ 1,172
Supplemental Cash Flow Information			
Cash paid for:			
Income taxes	\$ 521	\$ 537	\$ 454
Interest	394	333	312

The consolidated statement of cash flows for fiscal year 2012 includes the activities of the discontinued operations. The accompanying notes are an integral part of these consolidated financial statements.

Medtronic, Inc.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Operations Medtronic, Inc. (Medtronic or the Company) is the global leader in medical technology – alleviating pain, restoring health, and extending life for millions of people around the world. The Company provides innovative products and therapies for use by medical professionals to meet the health care needs of their patients. Primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, and ear, nose, and throat and diabetes conditions.

The Company is headquartered in Minneapolis, Minnesota, and markets its products primarily through a direct sales force in the United States (U.S.) and a combination of direct sales representatives and independent distributors in international markets. The primary markets for products are the U.S., Western Europe, Japan, and emerging markets.

Principles of Consolidation The consolidated financial statements include the accounts of Medtronic, Inc., and its consolidated subsidiaries. All significant intercompany transactions and accounts have been eliminated. U.S. generally accepted accounting principles (U.S. GAAP) are applied when determining whether an entity is subject to consolidation.

Beginning in the third quarter of fiscal year 2012, the results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations. All information in the following notes to the consolidated financial statements includes only results from continuing operations (excluding Physio-Control) for all periods presented, unless otherwise noted. For further information regarding discontinued operations, see Note 17.

Fiscal Year-End The Company utilizes a 52/53-week fiscal year, ending the last Friday in April. The Company's fiscal years 2014, 2013, and 2012 ended on April 25, 2014, April 26, 2013, and April 27, 2012, respectively, all of which were 52-week years. Fiscal year 2016 is the next 53-week year.

Reclassifications In the first quarter of fiscal year 2014, the Company revised the classification of certain outstanding checks previously classified as a reduction of cash and cash equivalents in the prior period consolidated balance sheets to accounts payable, and revised the prior period consolidated statements of cash flows for the associated impact. Certain prior period disclosures have been reclassified to conform to current year presentation. These revisions are considered immaterial.

Use of Estimates The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Cash Equivalents The Company considers highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. These investments are carried at cost, which approximates fair value.

Investments Investments in marketable equity securities and debt securities are classified and accounted for as available-for-sale. Debt securities include corporate debt securities, U.S. and foreign government and agency securities, certificates of deposit, mortgage-backed securities, other asset-backed securities, debt funds, and auction rate securities. These investments are recorded at fair value in the consolidated balance sheets. The change in fair value for available-for-sale securities is recorded, net of taxes, as a component of *accumulated other comprehensive loss* on the consolidated balance sheets. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. The classification of marketable securities as current or long-term is based on the nature of the securities and their availability for use in current operations consistent with how the Company manages its capital structure and liquidity.

Investments in securities that are classified and accounted for as trading securities include exchange-traded funds and are recorded at fair value on the consolidated balance sheets. The Company's trading securities seek to offset changes in liabilities related to equity and other market risks of certain deferred compensation arrangements. The change in fair value for trading securities is recorded as a component of *interest expense, net* on the consolidated statements of earnings.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Certain of the Company's investments in equity and other securities are long-term, strategic investments in companies that are in varied stages of development. The Company accounts for these investments under the cost or the equity method of accounting, as appropriate. These investments are included in *other assets* on the consolidated balance sheets. The valuation of equity and other securities accounted for under the cost method considers all available financial information related to the investee, including valuations based on recent third-party equity investments in the investee. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the consolidated statements of earnings in the period the determination is made. Equity securities accounted for under the equity method are initially recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss and dividends paid. Equity securities accounted for under both the cost and equity methods are reviewed quarterly for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. See Note 5 for discussion of the gains and losses recognized on equity and other securities.

Accounts Receivable The Company grants credit to customers in the normal course of business, but generally does not require collateral or any other security to support its receivables. The Company maintains an allowance for doubtful accounts for potential credit losses. Uncollectible accounts are written off against the allowance when it is deemed that a customer account is uncollectible.

Inventories Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

(in millions)	April 25, 2014	April 26, 2013
Finished goods	\$ 1,196	\$ 1,174
Work in process	247	248
Raw materials	282	290
Total	<u>\$ 1,725</u>	<u>\$ 1,712</u>

Property, Plant, and Equipment Property, plant, and equipment is stated at cost. Additions and improvements that extend the lives of the assets are capitalized while expenditures for repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the various assets. Property, plant, and equipment balances and corresponding lives are as follows:

(in millions)	April 25, 2014	April 26, 2013	Lives (in years)
Land and land improvements	\$ 152	\$ 151	Up to 20
Buildings and leasehold improvements	1,565	1,532	Up to 40
Equipment	4,409	4,110	3-7
Construction in progress	313	359	—
Subtotal	6,439	6,152	
Less: Accumulated depreciation	(4,047)	(3,662)	
Property, plant, and equipment, net	<u>\$ 2,392</u>	<u>\$ 2,490</u>	

Depreciation expense of \$501 million, \$488 million, and \$498 million was recognized in fiscal years 2014, 2013, and 2012, respectively.

Goodwill Goodwill is the excess of the purchase price (consideration) over the estimated fair value of net assets, including in-process research and development (IPR&D), of acquired businesses. In accordance with U.S. GAAP, goodwill is not amortized. The Company assesses the impairment of goodwill annually in the third quarter and whenever an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. An impairment loss is recognized when the carrying amount of the reporting unit's net assets exceed the estimated fair value of the reporting unit. The estimated fair value is determined using a discounted future cash flow analysis.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Other Intangible Assets Other intangible assets include patents, trademarks, purchased technology, and IPR&D (since April 25, 2009). Intangible assets with a definite life are amortized on a straight-line or accelerated basis, as appropriate, with estimated useful lives ranging from three to 20 years. Intangible assets with a definite life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset (asset group) may not be recoverable. Indefinite-lived intangible assets are tested for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is calculated as the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted future cash flow analysis.

IPR&D During fiscal year 2010, the Company adopted authoritative guidance related to business combinations. Subsequent to the adoption of this guidance, IPR&D acquired in a business combination is capitalized at its fair value as an indefinite-lived intangible asset. Prior to the adoption of this guidance, IPR&D was immediately expensed. The adoption of the authoritative guidance did not change the requirement to expense IPR&D immediately with respect to asset acquisitions. IPR&D charges are included within *acquisition-related items* in the consolidated statements of earnings. IPR&D has an indefinite life and is not amortized until completion and development of the project, at which time the IPR&D becomes an amortizable asset. If the related project is not completed in a timely manner or the project is terminated or abandoned, the Company may have an impairment related to the IPR&D, calculated as the excess of the asset's carrying value over its fair value.

The Company's policy defines IPR&D as the fair value of those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the fair value of IPR&D acquired as part of a business combination requires the Company to make significant estimates. The fair value assigned to IPR&D is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of measurement in accordance with accepted valuation methodologies. These methodologies include consideration of the risk of the project not achieving commercial feasibility.

At the time of acquisition, the Company expects that all acquired IPR&D will reach technological feasibility, but there can be no assurance that the commercial viability of these products will actually be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing, and conducting clinical trials necessary to obtain regulatory approvals. The risks associated with achieving commercialization include, but are not limited to, delay or failure to obtain regulatory approvals to conduct clinical trials, delay or failure to obtain required market clearances, or delays or issues with patent issuance, or validity and litigation. If commercial viability were not achieved, the Company would likely look to other alternatives to provide these therapies.

Contingent Consideration During fiscal year 2010, as mentioned above, the Company adopted authoritative guidance related to business combinations. Under this guidance, the Company must recognize contingent consideration at fair value at the acquisition date. Prior to the adoption of this guidance, contingent consideration was not included on the balance sheet and was recorded as incurred. The acquisition date fair value is measured based on the consideration expected to be transferred (probability-weighted), discounted back to present value. The discount rate used is determined at the time of measurement in accordance with accepted valuation methodologies. The fair value of the contingent consideration is remeasured at the estimated fair value at each reporting period with the change in fair value recognized as income or expense within *acquisition-related items* in the consolidated statements of earnings. Therefore, any changes in the fair value will impact the Company's earnings in such reporting period thereby resulting in potential variability in the Company's earnings until contingencies are resolved.

Warranty Obligation The Company offers a warranty on various products. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The amount of the reserve recorded is equal to the net costs to repair or otherwise satisfy the claim. The Company includes the warranty obligation in *other accrued expenses* and *other long-term liabilities* on the Company's consolidated balance sheets. The Company includes the covered costs associated with field actions, if any, in *cost of products sold* in the Company's consolidated statements of earnings.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Changes in the Company's product warranty obligations during the years ended April 25, 2014 and April 26, 2013 consisted of the following:

<u>(in millions)</u>	
Balance as of April 27, 2012	\$ 31
Warranty claims provision	25
Settlements made	<u>(21)</u>
Balance as of April 26, 2013	\$ 35
Warranty claims provision	25
Settlements made	<u>(28)</u>
Balance as of April 25, 2014	<u>\$ 32</u>

Self-Insurance It is the Company's policy to self-insure the vast majority of its insurable risks including medical and dental costs, disability coverage, physical loss to property, business interruptions, workers' compensation, comprehensive general, and product liability. Insurance coverage is obtained for those risks required to be insured by law or contract. The Company uses claims data and historical experience, as applicable, to estimate liabilities associated with the exposures that the Company has self-insured. Based on historical loss trends, the Company believes that its self-insurance program accruals and its existing insurance coverage will be adequate to cover future losses. Historical trends, however, may not be indicative of future losses. These losses could have a material adverse impact on the Company's consolidated financial statements.

Retirement Benefit Plan Assumptions The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans, and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. Pension benefit costs include assumptions for the discount rate, retirement age, compensation rate increases, and the expected return on plan assets. Post-retirement medical benefit costs include assumptions for the discount rate, retirement age, expected return on plan assets, and health care cost trend rate assumptions.

The Company evaluates the assumptions, including discount rate, retirement age, compensation rate increases, expected return on plan assets, and health care cost trend assumptions of its pension benefits and post-retirement benefits annually. In evaluating these assumptions, many factors are considered, including an evaluation of assumptions made by other companies, historical assumptions compared to actual results, current market conditions, asset allocations, and the views of leading financial advisors and economists. In evaluating the expected retirement age assumption, the Company considers the retirement ages of past employees eligible for pension and medical benefits together with expectations of future retirement ages. Refer to Note 14 for additional information regarding the Company's retirement benefit plans.

Accrued Certain Litigation Charges As of April 25, 2014 and April 26, 2013, accrued certain litigation charges were \$917 million and \$161 million, respectively. The Company includes accrued certain litigation charges in *other accrued expenses* on the Company's consolidated balance sheets.

Revenue Recognition The Company sells its products primarily through a direct sales force in the U.S. and a combination of direct sales representatives and independent distributors in international markets. The Company recognizes revenue when title to the goods and risk of loss transfers to customers, provided there are no material remaining performance obligations required of the Company or any matters requiring customer acceptance. In cases where the Company utilizes distributors or ships product directly to the end user, it recognizes revenue upon shipment provided all revenue recognition criteria have been met. A portion of the Company's revenue is generated from inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at the time the product has been used or implanted. The Company records estimated sales returns, discounts, and rebates as a reduction of net sales in the same period revenue is recognized.

For multiple-element arrangements, the Company allocates arrangement consideration to the deliverables by use of the relative selling price method. The selling price used for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or best estimated selling price (BESP) if neither VSOE nor TPE

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

is available. BSP is determined in a manner consistent with that used to establish the price to sell the deliverable on a standalone basis.

Shipping and Handling Shipping and handling costs incurred were \$194 million, \$182 million, and \$167 million in fiscal years 2014, 2013, and 2012, respectively, and are included in *selling, general, and administrative expense* in the consolidated statements of earnings.

Research and Development Research and development costs are expensed when incurred. Research and development costs include costs of all basic research activities as well as other research, engineering, and technical effort required to develop a new product or service or make significant improvement to an existing product or manufacturing process. Research and development costs also include pre-approval regulatory and clinical trial expenses.

Other Expense, Net Other expense, net includes royalty income and expense, realized equity security gains and losses, realized foreign currency transaction and derivative gains and losses, impairment charges on equity securities, the Puerto Rico excise tax, and the U.S. medical device excise tax.

Stock-Based Compensation The Company's compensation programs include share-based payments. All awards under share-based payment programs are accounted for at fair value and these fair values are generally amortized on a straight-line basis over the vesting terms into *cost of products sold, research and development expense, and selling, general, and administrative expense* in the consolidated statements of earnings, as appropriate. Refer to Note 12 for additional information.

Foreign Currency Translation Assets and liabilities of non-U.S. dollar functional currency entities are translated to U.S. dollars at period-end exchange rates, and the resulting gains and losses arising from the translation of those net assets are recorded as a cumulative translation adjustment, a component of *accumulated other comprehensive loss* on the consolidated balance sheets. Elements of the consolidated statements of earnings are translated at average currency exchange rates in effect during the period and foreign currency transaction gains and losses are included in *other expense, net* in the consolidated statements of earnings.

Comprehensive Income and Accumulated Other Comprehensive Loss In addition to net earnings, comprehensive income includes changes in currency exchange rate translation adjustments, unrealized gains and losses on currency exchange rate derivative contracts and interest rate derivative instruments qualifying and designated as cash flow hedges, net changes in retirement obligation funded status, and unrealized gains and losses on available-for-sale marketable securities. Taxes are not provided on cumulative translation adjustments as substantially all translation adjustments relate to earnings that are intended to be indefinitely reinvested outside the U.S.

Presented below is a summary of activity for each component of *accumulated other comprehensive loss* for fiscal years 2013 and 2012:

(in millions)	Unrealized Gain (Loss) on Available-for- Sale Securities	Cumulative Translation Adjustments	Net Change in Retirement Obligations	Unrealized Gain (Loss) on Derivatives	Accumulated Other Comprehensive Loss
Balance as of April 29, 2011	\$ 196	\$ 443	\$ (607)	\$ (256)	\$ (224)
Other comprehensive (loss) income	(66)	(137)	(227)	181	(249)
Balance as of April 27, 2012	\$ 130	\$ 306	\$ (834)	\$ (75)	\$ (473)
Other comprehensive (loss) income	(33)	(21)	(18)	53	(19)
Correction of classification	—	(80)	—	80	—
Balance as of April 26, 2013	<u>\$ 97</u>	<u>\$ 205</u>	<u>\$ (852)</u>	<u>\$ 58</u>	<u>\$ (492)</u>

Included in cumulative translation adjustments is translation on certain foreign exchange rate derivatives held by non-U.S. dollar functional currency entities. In fiscal year 2014, the Company corrected the classification of cumulative translation of the unrealized gains (losses) on certain foreign exchange rate derivatives held by non-U.S. dollar functional currency entities from

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cumulative translation adjustment (CTA) to unrealized gain (loss) on derivatives. The Company has applied this change retrospectively to April 26, 2013 as a correction of the classification in the table above. In the first quarter of fiscal year 2014, the Company prospectively adopted guidance issued that requires additional disclosure related to the impact of reclassification adjustments out of accumulated other comprehensive income (loss) on net income. The required disclosures are included in Note 16.

Refer to the consolidated statements of comprehensive income for additional information.

Derivatives U.S. GAAP requires companies to recognize all derivatives as assets and liabilities on the balance sheet and to measure the instruments at fair value through earnings unless the derivative qualifies as a hedge. If the derivative is a hedge, depending on the nature of the hedge and hedge effectiveness, changes in the fair value of the derivative will either be recognized currently through earnings or recorded in *other comprehensive income (loss)* until the hedged item is recognized in earnings upon settlement/termination. The changes in the fair value of the derivative are intended to offset the change in fair value of the hedged asset, liability, or probable commitment. The Company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

The Company uses operational and economic hedges, as well as currency exchange rate derivative contracts and interest rate derivative instruments, to manage the impact of currency exchange and interest rate changes on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, the Company enters into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. The primary currencies of the derivative instruments are the Euro and Japanese Yen. The Company does not enter into currency exchange rate derivative contracts for speculative purposes. All derivative instruments are recorded at fair value on the consolidated balance sheets, as a component of *prepaid expenses and other current assets, other assets, other accrued expenses, or other long-term liabilities* depending upon the gain or loss position of the contract and contract maturity date.

Forward contracts designated as cash flow hedges are designed to hedge the variability of cash flows associated with forecasted transactions denominated in a foreign currency that will take place in the future. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive loss. The effective portion of the gain or loss on the derivative instrument is reclassified into earnings and is included in *other expense, net* or *cost of products sold* in the consolidated statements of earnings, depending on the underlying transaction that is being hedged, in the same period or periods during which the hedged transaction affects earnings. The cash flows from these contracts are reported as operating activities in the consolidated statements of cash flows.

The Company uses freestanding derivative forward contracts to offset its exposure to the change in value of specific foreign currency denominated assets and liabilities. These derivatives are not designated as hedges, and therefore, changes in the value of these forward contracts are recognized in earnings, thereby offsetting the current earnings effect of the related change in value of foreign currency denominated assets and liabilities.

The Company uses forward starting interest rate derivative instruments designated as cash flow hedges to manage the exposure to interest rate volatility with regard to future issuances of fixed-rate debt. The effective portion of the gains or losses on the forward starting interest rate derivative instruments that are designated and qualify as cash flow hedges are reported as a component of *accumulated other comprehensive loss*. Beginning in the period in which the planned debt issuance occurs and the related derivative instruments are terminated, the effective portion of the gains or losses are then reclassified into *interest expense, net* over the term of the related debt. Any portion of the gains or losses that are determined to be ineffective are immediately recognized in *interest expense, net*. The cash flows from these contracts are reported as operating activities in the consolidated statements of cash flows.

The Company uses interest rate derivative instruments designated as fair value hedges to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

reference to agreed-upon notional principal amounts. Changes in the fair value of the derivative instrument are recorded in *interest expense, net*, and are offset by changes in the fair value on the underlying debt instrument. The cash flows from these contracts are reported as operating activities in the consolidated statements of cash flows. The gains (losses) from terminated interest rate swap agreements are recorded in long-term debt, increasing (decreasing) the outstanding balances of the debt, and amortized as a reduction (addition) of interest expense, net over the remaining life of the related debt. The cash flows from the termination of the interest rate swap agreements are reported as operating activities in the consolidated statements of cash flows.

In addition, the Company has collateral credit agreements with its primary derivative counterparties. Under these agreements, either party is required to post eligible collateral when the market value of transactions covered by the agreement exceeds specific thresholds, thus limiting credit exposure for both parties.

Earnings Per Share Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding, increased by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued, and reduced by the number of shares the Company could have repurchased from the proceeds from issuance of the potentially dilutive shares. Potentially dilutive shares of common stock include stock options and other stock-based awards granted under stock-based compensation plans and shares committed to be purchased under the employee stock purchase plan.

The table below sets forth the computation of basic and diluted earnings per share:

(in millions, except per share data)	Fiscal Year		
	2014	2013	2012
Numerator:			
Earnings from continuing operations	\$ 3,065	\$ 3,467	\$ 3,415
Earnings from discontinued operations	—	—	202
Net earnings	3,065	3,467	3,617
Denominator:			
Basic – weighted average shares outstanding	1,002.1	1,019.3	1,053.9
Effect of dilutive securities:			
Employee stock options	7.1	2.8	0.9
Employee restricted stock units	4.3	5.3	4.9
Other	0.1	0.1	0.2
Diluted – weighted average shares outstanding	1,013.6	1,027.5	1,059.9
Basic earnings per share:			
Earnings from continuing operations	\$ 3.06	\$ 3.40	\$ 3.24
Earnings from discontinued operations	\$ —	\$ —	\$ 0.19
Net earnings	\$ 3.06	\$ 3.40	\$ 3.43
Diluted earnings per share:			
Earnings from continuing operations	\$ 3.02	\$ 3.37	\$ 3.22
Earnings from discontinued operations	\$ —	\$ —	\$ 0.19
Net earnings	\$ 3.02	\$ 3.37	\$ 3.41

The calculation of weighted average diluted shares outstanding excludes options for approximately 5 million, 38 million, and 51 million shares of common stock in fiscal years 2014, 2013, and 2012, respectively, because their effect would be anti-dilutive on the Company's earnings per share.

New Accounting Standards

Recently Adopted

In December 2011 and January 2013, the Financial Accounting Standards Board (FASB) issued new accounting guidance related to disclosures on offsetting assets and liabilities on the balance sheet. This newly issued accounting standard requires an

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

entity to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. The Company retrospectively adopted this accounting guidance in the first quarter of fiscal year 2014. The required disclosures are included in Note 9. Since the accounting guidance only requires disclosure, its adoption did not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB updated the accounting guidance related to annual and interim indefinite-lived intangible asset impairment testing. The updated accounting guidance allows entities to first assess qualitative factors before performing a quantitative assessment of the fair value of indefinite-lived intangible assets. If it is determined on the basis of qualitative factors that the fair value of indefinite-lived intangible assets is more likely than not less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. The Company adopted this accounting guidance in the first quarter of fiscal year 2014 and its adoption did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB expanded the disclosure requirements with respect to changes in accumulated other comprehensive income (AOCI). Under this new guidance, companies are required to disclose the amount of income (or loss) reclassified out of AOCI to each respective line item on the statements of earnings where net income is presented. The guidance allows companies to elect whether to disclose the reclassification either in the notes to the financial statements or parenthetically on the face of the financial statements. In the first quarter of fiscal year 2014, the Company prospectively adopted this guidance. The required disclosures are included in Note 16. Since the accounting guidance only impacts disclosure requirements, its adoption did not have a material impact on the Company's consolidated financial statements.

Not Yet Adopted

In March 2013, the FASB issued amended guidance on a parent company's accounting for the CTA recorded in AOCI associated with a foreign entity. The amendment requires a parent to release into net income the CTA related to its investment in a foreign entity when it either sells a part or all of its investment, or no longer holds a controlling financial interest, in a subsidiary or group of assets within a foreign entity. This accounting guidance is effective for the Company beginning in the first quarter of fiscal year 2015. Subsequent to adoption, this amended guidance would impact the Company's financial position and results of operations prospectively in the instance of an event or transaction described above.

In July 2013, the FASB issued amended guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented as a reduction of a deferred tax asset when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists, with certain exceptions. This accounting guidance is effective prospectively for the Company beginning in the first quarter of fiscal year 2015. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

In April 2014, the FASB issued amended guidance for reporting discontinued operations. The amended guidance changes the criteria for determining when the results of operations are to be reported as discontinued operations and expands the related disclosure requirements. The guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or classified as held for sale which is a strategic shift that has, or will have, a major effect on financial position and results of operations. This accounting guidance is effective prospectively for the Company beginning in the first quarter of fiscal year 2016, with early adoption permitted. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued amended revenue recognition guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance is effective for the Company beginning in the first quarter of fiscal year 2018 using one of

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

two prescribed retrospective methods. Early adoption is not permitted. The Company is evaluating the impact of the amended revenue recognition guidance on the Company's consolidated financial statements.

2. Special Charges and Certain Litigation Charges, Net

Special Charges

During fiscal year 2014, consistent with the Company's commitment to improving the health of people and communities throughout the world, the Company made a \$40 million charitable contribution to the Medtronic Foundation, which is a related party non-profit organization.

During fiscal years 2013 and 2012, there were no special charges.

Certain Litigation Charges, Net

The Company classifies material litigation charges and gains recognized as certain litigation charges, net.

During fiscal year 2014, the Company recorded certain litigation charges, net of \$770 million, which primarily includes the global patent settlement agreement with Edwards Lifesciences Corporation (Edwards) of \$589 million, accounting charges for probable and reasonably estimable INFUSE product liability litigation of \$140 million, and other litigation. Refer to Note 18 for additional information.

During fiscal year 2013, the Company recorded certain litigation charges, net of \$245 million related to probable and reasonably estimated damages resulting from patent litigation with Edwards. Refer to Note 18 for additional information.

During fiscal year 2012, the Company recorded certain litigation charges, net of \$90 million related to the agreement to settle the federal securities class action initiated in December 2008 by the Minneapolis Firefighters' Relief Association. During the fourth quarter of fiscal year 2012, Medtronic settled all of these class claims for \$85 million and incurred \$5 million in additional litigation fees.

3. Restructuring Charges, Net

Fiscal Year 2014 Initiative

In the fourth quarter of fiscal year 2014, the Company recorded a \$116 million restructuring charge, which consisted of employee termination costs of \$65 million, asset write-downs of \$26 million, contract termination costs of \$3 million, and other related costs of \$22 million. Of the \$26 million of asset write-downs, \$10 million related to inventory write-offs of discontinued product lines and production-related asset impairments, and therefore, was recorded within *cost of products sold* in the consolidated statements of earnings. The fiscal year 2014 initiative primarily relates to the Company's renal denervation business, certain manufacturing shut-downs, and a reduction of back-office support functions in Europe.

As of the end of the fourth quarter of fiscal year 2014, the Company identified approximately 600 positions for elimination to be achieved primarily through involuntary separation. The fiscal year 2014 initiative is scheduled to be substantially complete by the end of the fourth quarter of fiscal year 2015.

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Notes to Consolidated Financial Statements (Continued)

A summary of the activity related to the fiscal year 2014 initiative is presented below:

(in millions)	Fiscal Year 2014 Initiative			
	Employee Termination Costs	Asset Write-downs	Other Costs	Total
Balance as of April 26, 2013	\$ —	\$ —	\$ —	\$ —
Restructuring charges	65	26	25	116
Payments/write-downs	(1)	(26)	(14)	(41)
Balance as of April 25, 2014	<u>\$ 64</u>	<u>\$ —</u>	<u>\$ 11</u>	<u>\$ 75</u>

Fiscal Year 2013 Initiative

The fiscal year 2013 initiative was designed to scale back the Company's infrastructure in slower growing areas of the business, while continuing to invest in geographies, businesses, and products where faster growth is anticipated. A number of factors have contributed to ongoing challenging market dynamics, including increased pricing pressure, various governmental austerity measures, and the U.S. medical device excise tax. In the fourth quarter of fiscal year 2013, the Company recorded a \$192 million restructuring charge, which consisted of employee termination costs of \$150 million, asset write-downs of \$13 million, contract termination costs of \$18 million, and other related costs of \$11 million. Of the \$13 million of asset write-downs, \$10 million related to inventory write-offs of discontinued product lines and production-related asset impairments, and therefore, was recorded within *cost of products sold* in the consolidated statements of earnings. In the first quarter of fiscal year 2014, the Company recorded an \$18 million restructuring charge, which was the final charge related to the fiscal year 2013 initiative and consisted primarily of contract termination costs of \$14 million and other related costs of \$4 million.

As of the end of the fourth quarter of fiscal year 2013, the Company identified approximately 2,000 positions for elimination to be achieved through involuntary and voluntary separation.

In fiscal year 2014, the Company recorded a reversal of excess restructuring reserves related to the fiscal year 2013 initiative of \$46 million. The reversal was primarily a result of revisions to particular strategies and certain employees identified for elimination finding other positions within the Company.

As a result of certain legal requirements outside the U.S., the fiscal year 2013 initiative is scheduled to be substantially complete by the end of the third quarter of fiscal year 2016.

A summary of the activity related to the fiscal year 2013 initiative is presented below:

(in millions)	Fiscal Year 2013 Initiative			
	Employee Termination Costs	Asset Write-downs	Other Costs	Total
Balance as of April 27, 2012	\$ —	\$ —	\$ —	\$ —
Restructuring charges	150	13	29	192
Payments/write-downs	(3)	(13)	(6)	(22)
Balance as of April 26, 2013	<u>\$ 147</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ 170</u>
Restructuring charges	—	—	18	18
Payments	(79)	—	(39)	(118)
Reversal of excess accrual	(45)	—	(1)	(46)
Balance as of April 25, 2014	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 24</u>

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Notes to Consolidated Financial Statements (Continued)

Fiscal Year 2012 Initiative

In the fourth quarter of fiscal year 2012, the Company recorded a \$118 million restructuring charge, which consisted of employee termination costs of \$66 million, asset write-downs of \$9 million, contract termination costs of \$30 million, and other related costs of \$13 million. The fiscal year 2012 initiative was designed to reduce general, administrative, and indirect distribution costs in certain organizations within the Company while prioritizing investment in research and development, and sales and marketing in those organizations within the Company where faster growth is anticipated, such as emerging markets and new technologies.

As of the end of the fourth quarter of fiscal year 2012, the Company identified approximately 1,000 positions for elimination to be achieved through involuntary and voluntary separation. As of April 26, 2013, the fiscal year 2012 initiative was substantially complete.

In the fourth quarter of fiscal year 2013, the Company recorded a \$10 million reversal of excess restructuring reserves related to the fiscal year 2012 initiative. This reversal was primarily a result of revisions to particular strategies and certain employees identified for elimination finding other positions within the Company.

A summary of the activity related to the fiscal year 2012 initiative is presented below:

(in millions)	Fiscal Year 2012 Initiative			
	Employee Termination Costs	Asset Write-downs	Other Costs	Total
Balance as of April 29, 2011	\$ —	\$ —	\$ —	\$ —
Restructuring charges	66	9	43	118
Payments/write-downs	(2)	(9)	(16)	(27)
Balance as of April 27, 2012	\$ 64	\$ —	\$ 27	\$ 91
Payments	(54)	—	(23)	(77)
Reversal of excess accrual	(10)	—	—	(10)
Balance as of April 26, 2013	\$ —	\$ —	\$ 4	\$ 4
Payments	—	—	(4)	(4)
Balance as of April 25, 2014	\$ —	\$ —	\$ —	\$ —

4. Acquisitions and Acquisition-Related Items

The Company had various acquisitions and other acquisition-related activity during fiscal years 2014, 2013, and 2012. Certain acquisitions were accounted for as business combinations as noted below. In accordance with authoritative guidance on business combination accounting, the assets and liabilities of the company acquired were recorded as of the acquisition date, at their respective fair values, and consolidated. The pro forma impact of these acquisitions was not significant, individually or in the aggregate, to the results of the Company for the fiscal years ended April 25, 2014, April 26, 2013, or April 27, 2012. The results of operations related to each company acquired have been included in the Company's consolidated statements of earnings since the date each company was acquired.

Fiscal Year 2014

TYRX, Inc.

On December 30, 2013, the Company acquired TYRX, Inc. (TYRX), a privately-held developer of antibiotic drug and implanted medical device combinations. TYRX's products include those designed to reduce surgical site infections associated with implantable pacemakers, defibrillators, and spinal cord neurostimulators. Under the terms of the agreement, the transaction included an initial up-front payment of \$159 million, representing a purchase price net of acquired cash, including the

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Notes to Consolidated Financial Statements (Continued)

assumption and settlement of existing TYRX debt and direct acquisition costs. Total consideration for the transaction was approximately \$222 million, which included estimated fair values for product development-based and revenue-based contingent consideration of \$25 million and \$35 million, respectively. The product development-based contingent consideration includes a future potential payment of \$40 million upon achieving certain milestones, and the revenue-based contingent consideration payments equal TYRX's actual annual revenue growth for the Company's fiscal years 2015 and 2016. Based upon the preliminary acquisition valuation, the Company acquired \$94 million of technology-based intangible assets with an estimated useful life of 14 years and \$132 million of goodwill. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of TYRX as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. During the fourth quarter of fiscal year 2014, the Company recorded minor adjustments to *goodwill* and *long-term deferred tax liabilities, net*. The fair values of the assets acquired and liabilities assumed are as follows:

(in millions)	
Current assets	\$ 6
Property, plant, and equipment	1
Intangible assets	94
Goodwill	132
Total assets acquired	<u>233</u>
Current liabilities	4
Long-term deferred tax liabilities, net	7
Total liabilities assumed	<u>11</u>
Net assets acquired	<u>\$ 222</u>

Cardiacom, LLC

On August 7, 2013, the Company acquired Cardiacom, LLC (Cardiacom), a privately-held developer and provider of integrated solutions for the management of chronic diseases such as heart failure, diabetes, and hypertension. Cardiacom's products and services include remote monitoring and patient-centered software to enable efficient care coordination and specialized telehealth nurse support. Total consideration for the transaction was approximately \$193 million. Based upon the acquisition valuation, the Company acquired \$61 million of customer-related intangible assets with an estimated useful life of 7 years and \$123 million of goodwill. The acquired goodwill is deductible for tax purposes.

The Company accounted for the acquisition of Cardiacom as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(in millions)	
Current assets	\$ 14
Property, plant, and equipment	7
Intangible assets	61
Goodwill	123
Total assets acquired	<u>205</u>
Current liabilities	12
Total liabilities assumed	<u>12</u>
Net assets acquired	<u>\$ 193</u>

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Acquisition-Related Items

During fiscal year 2014, the Company recorded net charges from acquisition-related items of \$117 million, primarily including IPR&D and long-lived asset impairment charges of \$236 million related to the Ardian, Inc. (Ardian) acquisition and income of \$138 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. The Ardian impairment resulted from the Company's January 2014 announcement that the U.S. pivotal trial in renal denervation for treatment-resistant hypertension, Symplicity HTN-3, failed to meet its primary efficacy endpoint. Based on the results of the trial, the Company suspended enrollment of its renal denervation hypertension trials that were being conducted in the U.S., Japan, and India. These impairment charges consisted of \$192 million related to IPR&D and \$44 million related to other long-lived assets. For additional information regarding these impairment assessments, refer to Note 6. The change in fair value of contingent consideration primarily related to adjustments for Ardian, which are based on annual revenue growth through fiscal year 2015. As there was no projected revenue growth through fiscal year 2015, no contingent consideration remained as of April 25, 2014. These amounts are included within *acquisition-related items* in the consolidated statements of earnings.

Fiscal Year 2013

China Kanghui Holdings

On November 1, 2012, the Company acquired China Kanghui Holdings (Kanghui). Kanghui is a Chinese manufacturer and distributor of orthopedic products in trauma, spine, and joint reconstruction. Total consideration for the transaction was approximately \$816 million. The total value of the transaction, net of Kanghui's cash, was approximately \$797 million. Based on the acquisition valuation, the Company acquired \$288 million of technology-based assets and \$53 million of tradenames and customer-related intangible assets that each had a weighted average estimated useful life of 11 years and \$409 million of goodwill. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of Kanghui as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(in millions)	
Current assets	\$ 106
Property, plant, and equipment	56
Intangible assets	341
Goodwill	409
Other assets	11
Total assets acquired	<u>923</u>
Current liabilities	29
Long-term deferred tax liabilities, net	77
Other long-term liabilities	1
Total liabilities assumed	<u>107</u>
Net assets acquired	<u>\$ 816</u>

Acquisition-Related Items

During fiscal year 2013, the Company recorded net income from acquisition-related items of \$49 million, primarily including income of \$62 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. The change in fair value of contingent consideration primarily related to the reduction in fair value of contingent consideration associated with Ardian due to a slower commercial ramp in Europe. Additionally, the Company recorded transaction-related expenses of \$13 million. These amounts are included within *acquisition-related items* in the consolidated statements of earnings.

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Notes to Consolidated Financial Statements (Continued)

Fiscal Year 2012

Salient Surgical Technologies, Inc.

On August 31, 2011, the Company acquired Salient Surgical Technologies, Inc. (Salient). Salient develops and markets devices for haemostatic sealing of soft tissue and bone incorporating advanced energy technology. Salient's devices are used in a variety of surgical procedures including orthopedic surgery, spine, open abdominal, and thoracic procedures. Total consideration for the transaction was approximately \$497 million. Medtronic had previously invested in Salient and held an 8.9 percent ownership position in the company. Net of this ownership position, the transaction value was approximately \$452 million. Based upon the acquisition valuation, the Company acquired \$154 million of technology-based intangible assets that had an estimated useful life of 12 years, \$44 million of IPR&D, and \$348 million of goodwill. The IPR&D primarily relates to the launch of Salient's concentric wire product. The acquired goodwill is not deductible for tax purposes.

The Company accounted for the acquisition of Salient as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

(in millions)	
Current assets	\$ 20
Property, plant, and equipment	11
IPR&D	44
Other intangible assets	154
Goodwill	348
Other assets	1
Total assets acquired	<u>578</u>
Current liabilities	43
Long-term deferred tax liabilities, net	38
Total liabilities assumed	<u>81</u>
Net assets acquired	<u>\$ 497</u>

PEAK Surgical, Inc.

On August 31, 2011, the Company acquired PEAK Surgical, Inc. (PEAK). PEAK develops and markets tissue dissection devices incorporating advanced energy technology. Total consideration for the transaction was approximately \$113 million. Medtronic had previously invested in PEAK and held an 18.9 percent ownership position in the company. Net of this ownership position, the transaction value was approximately \$96 million. Based upon the acquisition valuation, the Company acquired \$74 million of technology-based intangible assets that had an estimated useful life of 12 years, and \$56 million of goodwill. The acquired goodwill is not deductible for tax purposes.

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Notes to Consolidated Financial Statements (Continued)

The Company accounted for the acquisition of PEAK as a business combination using the acquisition method of accounting. The assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date. The fair values of the assets acquired and liabilities assumed are as follows:

<i>(in millions)</i>	
Current assets	\$ 5
Property, plant, and equipment	5
Intangible assets	74
Goodwill	56
Total assets acquired	<u>140</u>
Current liabilities	10
Long-term deferred tax liabilities, net	17
Total liabilities assumed	<u>27</u>
Net assets acquired	<u>\$ 113</u>

Acquisition-Related Items

During fiscal year 2012, the Company recorded net charges from acquisition-related items of \$12 million, primarily including charges of \$45 million related to the change in fair value of contingent consideration associated with acquisitions subsequent to April 29, 2009. Additionally, in connection with the acquisitions of Salient and PEAK, the Company recognized gains of \$32 million and \$6 million, respectively, on its previously-held investments. These amounts are included within *acquisition-related items* in the consolidated statements of earnings.

Contingent Consideration

Certain of the Company's business combinations and purchases of intellectual property involve the potential for the payment of future contingent consideration upon the achievement of certain product development milestones and/or various other favorable operating conditions. Payment of the additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified revenue levels or achieving product development targets. For business combinations subsequent to April 24, 2009, a liability is recorded for the estimated fair value of the contingent consideration on the acquisition date. The fair value of the contingent consideration is remeasured at each reporting period with the change in fair value recognized as income or expense within *acquisition-related items* in the consolidated statements of earnings. The Company measures the liability on a recurring basis using Level 3 inputs. See Note 6 for further information regarding fair value measurements.

The fair value of contingent consideration is measured using projected payment dates, discount rates, probabilities of payment, and projected revenues (for revenue-based considerations). Projected contingent payment amounts are discounted back to the current period using a discounted cash flow model. Projected revenues are based on the Company's most recent internal operational budgets and long-range strategic plans. Increases (decreases) in projected revenues, probabilities of payment, discount rates, or projected payment dates may result in higher (lower) fair value measurements. Fluctuations in any of the inputs may result in a significantly lower (higher) fair value measurement.

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Notes to Consolidated Financial Statements (Continued)

The recurring Level 3 fair value measurements of contingent consideration include the following significant unobservable inputs:

(\$ in millions)	Fair Value at April 25, 2014	Valuation Technique	Unobservable Input	Range
Revenue-based payments	\$ 43	Discounted cash flow	Discount rate	13.5% - 24%
			Probability of payment	100%
			Projected fiscal year of payment	2015 - 2019
Product development-based payments	\$ 25	Discounted cash flow	Discount rate	5.5%
			Probability of payment	75% - 100%
			Projected fiscal year of payment	2015 - 2018

At April 25, 2014, the estimated maximum potential amount of undiscounted future contingent consideration that the Company is expected to make associated with all completed business combinations or purchases of intellectual property prior to April 24, 2009 was approximately \$199 million. The Company estimates the milestones or other conditions associated with the contingent consideration will be reached in fiscal year 2015 and thereafter.

The fair value of contingent consideration associated with acquisitions subsequent to April 24, 2009, as of April 25, 2014 and April 26, 2013, was \$68 million and \$142 million, respectively. As of April 25, 2014, \$51 million was reflected in *other long-term liabilities* and \$17 million was reflected in *other accrued expenses* in the consolidated balance sheets. As of April 26, 2013, \$120 million was reflected in *other long-term liabilities* and \$22 million was reflected in *other accrued expenses* in the consolidated balance sheets. The portion of the contingent consideration related to the acquisition date fair value is reported as financing activities in the consolidated statements of cash flows. Amounts paid in excess of the original acquisition date fair value are reported as operating activities in the consolidated statements of cash flows. The following table provides a reconciliation of the beginning and ending balances of contingent consideration associated with acquisitions subsequent to April 24, 2009:

(in millions)	Fiscal Year	
	2014	2013
Beginning Balance	\$ 142	\$ 231
Purchase price contingent consideration	65	3
Contingent consideration payments	(1)	(30)
Change in fair value of contingent consideration	(138)	(62)
Ending Balance	<u>\$ 68</u>	<u>\$ 142</u>

5. Investments

The Company holds investments consisting primarily of marketable debt and equity securities.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Information regarding the Company's investments at April 25, 2014 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	\$ 5,504	\$ 55	\$ (17)	\$ 5,542
Auction rate securities	109	—	(12)	97
Mortgage-backed securities	1,337	7	(8)	1,336
U.S. government and agency securities	3,138	7	(29)	3,116
Foreign government and agency securities	67	—	—	67
Certificates of deposit	54	—	—	54
Other asset-backed securities	540	2	—	542
Debt funds	2,143	9	(29)	2,123
Marketable equity securities	47	15	(13)	49
Trading securities:				
Exchange-traded funds	54	13	—	67
Cost method, equity method, and other investments	666	—	—	NA
Total investments	<u>\$ 13,659</u>	<u>\$ 108</u>	<u>\$ (108)</u>	<u>\$ 12,993</u>

Information regarding the Company's investments at April 26, 2013 is as follows:

(in millions)	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	\$ 4,587	\$ 78	\$ (4)	\$ 4,661
Auction rate securities	118	—	(15)	103
Mortgage-backed securities	1,050	8	(5)	1,053
U.S. government and agency securities	3,882	17	(1)	3,898
Foreign government and agency securities	38	—	—	38
Certificates of deposit	6	—	—	6
Other asset-backed securities	539	2	—	541
Marketable equity securities	82	75	(2)	155
Trading securities:				
Exchange-traded funds	45	5	—	50
Cost method, equity method, and other investments	549	—	—	NA
Total investments	<u>\$ 10,896</u>	<u>\$ 185</u>	<u>\$ (27)</u>	<u>\$ 10,505</u>

Information regarding the Company's consolidated balance sheets presentation at April 25, 2014 and April 26, 2013 is as follows:

(in millions)	April 25, 2014		April 26, 2013	
	Investments	Other Assets	Investments	Other Assets
Available-for-sale securities	\$ 12,771	\$ 155	\$ 10,161	\$ 294
Trading securities	67	—	50	—
Cost method, equity method, and other investments	—	666	—	549
Total	<u>\$ 12,838</u>	<u>\$ 821</u>	<u>\$ 10,211</u>	<u>\$ 843</u>

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Notes to Consolidated Financial Statements (Continued)

The following tables show the gross unrealized losses and fair values of the Company's available-for-sale securities that have been in a continuous unrealized loss position deemed to be temporary, aggregated by investment category as of April 25, 2014 and April 26, 2013:

(in millions)	April 25, 2014			
	Less than 12 Months		More than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 1,601	\$ (14)	\$ 50	\$ (3)
Auction rate securities	—	—	97	(12)
Mortgage-backed securities	682	(7)	28	(1)
U.S. government and agency securities	1,500	(27)	46	(2)
Debt funds	1,224	(29)	—	—
Marketable equity securities	25	(13)	—	—
Total	\$ 5,032	\$ (90)	\$ 221	\$ (18)

(in millions)	April 26, 2013			
	Less than 12 Months		More than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 544	\$ (1)	\$ 13	\$ (3)
Auction rate securities	—	—	103	(15)
Mortgage-backed securities	195	(1)	44	(4)
U.S. government and agency securities	291	(1)	—	—
Marketable equity securities	14	(2)	—	—
Total	\$ 1,044	\$ (5)	\$ 160	\$ (22)

Activity related to the Company's investment portfolio is as follows:

(in millions)	Fiscal Year					
	2014		2013		2012	
	Debt (a)	Equity (b)	Debt (a)	Equity (b)	Debt (a)	Equity (b) (c)
Proceeds from sales	\$ 7,991	\$ 120	\$ 10,350	\$ 161	\$ 7,675	\$ 113
Gross realized gains	\$ 15	\$ 69	\$ 59	\$ 94	\$ 52	\$ 93
Gross realized losses	\$ (12)	\$ —	\$ (17)	\$ —	\$ (16)	\$ —
Impairment losses recognized	\$ (1)	\$ (9)	\$ —	\$ (21)	\$ (2)	\$ (10)

- (a) Includes available-for-sale debt securities.
- (b) Includes marketable equity securities, cost method, equity method, exchange-traded funds, and other investments.
- (c) As a result of the Salient and PEAK acquisitions that occurred during fiscal year 2012, the Company recognized a non-cash gain of \$38 million on its previously-held minority investments.

Credit losses represent the difference between the present value of cash flows expected to be collected on certain mortgage-backed securities and auction rate securities and the amortized cost of these securities. Based on the Company's assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which invested, the Company believes it has recorded all necessary other-than-temporary impairments as the Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, before recovery of the amortized cost.

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Notes to Consolidated Financial Statements (Continued)

As of April 25, 2014, April 26, 2013, and April 27, 2012, the credit loss portion of other-than-temporary impairments on debt securities was \$4 million, \$9 million, and \$20 million, respectively. The total reductions for available-for-sale debt securities sold for the fiscal years ended April 25, 2014 and April 26, 2013 were \$5 million and \$11 million, respectively. The total other-than-temporary impairment losses on available-for-sale debt securities for the fiscal years ended April 25, 2014 and April 26, 2013 were not significant. The total other-than-temporary impairment losses on available-for-sale debt securities for the fiscal year ended April 27, 2012 was \$6 million, of which \$4 million was recognized in other comprehensive income and \$2 million was recognized in earnings.

The April 25, 2014 balance of available-for-sale debt securities, excluding debt funds which have no single maturity date, by contractual maturity is shown in the following table. Within the table, maturities of mortgage-backed securities have been allocated based upon timing of estimated cash flows, assuming no change in the current interest rate environment. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(in millions)	<u>April 25, 2014</u>
Due in one year or less	\$ 1,412
Due after one year through five years	6,368
Due after five years through 10 years	2,859
Due after 10 years	<u>115</u>
Total debt securities	<u>\$ 10,754</u>

As of April 25, 2014 and April 26, 2013, the aggregate carrying amount of equity and other securities without a quoted market price and accounted for using the cost or equity method was \$666 million and \$549 million, respectively. The total carrying value of these investments is reviewed quarterly for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. The value of cost or equity method investments is not adjusted if there are no identified events or changes in circumstances that may have a material adverse effect on the fair value of the investment.

Gains and losses realized on trading securities and available-for-sale debt securities are recorded in *interest expense, net* in the consolidated statements of earnings. Gains and losses realized on marketable equity securities, cost method, equity method, and other investments are recorded in *other expense, net* in the consolidated statements of earnings. In addition, unrealized gains and losses on available-for-sale debt securities are recorded in *other comprehensive income (loss)* in the consolidated statements of comprehensive income and unrealized gains and losses on trading securities are recorded in *interest expense, net* in the consolidated statements of earnings. Gains and losses from the sale of investments are calculated based on the specific identification method.

6. Fair Value Measurements

The Company follows the authoritative guidance on fair value measurements and disclosures with respect to assets and liabilities that are measured at fair value on both a recurring and nonrecurring basis. Under this guidance, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The categorization of financial assets and financial liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into three levels defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.

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Notes to Consolidated Financial Statements (Continued)

- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs are unobservable for the asset or liability.

See the section below titled *Valuation Techniques* for further discussion of how the Company determines fair value for investments.

Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis

The authoritative guidance is principally applied to financial assets and liabilities such as marketable equity securities and debt and equity securities that are classified and accounted for as trading, available-for-sale, and derivative instruments and contingent consideration associated with acquisitions subsequent to April 24, 2009. Derivatives include cash flow hedges, freestanding derivative forward contracts, and fair value hedges. These items are marked-to-market at each reporting period.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis:

(in millions)	Fair Value as of April 25, 2014	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	\$ 5,542	\$ —	\$ 5,533	\$ 9
Auction rate securities	97	—	—	97
Mortgage-backed securities	1,336	—	1,336	—
U.S. government and agency securities	3,116	1,251	1,865	—
Foreign government and agency securities	67	—	67	—
Certificates of deposit	54	—	54	—
Other asset-backed securities	542	—	542	—
Debt funds	2,123	—	2,123	—
Marketable equity securities	49	49	—	—
Exchange-traded funds	67	67	—	—
Derivative assets	175	89	86	—
Total assets	\$ 13,168	\$ 1,456	\$ 11,606	\$ 106
Liabilities:				
Derivative liabilities	\$ 127	\$ 116	\$ 11	\$ —
Contingent consideration associated with acquisitions subsequent to April 24, 2009	68	—	—	68
Total liabilities	\$ 195	\$ 116	\$ 11	\$ 68

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Notes to Consolidated Financial Statements (Continued)

(in millions)	Fair Value as of April 26, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets:				
Corporate debt securities	\$ 4,661	\$ —	\$ 4,651	\$ 10
Auction rate securities	103	—	—	103
Mortgage-backed securities	1,053	—	1,039	14
U.S. government and agency securities	3,898	1,833	2,065	—
Foreign government and agency securities	38	—	38	—
Certificates of deposit	6	—	6	—
Other asset-backed securities	541	—	541	—
Marketable equity securities	155	155	—	—
Exchange-traded funds	50	50	—	—
Derivative assets	394	213	181	—
Total assets	\$ 10,899	\$ 2,251	\$ 8,521	\$ 127
Liabilities:				
Derivative liabilities	\$ 58	\$ 40	\$ 18	\$ —
Contingent consideration associated with acquisitions subsequent to April 24, 2009	142	—	—	142
Total liabilities	\$ 200	\$ 40	\$ 18	\$ 142

Valuation Techniques

Financial assets that are classified as Level 1 securities include highly liquid government bonds within U.S. government and agency securities, marketable equity securities, and exchange-traded funds for which quoted market prices are available. In addition, the Company has determined that foreign currency forward contracts will be included in Level 1 as these are valued using quoted market prices in active markets which have identical assets or liabilities.

The valuation for most fixed maturity securities are classified as Level 2. Financial assets that are classified as Level 2 include corporate debt securities, U.S. government and agency securities, foreign government and agency securities, certificates of deposit, other asset-backed securities, debt funds, and certain mortgage-backed securities whose value is determined using inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data such as pricing for similar securities, recently executed transactions, cash flow models with yield curves, and benchmark securities. In addition, interest rate swaps are included in Level 2 as the Company uses inputs other than quoted prices that are observable for the asset. The Level 2 derivative instruments are primarily valued using standard calculations and models that use readily observable market data as their basis.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. Level 3 financial assets also include certain investment securities for which there is limited market activity such that the determination of fair value requires significant judgment or estimation. Level 3 investment securities include certain corporate debt securities, auction rate securities, and certain mortgage-backed securities. With the exception of auction rate securities, these securities were valued using third-party pricing sources that incorporate transaction details such as contractual terms, maturity, timing, and amount of expected future cash flows, as well as assumptions about liquidity and credit valuation adjustments by market participants. The fair value of auction rate securities is estimated by the Company using a discounted cash flow model, which incorporates significant unobservable inputs. The significant unobservable inputs used in the fair value measurement of the Company's auction rate securities are years to principal recovery and the illiquidity premium that is incorporated into the discount rate. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value of the securities. Additionally, the Company uses Level 3 inputs in the measurement of contingent consideration and

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Notes to Consolidated Financial Statements (Continued)

related liabilities for all acquisitions subsequent to April 24, 2009. See Note 4 for further information regarding contingent consideration.

The following table represents the range of the unobservable inputs utilized in the fair value measurement of the auction rate securities classified as Level 3 as of April 25, 2014:

	Valuation Technique	Unobservable Input	Range (Weighted Average)
Auction rate securities	Discounted cash flow	Years to principal recovery Illiquidity premium	2 yrs. - 12 yrs. (3 yrs.) 6%

The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the end of the fiscal quarter in which the actual event or change in circumstances that caused the transfer occurs. There were no transfers between Level 1, Level 2, or Level 3 during the fiscal years ended April 25, 2014 or April 26, 2013. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

The following table provides a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis that used significant unobservable inputs (Level 3):

(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities
Balance as of April 26, 2013	\$ 127	\$ 10	\$ 103	\$ 14	\$ —
Total realized losses and other-than-temporary impairment losses included in earnings	(5)	—	(5)	—	—
Total unrealized gains included in other comprehensive income	4	—	3	1	—
Settlements	(20)	(1)	(4)	(15)	—
Balance as of April 25, 2014	<u>\$ 106</u>	<u>\$ 9</u>	<u>\$ 97</u>	<u>\$ —</u>	<u>\$ —</u>
(in millions)	Total Level 3 Investments	Corporate debt securities	Auction rate securities	Mortgage-backed securities	Other asset-backed securities
Balance as of April 27, 2012	\$ 172	\$ 10	\$ 127	\$ 29	\$ 6
Total unrealized gains included in other comprehensive income	11	—	11	—	—
Settlements	(56)	—	(35)	(15)	(6)
Balance as of April 26, 2013	<u>\$ 127</u>	<u>\$ 10</u>	<u>\$ 103</u>	<u>\$ 14</u>	<u>\$ —</u>

Assets and Liabilities That Are Measured at Fair Value on a Nonrecurring Basis

Non-financial assets such as equity and other securities that are accounted for using the cost or equity method, goodwill and IPR&D, intangible assets, and property, plant, and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized.

The Company holds investments in equity and other securities that are accounted for using the cost or equity method, which are classified as *other assets* in the consolidated balance sheets. The aggregate carrying amount of these investments was \$666 million as of April 25, 2014 and \$549 million as of April 26, 2013. These cost or equity method investments are measured at fair value on a nonrecurring basis. The fair value of the Company's cost or equity method investments is not estimated if there are no identified events or changes in circumstance that may have a significant adverse effect on the fair value of these

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Notes to Consolidated Financial Statements (Continued)

investments. During fiscal years 2014, 2013, and 2012, the Company determined that the fair values of certain cost method investments were below their carrying values and that the carrying values of these investments were not expected to be recoverable within a reasonable period of time. As a result, the Company recognized \$10 million, \$21 million, and \$10 million in impairment charges in fiscal years 2014, 2013, and 2012, respectively. These investments fall within Level 3 of the fair value hierarchy, due to the use of significant unobservable inputs to determine fair value, as the investments are privately-held entities without quoted market prices. To determine the fair value of these investments, the Company used all pertinent financial information available related to the entities, including financial statements and market participant valuations from recent and proposed equity offerings.

The Company assesses the impairment of goodwill annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The aggregate carrying amount of goodwill was \$10.593 billion as of April 25, 2014 and \$10.329 billion as of April 26, 2013, respectively.

Impairment testing for goodwill is performed at the reporting unit level. The test for impairment of goodwill requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The Company calculated the excess of each reporting unit's fair value over its carrying amount, including goodwill, utilizing a discounted cash flow analysis. As a result of the analysis performed, the fair value of each reporting unit's goodwill was deemed to be greater than the carrying value. The Company did not record any goodwill impairments during fiscal years 2014, 2013, or 2012.

The recently acquired businesses of Cardiocom and Kanghui are separate reporting units and are tested for goodwill impairment independently; therefore, they are more sensitive to changes in assumptions impacting fair value. The carrying amount of goodwill was \$409 million and \$123 million for the Kanghui and Cardiocom reporting units, respectively, as of April 25, 2014. As of the date of the goodwill testing, the fair values of these two reporting units exceeded their respective carrying values by more than 10 percent.

The Company assesses the impairment of IPR&D annually in the third quarter and whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The aggregate carrying amount of IPR&D was \$119 million as of April 25, 2014 and \$363 million as of April 26, 2013, respectively. The majority of IPR&D at April 25, 2014 is related to IN.PACT family of drug-eluting balloons. Similar to the goodwill impairment test, the IPR&D impairment test requires the Company to make several estimates about fair value, most of which are based on projected future cash flows. The Company calculated the excess of IPR&D asset fair values over their carrying values utilizing a discounted future cash flow analysis. As a result of the analysis performed during fiscal year 2014, the fair value of certain IPR&D assets were deemed to be less than their carrying value, resulting in an impairment loss of \$207 million, primarily related to the Ardian acquisition, that was recorded in *acquisition-related items* in the consolidated statements of earnings. The Ardian impairment resulted from the Company's January 2014 announcement that the U.S. pivotal trial in renal denervation for treatment-resistant hypertension, Symplicity HTN-3, failed to meet its primary efficacy endpoint. Based on the results of the trial, the Company suspended enrollment in the renal denervation hypertension trials that were being conducted in the U.S., Japan, and India. See discussion below for additional information on impairments recorded on the Ardian long-lived asset group. As a result of the analysis performed during fiscal year 2013, the fair value of IPR&D assets were deemed to be less than the carrying value, resulting in a pre-tax impairment loss of \$5 million that was recorded in *acquisition-related items* in the consolidated statements of earnings. The Company did not record any IPR&D impairments during fiscal year 2012. Due to the nature of IPR&D projects, the Company may experience future delays or failures to obtain regulatory approvals to conduct clinical trials, failures of such clinical trials, delays or failures to obtain required market clearances or other failures to achieve a commercially viable product, and as a result, may record impairment losses in the future.

The Company assesses intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset (asset group) may not be recoverable. The aggregate carrying amount of intangible assets, excluding IPR&D, was \$2.167 billion as of April 25, 2014 and \$2.310 billion as of April 26, 2013. When events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable, the Company calculates the excess of an intangible asset's carrying value over its undiscounted future cash flows. If the carrying value is not recoverable, an impairment loss is recorded based on the amount by which the carrying value exceeds the fair value. The inputs used in the fair value analysis fall within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine fair value. During fiscal years 2014, 2013 and 2012, the Company determined that a change in events and circumstances indicated that the carrying amount of certain intangible assets, representing less than five percent of the total aggregate carrying amount

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Notes to Consolidated Financial Statements (Continued)

of intangible assets, may not be fully recoverable. During fiscal year 2014, the carrying amount of Ardian intangible assets was less than the undiscounted future cash flows, therefore, the Company assessed the fair value of the assets and recorded an impairment of \$41 million that was included in *acquisition-related items* in the consolidated statements of earnings. During fiscal year 2013, the carrying amount of one intangible asset was less than the undiscounted future cash flows, therefore, the Company assessed the asset's fair value and there were no material impairments recorded. The Company did not record any intangible asset impairments during fiscal year 2012.

The Company assesses the impairment of property, plant, and equipment whenever events or changes in circumstances indicate that the carrying amount of property, plant, and equipment assets may not be recoverable. During fiscal year 2014, the Company determined that a change in events and circumstances indicated that the carrying amount of Ardian property, plant, and equipment may not be fully recoverable and recorded an impairment of \$3 million that was recorded in *acquisition-related items* in the consolidated statements of earnings. As part of the Company's restructuring initiatives, the Company recorded property, plant, and equipment impairments of \$16 million, \$6 million, and \$9 million during fiscal years 2014, 2013, and 2012, respectively, in *restructuring charges, net* in the consolidated statements of earnings. For further discussion of the restructuring initiatives refer to Note 3.

Financial Instruments Not Measured at Fair Value

The estimated fair value of the Company's long-term debt, including the short-term portion, as of April 25, 2014 was \$11.856 billion compared to a principal value of \$11.375 billion, and as of April 26, 2013 was \$10.820 billion compared to a principal value of \$9.928 billion. Fair value was estimated using quoted market prices for the publicly registered senior notes, classified as Level 1 within the fair value hierarchy. The fair values and principal values consider the terms of the related debt and exclude the impacts of debt discounts and derivative/hedging activity.

7. Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill for fiscal years 2014 and 2013 are as follows:

(in millions)	<u>Cardiac and Vascular Group</u>	<u>Restorative Therapies Group</u>	<u>Diabetes Group</u>	<u>Total</u>
Balance as of April 27, 2012	\$ 2,636	\$ 5,954	\$ 1,344	\$ 9,934
Goodwill as a result of acquisitions	—	414	—	414
Other adjustments, net	—	3	—	3
Currency adjustment, net	(12)	(10)	—	(22)
Balance as of April 26, 2013	\$ 2,624	\$ 6,361	\$ 1,344	\$ 10,329
Goodwill as a result of acquisitions	279	—	—	279
Other adjustments, net	(8)	7	—	(1)
Currency adjustment, net	(14)	—	—	(14)
Balance as of April 25, 2014	<u>\$ 2,881</u>	<u>\$ 6,368</u>	<u>\$ 1,344</u>	<u>\$ 10,593</u>

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Notes to Consolidated Financial Statements (Continued)

Balances of *other intangible assets, net*, for fiscal years 2014 and 2013 are as follows:

(in millions)	Purchased Technology and Patents	Trademarks and Tradenames	Acquired IPR&D	Other	Total
Other intangible assets as of April 25, 2014					
Original cost	\$ 3,857	\$ 408	\$ 119	\$ 200	\$ 4,584
Accumulated amortization	(1,878)	(332)	—	(88)	(2,298)
Carrying value	<u>\$ 1,979</u>	<u>\$ 76</u>	<u>\$ 119</u>	<u>\$ 112</u>	<u>\$ 2,286</u>
Weighted average original life (in years)	<u>12.7</u>	<u>11.8</u>	<u>N/A</u>	<u>8.7</u>	
Other intangible assets as of April 26, 2013					
Original cost	\$ 3,896	\$ 408	\$ 363	\$ 104	\$ 4,771
Accumulated amortization	(1,702)	(320)	—	(76)	(2,098)
Carrying value	<u>\$ 2,194</u>	<u>\$ 88</u>	<u>\$ 363</u>	<u>\$ 28</u>	<u>\$ 2,673</u>
Weighted average original life (in years)	<u>12.5</u>	<u>11.8</u>	<u>N/A</u>	<u>8.8</u>	

Amortization expense for fiscal years 2014, 2013, and 2012 was \$349 million, \$331 million, and \$335 million, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets, excluding any possible future amortization associated with acquired IPR&D, which has not met technological feasibility, is as follows:

(in millions) Fiscal Year	Amortization Expense
2015	\$ 338
2016	326
2017	304
2018	289
2019	244
Thereafter	666
	<u>\$ 2,167</u>

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Notes to Consolidated Financial Statements (Continued)

8. Financing Arrangements

Debt consisted of the following:

(in millions, except interest rates)	Maturity by Fiscal Year	April 25, 2014		April 26, 2013	
		Payable	Effective Interest Rate	Payable	Effective Interest Rate
Short-Term Borrowings:					
Commercial paper	2014	\$ —	—	\$ 125	0.21%
Capital lease obligations	2014-2015	14	3.33%	14	3.30%
Bank borrowings	2014-2015	337	0.35%	221	0.57%
3.000 percent five-year 2010 senior notes	2015	1,250	3.00%	—	—
Interest rate swaps	2015	12	—	—	—
4.500 percent five-year 2009 senior notes	2014	—	—	550	4.50%
Total Short-Term Borrowings		\$ 1,613		\$ 910	
Long-Term Debt:					
3.000 percent five-year 2010 senior notes	2015	\$ —	—	\$ 1,250	3.00%
4.750 percent ten-year 2005 senior notes	2016	600	4.76%	600	4.76%
2.625 percent five-year 2011 senior notes	2016	500	2.72%	500	2.72%
Floating rate three-year 2014 senior notes	2017	250	0.32%	—	—
0.875 percent three-year 2014 senior notes	2017	250	0.91%	—	—
1.375 percent five-year 2013 senior notes	2018	1,000	1.41%	1,000	1.41%
5.600 percent ten-year 2009 senior notes	2019	400	5.61%	400	5.61%
4.450 percent ten-year 2010 senior notes	2020	1,250	4.47%	1,250	4.47%
4.125 percent ten-year 2011 senior notes	2021	500	4.19%	500	4.19%
3.125 percent ten-year 2012 senior notes	2022	675	3.16%	675	3.16%
2.750 percent ten-year 2013 senior notes	2023	1,250	2.78%	1,250	2.78%
3.625 percent ten-year 2014 senior notes	2024	850	3.65%	—	—
6.500 percent thirty-year 2009 senior notes	2039	300	6.52%	300	6.52%
5.550 percent thirty-year 2010 senior notes	2040	500	5.56%	500	5.56%
4.500 percent thirty-year 2012 senior notes	2042	400	4.51%	400	4.51%
4.000 percent thirty-year 2013 senior notes	2043	750	4.12%	750	4.12%
4.625 percent thirty-year 2014 senior notes	2044	650	4.67%	—	—
Interest rate swaps	2015-2022	56	—	181	—
Deferred gains from interest rate swap terminations, net	—	20	—	50	—
Capital lease obligations	2015-2025	139	3.62%	152	3.59%
Bank borrowings	2015	—	—	3	5.00%
Discount	2017-2044	(25)	—	(20)	—
Total Long-Term Debt		\$ 10,315		\$ 9,741	

Commercial Paper The Company maintains a commercial paper program that allows the Company to have a maximum of \$2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of April 26, 2013, outstanding commercial paper totaled \$125 million. No amounts were outstanding as of April 25, 2014. During fiscal years 2014 and 2013, the weighted average original maturity of the commercial paper outstanding was approximately 53 and 89 days, respectively, and the weighted average interest rate was 0.09 percent and 0.18 percent, respectively. The issuance of commercial paper reduces the amount of credit available under the Company's existing line of credit.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Bank Borrowings Outstanding bank borrowings as of April 25, 2014 were short-term advances to certain non-U.S. subsidiaries under credit agreements with various banks. These advances are guaranteed by the Company. Bank borrowings consist primarily of borrowings at interest rates considered favorable by management and where natural hedges can be gained for foreign exchange purposes.

Line of Credit The Company has a \$2.250 billion syndicated credit facility which expires on December 17, 2017 (Credit Facility). The Credit Facility provides the Company with the ability to increase its borrowing capacity by an additional \$750 million at any time during the term of the agreement. At each anniversary date of the Credit Facility, but not more than twice prior to the maturity date, the Company can also request a one-year extension of the maturity date. The Credit Facility provides backup funding for the commercial paper program. As of April 25, 2014 and April 26, 2013, no amounts were outstanding on the committed line of credit.

Interest rates are determined by a pricing matrix, based on the Company's long-term debt ratings, assigned by Standard & Poor's Ratings Services and Moody's Investors Service. Facility fees are payable on the Credit Facility and are determined in the same manner as the interest rates. The agreement also contains customary covenants, all of which the Company remains in compliance with as of April 25, 2014.

Senior Notes Senior Notes are unsecured, senior obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of the Company. The indentures under which the Senior Notes were issued contain customary covenants, all of which the Company remains in compliance with as of April 25, 2014. The Company used the net proceeds from the sale of the Senior Notes primarily for working capital and general corporate uses, which includes the repayment of other indebtedness of the Company.

In February 2014, the Company issued four tranches of Senior Notes (collectively, the 2014 Senior Notes) with an aggregate face value of \$2.000 billion. The first tranche consisted of \$250 million of floating rate Senior Notes due 2017. The 2017 floating rate notes bear interest at the three-month London InterBank Offered Rate (LIBOR) plus 9 basis points. The second tranche consisted of \$250 million of 0.875 percent Senior Notes due 2017. The third tranche consisted of \$850 million of 3.625 percent Senior Notes due 2024. The fourth tranche consisted of \$650 million of 4.625 percent Senior Notes due 2044. Interest on the 2017 floating rate notes is payable quarterly and interest on the other 2014 Senior Notes are payable semi-annually. The Company used the net proceeds for working capital and general corporate purposes, including repayment of indebtedness.

In March 2013, the Company issued three tranches of Senior Notes (collectively, the 2013 Senior Notes) with an aggregate face value of \$3.000 billion. The first tranche consisted of \$1.000 billion of 1.375 percent Senior Notes due 2018. The second tranche consisted of \$1.250 billion of 2.750 percent Senior Notes due 2023. The third tranche consisted of \$750 million of 4.000 percent Senior Notes due 2043. Interest on each series of the 2013 Senior Notes is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2013. The Company used the net proceeds from the sale of the 2013 Senior Notes for working capital and general corporate purposes, including repayment of indebtedness.

As of April 25, 2014 and April 26, 2013, the Company had interest rate swap agreements designated as fair value hedges of certain underlying fixed-rate obligations including the Company's \$1.250 billion 3.000 percent 2010 Senior Notes, \$600 million 4.750 percent 2005 Senior Notes, \$500 million 2.625 percent 2011 Senior Notes, \$500 million 4.125 percent 2011 Senior Notes, and \$675 million 3.125 percent 2012 Senior Notes. For additional information regarding the interest rate swap agreements, refer to Note 9.

Senior Convertible Notes In April 2006, the Company issued \$2.200 billion of 1.500 percent Senior Convertible Notes due 2011 (2011 Senior Convertible Notes) and \$2.200 billion of 1.625 percent Senior Convertible Notes due 2013 (2013 Senior Convertible Notes) (collectively, the Senior Convertible Notes). No amounts were outstanding on the Senior Convertible Notes as of April 25, 2014 and April 26, 2013.

The Company allocated the proceeds from the issuance of the Senior Convertible Notes between a liability component (issued at a discount) and an equity component. The resulting debt discount was amortized over the period the 2013 Senior Convertible Notes were outstanding as additional non-cash interest expense.

In separate private transactions, the Company sold 82 million shares of the Company's common stock at an exercise price of \$76.56 per share. As of April 25, 2014, the warrants for 82 million shares of the Company's common stock had expired. The

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

warrants were recorded as an addition to equity as of the trade date. The carrying amount of the equity component as of April 25, 2014 and April 26, 2013 was \$547 million.

The following table provides interest expense amounts related to the Senior Convertible Notes.

(in millions)	Fiscal Year	
	2013	2012
Interest cost related to contractual interest coupon	\$ 35	\$ 36
Interest cost related to amortization of the discount	90	87

Contractual maturities of debt for the next five fiscal years and thereafter, excluding the debt discount, the fair value of outstanding interest rate swap agreements, and the remaining deferred gains from terminated interest rate swap agreements are as follows:

(in millions)	Fiscal Year	
2015	\$	1,601
2016		1,112
2017		531
2018		1,018
2019		419
Thereafter		7,184
Total debt		11,865
Less: Current portion of debt		1,601
Long-term portion of debt	\$	10,264

9. Derivatives and Foreign Exchange Risk Management

The Company uses operational and economic hedges, as well as currency exchange rate derivative contracts and interest rate derivative instruments, to manage the impact of currency exchange and interest rate changes on earnings and cash flows. In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, the Company enters into derivative instruments, principally forward currency exchange rate contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets and liabilities. At inception of the forward contract, the derivative is designated as either a freestanding derivative or a cash flow hedge. The primary currencies of the derivative instruments are the Euro and Japanese Yen. The Company does not enter into currency exchange rate derivative contracts for speculative purposes. The gross notional amount of all currency exchange rate derivative instruments outstanding at April 25, 2014 and April 26, 2013 was \$8.051 billion and \$6.812 billion, respectively. The aggregate currency exchange rate (losses) gains were \$(1) million, \$25 million, and \$(183) million, in fiscal years 2014, 2013, and 2012, respectively. These (losses) gains represent the net impact to the consolidated statements of earnings for the exchange rate derivative instruments presented below, as well as the remeasurement (losses) gains on foreign currency denominated assets and liabilities.

The information that follows explains the various types of derivatives and financial instruments used by the Company, how and why the Company uses such instruments, how such instruments are accounted for, and how such instruments impact the Company's consolidated balance sheets, statements of earnings, and statements of cash flows.

Freestanding Derivative Forward Contracts

Freestanding derivative forward contracts are used to offset the Company's exposure to the change in value of specific foreign currency denominated assets and liabilities. These derivatives are not designated as hedges, and therefore, changes in the value of these forward contracts are recognized in earnings, thereby offsetting the current earnings effect of the related change in value of foreign currency denominated assets and liabilities. The cash flows from these contracts are reported as operating

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

activities in the consolidated statements of cash flows. The gross notional amount of these contracts, not designated as hedging instruments, outstanding at April 25, 2014 and April 26, 2013 was \$2.202 billion and \$2.059 billion, respectively.

The amount and location of the gains in the consolidated statements of earnings related to derivative instruments, not designated as hedging instruments, for fiscal years 2014, 2013, and 2012 are as follows:

(in millions) Derivatives Not Designated as Hedging Instruments	Location	Fiscal Year		
		2014	2013	2012
Foreign currency exchange rate contracts	Other expense, net	\$ 15	\$ 26	\$ 53

Cash Flow Hedges

Foreign Currency Exchange Rate Risk Forward contracts designated as cash flow hedges are designed to hedge the variability of cash flows associated with forecasted transactions denominated in a foreign currency that will take place in the future. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of *accumulated other comprehensive loss* and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. No gains or losses relating to ineffectiveness of cash flow hedges were recognized in earnings during fiscal years 2014, 2013, or 2012. No components of the hedge contracts were excluded in the measurement of hedge ineffectiveness and no hedges were derecognized or discontinued during fiscal years 2014, 2013, or 2012. The cash flows from these contracts are reported as operating activities in the consolidated statements of cash flows. The gross notional amount of these contracts, designated as cash flow hedges, outstanding at April 25, 2014 and April 26, 2013 was \$5.849 billion and \$4.753 billion, respectively, and will mature within the subsequent three-year period.

The amount of (losses) gains and location of the (losses) gains in the consolidated statements of earnings and other comprehensive income (OCI) related to foreign currency exchange rate contract derivative instruments designated as cash flow hedges for the fiscal years ended April 25, 2014, April 26, 2013, and April 27, 2012 are as follows:

April 25, 2014				
(in millions) Derivatives in Cash Flow Hedging Relationships	Gross (Losses) Gains Recognized in OCI on Effective Portion of Derivative		Effective Portion of (Losses) Gains on Derivative Reclassified from AOCI into Income	
	Amount		Location	Amount
Foreign currency exchange rate contracts	\$	(152)	Other expense, net	\$ 94
			Cost of products sold	(43)
Total	\$	(152)		\$ 51
April 26, 2013				
(in millions) Derivatives in Cash Flow Hedging Relationships	Gross (Losses) Gains Recognized in OCI on Effective Portion of Derivative		Effective Portion of (Losses) Gains on Derivative Reclassified from AOCI into Income	
	Amount		Location	Amount
Foreign currency exchange rate contracts	\$	121	Other expense, net	\$ 103
			Cost of products sold	(2)
Total	\$	121		\$ 101

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

April 27, 2012

(in millions) Derivatives in Cash Flow Hedging Relationships	Gross (Losses) Gains Recognized in OCI on Effective Portion of Derivative		Effective Portion of (Losses) Gains on Derivative Reclassified from AOCI into Income	
	Amount		Location	Amount
Foreign currency exchange rate contracts	\$	332	Other expense, net	\$ (141)
			Cost of products sold	14
Total	\$	332		\$ (127)

Forecasted Debt Issuance Interest Rate Risk Forward starting interest rate derivative instruments designated as cash flow hedges are designed to manage the exposure to interest rate volatility with regard to future issuances of fixed-rate debt. The effective portion of the gains or losses on the forward starting interest rate derivative instruments that are designated and qualify as cash flow hedges are reported as a component of *accumulated other comprehensive loss*. Beginning in the period in which the planned debt issuance occurs and the related derivative instruments are terminated, the effective portion of the gains or losses are then reclassified into *interest expense, net* over the term of the related debt. Any portion of the gains or losses that are determined to be ineffective are immediately recognized in *interest expense, net*. In February 2014, the Company terminated forward starting interest rate derivative instruments with a consolidated notional amount of \$250 million in conjunction with the issuance of the 2014 Senior Notes. Upon termination, there was no material ineffectiveness on the contracts which were in a net asset position, resulting in cash receipts of \$8 million. In March 2013, the Company terminated forward starting interest rate derivative instruments with a consolidated notional amount of \$750 million in conjunction with the issuance of the 2013 Senior Notes. Upon termination, there was no material ineffectiveness on the contracts which were in a net liability position, resulting in cash payments of \$68 million. As of April 25, 2014, the Company had \$250 million of fixed pay, forward starting interest rate swaps with a weighted average fixed rate of 2.83 percent in anticipation of planned debt issuances.

For the fiscal years ended April 25, 2014 and April 26, 2013, the Company reclassified \$8 million and \$1 million, respectively, of the effective portion of the net losses on forward starting interest rate derivative instruments from *accumulated other comprehensive loss* to *interest expense, net*.

The market value of outstanding forward starting interest rate swap derivative instruments at April 25, 2014 and April 26, 2013 was an unrealized gain (loss) of \$7 million and \$(18) million, respectively. These unrealized gains (losses) were recorded in *other assets* and *long-term liabilities* with the offset recorded in *accumulated other comprehensive loss* in the consolidated balance sheets.

As of April 25, 2014 and April 26, 2013, the Company had \$(44) million and \$58 million, respectively, in after-tax net unrealized (losses) gains associated with cash flow hedging instruments recorded in *accumulated other comprehensive loss*. The Company expects that \$7 million of after-tax net unrealized losses as of April 25, 2014 will be reclassified into the consolidated statements of earnings over the next 12 months.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivatives as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings. Interest rate derivative instruments designated as fair value hedges are designed to manage the exposure to interest rate movements and to reduce borrowing costs by converting fixed-rate debt into floating-rate debt. Under these agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

The gains (losses) from terminated interest rate swap agreements are recorded in *long-term debt*, increasing (decreasing) the outstanding balances of the debt, and amortized as a reduction (addition) of *interest expense, net* over the remaining life of the related debt. The cash flows from the termination of the interest rate swap agreements are reported as operating activities in the consolidated statements of cash flows.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

As of both April 25, 2014 and April 26, 2013, the Company had interest rate swaps in gross notional amounts of \$2.625 billion designated as fair value hedges of underlying fixed rate obligations. As of April 25, 2014 and April 26, 2013, the Company had interest rate swap agreements designated as fair value hedges of underlying fixed rate obligations including the Company's \$1.250 billion 3.000 percent 2010 Senior Notes due 2015, the \$600 million 4.750 percent 2005 Senior Notes due 2016, the \$500 million 2.625 percent 2011 Senior Notes due 2016, the \$500 million 4.125 percent 2011 Senior Notes due 2021, and the \$675 million 3.125 percent 2012 Senior Notes due 2022.

In March 2012, the Company entered into ten-year fixed-to-floating interest rate swap agreements with a consolidated notional amount of \$675 million, which were designated as fair value hedges of fixed interest rate obligations under the Company's 2012 Senior Notes due 2022. The Company pays variable interest equal to one-month LIBOR plus approximately 92 basis points, and receives a fixed interest rate of 3.125 percent.

In July 2011, the Company terminated interest rate swap agreements with a consolidated notional amount of \$900 million that were designated as fair value hedges of the fixed interest rate obligation under the Company's \$2.200 billion 1.625 percent 2013 Senior Convertible Notes and \$550 million 4.500 percent 2009 Senior Notes due 2014. Upon termination, the contracts were in an asset position, resulting in cash receipts of \$46 million, which included \$10 million of accrued interest.

In August 2011, the Company terminated interest rate swap agreements with a consolidated notional amount of \$650 million that were designated as fair value hedges of the fixed interest rate obligation under the Company's \$1.250 billion 3.000 percent 2010 Senior Notes due 2015. Upon termination, the contracts were in an asset position, resulting in cash receipts of \$42 million, which included \$7 million of accrued interest.

As of April 25, 2014 and April 26, 2013, the market value of outstanding interest rate swap agreements was an unrealized gain of \$68 million and \$181 million, respectively, and the market value of the hedged items was an unrealized loss of \$68 million and \$181 million, respectively, which was recorded in *other assets, prepaid expenses and other current assets*, and *other long-term liabilities* with the offsets recorded in *long-term debt* and *short-term borrowings* on the consolidated balance sheets. No hedge ineffectiveness was recorded as a result of these fair value hedges for fiscal year 2014 and 2013 and less than \$1 million was recorded for fiscal year 2012 as an increase in *interest expense, net* on the consolidated statements of earnings.

During fiscal years 2014, 2013, and 2012, the Company did not have any ineffective fair value hedging instruments. In addition, the Company did not recognize any gains or losses during fiscal years 2014, 2013, or 2012 on firm commitments that no longer qualify as fair value hedges.

Balance Sheet Presentation

The following tables summarize the location and fair value amounts of derivative instruments reported in the consolidated balance sheets as of April 25, 2014 and April 26, 2013. The fair value amounts are presented on a gross basis and are segregated between derivatives that are designated and qualify as hedging instruments and those that are not, and are further segregated by type of contract within those two categories.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

April 25, 2014

(in millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Prepaid expenses and other current assets	\$ 13	Other accrued expenses	\$ —
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	81	Other accrued expenses	84
Interest rate contracts	Other assets	73	Other long-term liabilities	11
Foreign currency exchange rate contracts	Other assets	8	Other long-term liabilities	30
Total derivatives designated as hedging instruments		<u>\$ 175</u>		<u>\$ 125</u>
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$ —	Other accrued expenses	\$ 2
Total derivatives not designated as hedging instruments		<u>\$ —</u>		<u>\$ 2</u>
Total derivatives		<u>\$ 175</u>		<u>\$ 127</u>

April 26, 2013

(in millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$ 150	Other accrued expenses	\$ 34
Interest rate contracts	Other assets	181	Other long-term liabilities	18
Foreign currency exchange rate contracts	Other assets	63	Other long-term liabilities	5
Total derivatives designated as hedging instruments		<u>\$ 394</u>		<u>\$ 57</u>
Derivatives not designated as hedging instruments				
Foreign currency exchange rate contracts	Prepaid expenses and other current assets	\$ —	Other accrued expenses	\$ 1
Total derivatives not designated as hedging instruments		<u>\$ —</u>		<u>\$ 1</u>
Total derivatives		<u>\$ 394</u>		<u>\$ 58</u>

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The Company has elected to present the fair value of derivative assets and liabilities within the consolidated balance sheets on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. The following table provides information as if the Company had elected to offset the asset and liability balances of derivative instruments, netted in accordance with various criteria as stipulated by the terms of the master netting arrangements with each of the counterparties. Derivatives not subject to master netting arrangements are not eligible for net presentation.

(in millions)	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Not Offset on the Balance Sheet		Net Amount
		Financial Instruments	Cash Collateral (Received) or Posted	
April 25, 2014				
Derivative Assets				
Foreign currency exchange rate contracts	\$ 89	\$ (64)	\$ —	\$ 25
Interest rate contracts	86	(31)	—	55
	<u>\$ 175</u>	<u>\$ (95)</u>	<u>\$ —</u>	<u>\$ 80</u>
Derivative Liabilities				
Foreign currency exchange rate contracts	\$ (116)	\$ 84	\$ —	\$ (32)
Interest rate contracts	(11)	11	—	—
	<u>\$ (127)</u>	<u>\$ 95</u>	<u>\$ —</u>	<u>\$ (32)</u>
Total	<u>\$ 48</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 48</u>

(in millions)	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Not Offset on the Balance Sheet		Net Amount
		Financial Instruments	Cash Collateral (Received) or Posted	
April 26, 2013				
Derivative Assets				
Foreign currency exchange rate contracts	\$ 213	\$ (42)	\$ (24)	\$ 147
Interest rate contracts	181	(16)	(6)	159
	<u>\$ 394</u>	<u>\$ (58)</u>	<u>\$ (30)</u>	<u>\$ 306</u>
Derivative Liabilities				
Foreign currency exchange rate contracts	\$ (40)	\$ 40	\$ —	\$ —
Interest rate contracts	(18)	18	—	—
	<u>\$ (58)</u>	<u>\$ 58</u>	<u>\$ —</u>	<u>\$ —</u>
Total	<u>\$ 336</u>	<u>\$ —</u>	<u>\$ (30)</u>	<u>\$ 306</u>

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of interest-bearing investments, forward exchange derivative contracts, and trade accounts receivable.

The Company maintains cash and cash equivalents, investments, and certain other financial instruments (including currency exchange rate and interest rate derivative contracts) with various major financial institutions. The Company performs periodic evaluations of the relative credit standings of these financial institutions and limits the amount of credit exposure with any one institution. In addition, the Company has collateral credit agreements with its primary derivatives counterparties. Under these agreements, either party is required to post eligible collateral when the market value of transactions covered by the agreement exceeds specific thresholds, thus limiting credit exposure for both parties. As of April 25, 2014, no collateral was posted by either the Company or its counterparties. As of April 26, 2013, the Company received cash collateral of \$30 million from its counterparties. The collateral received was recorded in *cash and cash equivalents*, with the offset recorded as an increase in *other accrued expenses* on the consolidated balance sheets.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Global concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. However, a significant amount of trade receivables are with hospitals that are dependent upon governmental health care systems in many countries. The current economic conditions in many countries outside the U.S. (particularly the economic challenges faced by Italy, Spain, Portugal, and Greece), may continue to increase the average length of time it takes the Company to collect on its outstanding trade receivables in these countries as certain payment patterns have been impacted. As of April 25, 2014 and April 26, 2013, the Company's aggregate accounts receivable balance for Italy, Spain, Portugal, and Greece, net of the allowance for doubtful accounts, was \$628 million and \$770 million, respectively. The Company continues to monitor the creditworthiness of customers located in these and other geographic areas. In the past, accounts receivable balances with certain customers in these countries have accumulated over time and were subsequently settled as large lump-sum payments. In the fourth quarter of fiscal year 2014, the Company received a \$106 million payment in Spain. In the first quarter of fiscal year 2013, the Company received a \$212 million payment in Spain. Although the Company does not currently foresee a significant credit risk associated with the outstanding accounts receivable, repayment is dependent upon the financial stability of the economies of these countries. For certain Greece distributors, collectability is not reasonably assured for revenue transactions and the Company defers revenue recognition until all revenue recognition criteria are met. As of April 25, 2014 and April 26, 2013, the Company's deferred revenue balance for certain Greece distributors was \$15 million and \$21 million, respectively. As of April 25, 2014 and April 26, 2013, no one customer represented more than 10% of the Company's outstanding accounts receivable.

10. Interest Expense, Net

Interest income and interest expense for fiscal years 2014, 2013, and 2012 are as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Interest income	\$ (271)	\$ (237)	\$ (200)
Interest expense	379	388	349
Interest expense, net	\$ 108	\$ 151	\$ 149

Interest income includes interest earned on the Company's cash, cash equivalents and investments, the net realized and unrealized gain or loss on trading securities, ineffectiveness on interest rate derivative instruments, and the net realized gain or loss on the sale or impairment of available-for-sale debt securities. See Note 5 for further discussion of these items.

Interest expense includes the expense associated with the interest on the Company's outstanding borrowings, including short- and long-term instruments, ineffectiveness on interest rate derivative instruments, amortization of terminated interest rate swap agreements, and the amortization of debt issuance costs and debt discounts.

11. Shareholders' Equity

Shares are repurchased from time to time to support the Company's stock-based compensation programs and to return capital to shareholders. In June 2013 and June 2011, the Company's Board of Directors authorized the repurchase of 80 million and 75 million shares of the Company's common stock, respectively. During fiscal years 2014 and 2013, the Company repurchased approximately 47.8 million and 31.2 million shares at an average price of \$53.37 and \$39.97, respectively. As of April 25, 2014, the Company had used the entire amount authorized under the June 2011 repurchase program and 20.6 million of the 80 million shares authorized under the June 2013 repurchase program, leaving 59.4 million shares available for future repurchases. The Company accounts for repurchases of common stock using the par value method and shares repurchased are canceled.

12. Stock Purchase and Award Plans

The Company measures stock-based compensation expense at the grant date based on the fair value of the award and recognizes the compensation expense over the requisite service period, which is generally the vesting period.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

In fiscal year 2014, the Company granted stock awards under the Medtronic, Inc. 2013 Stock Award and Incentive Plan (2013 Plan) and the Medtronic, Inc. 2008 Stock Award and Incentive Plan (2008 Plan). The 2013 Plan was approved by the Company's shareholders in August 2013. The 2008 Plan was approved by the Company's shareholders in August 2008 and amended by shareholders in August 2009. The 2013 and 2008 Plans provide for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, and other stock and cash-based awards. Upon adoption of the 2013 Plan, the Company no longer grants awards from any prior plan. As of April 25, 2014, there were approximately 70 million shares available for future grants under the 2013 Plan.

Stock Options Stock option awards are granted at the exercise price equal to the closing price of the Company's common stock on the grant date. The majority of the Company's stock option awards are non-qualified stock options with a 10-year life and a 4-year ratable vesting term. In fiscal year 2014, the Company granted stock options under the 2013 Plan and the 2008 Plan.

Restricted Stock Awards Restricted stock and restricted stock units (collectively referred to as restricted stock awards) are granted to officers and key employees. Restricted stock awards are subject to forfeiture if employment terminates prior to the lapse of the restrictions. The Company grants restricted stock awards that typically cliff vest after four years. Restricted stock awards are expensed over the vesting period. The Company also grants shares of performance-based restricted stock awards that typically cliff vest after three years only if the Company has also achieved certain performance objectives. Performance awards are expensed over the performance period based on the probability of achieving the performance objectives. Shares of restricted stock are considered issued and outstanding shares of the Company at the grant date and have the same dividend and voting rights as other shares of common stock. Restricted stock units are not considered issued or outstanding common stock of the Company. Dividend equivalent units are accumulated on restricted stock units during the vesting period. In fiscal year 2014, the Company granted restricted stock units under the 2013 Plan and the 2008 Plan. As of April 25, 2014, all restricted stock awards outstanding were restricted stock units.

Employees Stock Purchase Plan The Medtronic, Inc. 2005 Employees Stock Purchase Plan (ESPP) allows participating employees to purchase shares of the Company's common stock at a discount through payroll deductions. Employees can contribute up to the lesser of 10 percent of their wages or the statutory limit under the U.S. Internal Revenue Code toward the purchase of the Company's common stock at 85 percent of its market value at the end of the calendar quarter purchase period. Employees purchased 2 million shares at an average price of \$47.32 per share in the fiscal year ended April 25, 2014. As of April 25, 2014, plan participants have had approximately \$6 million withheld to purchase Company common stock at 85 percent of its market value on June 30, 2014, the last trading day before the end of the calendar quarter purchase period. At April 25, 2014, approximately 6 million shares of common stock were available for future purchase under the ESPP.

Valuation Assumptions The Company uses the Black-Scholes option pricing model (Black-Scholes model) to determine the fair value of stock options as of the grant date. The fair value of stock options under the Black-Scholes model requires management to make assumptions regarding projected employee stock option exercise behaviors, risk-free interest rates, volatility of the Company's stock price, and expected dividends.

The expense recognized for shares purchased under the Company's ESPP is equal to the 15 percent discount the employee receives at the end of the calendar quarter purchase period. The expense recognized for restricted stock awards is equal to the grant date fair value, which is equal to the closing stock price on the date of grant.

The following table provides the weighted average fair value of options granted to employees and the related assumptions used in the Black-Scholes model:

	Fiscal Year		
	2014	2013	2012
Weighted average fair value of options granted	\$ 12.00	\$ 7.42	\$ 6.88
Assumptions used:			
Expected life (years) ^(a)	6.40	6.50	6.40
Risk-free interest rate ^(b)	1.88%	0.94%	1.82%
Volatility ^(c)	25.20%	26.22%	25.97%
Dividend yield ^(d)	2.02%	2.64%	2.78%

Medtronic, Inc.**Notes to Consolidated Financial Statements (Continued)**

- (a) *Expected life:* The Company analyzes historical employee stock option exercise and termination data to estimate the expected life assumption. The Company calculates the expected life assumption using the midpoint scenario, which combines historical exercise data with hypothetical exercise data, as the Company believes this data currently represents the best estimate of the expected life of a new employee option. The Company also stratifies its employee population into two groups based upon distinctive exercise behavior patterns.
- (b) *Risk-free interest rate:* The rate is based on the grant date yield of a zero-coupon U.S. Treasury bond whose maturity period equals the expected term of the option.
- (c) *Volatility:* Expected volatility is based on a blend of historical volatility and an implied volatility of the Company's common stock. Implied volatility is based on market traded options of the Company's common stock.
- (d) *Dividend yield:* The dividend yield rate is calculated by dividing the Company's annual dividend, based on the most recent quarterly dividend rate, by the closing stock price on the grant date.

Stock-Based Compensation Expense Under the fair value recognition provisions of U.S. GAAP for accounting for stock-based compensation, the Company measures stock-based compensation expense at the grant date based on the fair value of the award and recognizes the compensation expense over the requisite service period, which is generally the vesting period.

The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates pre-vesting forfeitures at the time of grant by analyzing historical data and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the total expense recognized over the vesting period will equal the fair value of awards that actually vest.

The following table presents the components and classification of stock-based compensation expense, for stock options, restricted stock awards, and ESPP shares recognized for fiscal years 2014, 2013, and 2012:

(in millions)	Fiscal Year		
	2014	2013	2012
Stock options	\$ 34	\$ 44	\$ 60
Restricted stock awards	98	96	86
Employees stock purchase plan	13	12	13
Physio-Control award acceleration	—	—	2
Total stock-based compensation expense	<u>\$ 145</u>	<u>\$ 152</u>	<u>\$ 161</u>
Cost of products sold	\$ 14	\$ 12	\$ 12
Research and development expense	27	31	29
Selling, general, and administrative expense	104	109	118
Physio-Control divestiture-related costs	—	—	2
Total stock-based compensation expense	145	152	161
Income tax benefits	<u>(40)</u>	<u>(43)</u>	<u>(45)</u>
Total stock-based compensation expense, net of tax	<u>\$ 105</u>	<u>\$ 109</u>	<u>\$ 116</u>

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Stock Options The following table summarizes all stock option activity, including activity from options assumed or issued as a result of acquisitions, during fiscal years 2014, 2013, and 2012:

	Fiscal Year					
	2014		2013		2012	
	Options (in thousands)	Wtd. Avg. Exercise Price	Options (in thousands)	Wtd. Avg. Exercise Price	Options (in thousands)	Wtd. Avg. Exercise Price
Beginning balance	62,020	\$ 44.98	74,590	\$ 44.80	84,652	\$ 45.23
Granted	2,983	55.36	4,437	39.54	4,634	34.93
Exercised	(27,527)	46.26	(6,096)	37.73	(1,218)	34.95
Canceled	(1,899)	46.44	(10,911)	45.57	(13,478)	44.98
Outstanding at year-end	<u>35,577</u>	\$ 44.78	<u>62,020</u>	\$ 44.98	<u>74,590</u>	\$ 44.80
Exercisable at year-end	<u>26,997</u>	\$ 45.22	<u>50,908</u>	\$ 46.65	<u>60,833</u>	\$ 46.73

For options outstanding and exercisable at April 25, 2014, the weighted average remaining contractual life was 4.53 years and 3.39 years, respectively. The total intrinsic value, calculated as the closing stock price at year-end less the option exercise price, of options exercised during fiscal years 2014, 2013, and 2012 was \$249 million, \$39 million, and \$5 million, respectively. For options outstanding and exercisable at April 25, 2014, the total intrinsic value of in-the-money options was \$477 million and \$351 million, respectively. The Company issues new shares when stock option awards are exercised. Cash received from the exercise of stock options for the fiscal year ended April 25, 2014 was \$1.273 billion. The Company's tax benefit related to the exercise of stock options for fiscal year 2014 was \$78 million. Unrecognized compensation expense related to outstanding stock options as of April 25, 2014 was \$40 million and is expected to be recognized over a weighted average period of 2.5 years and will be adjusted for any future changes in estimated forfeitures.

Restricted Stock Awards The following table summarizes restricted stock award activity during fiscal years 2014, 2013, and 2012:

	Fiscal Year					
	2014		2013		2012	
	Awards (in thousands)	Wtd. Avg. Grant Price	Awards (in thousands)	Wtd. Avg. Grant Price	Awards (in thousands)	Wtd. Avg. Grant Price
Nonvested, beginning balance	10,058	\$ 38.97	9,980	\$ 37.80	9,207	\$ 40.42
Granted	2,519	55.62	3,135	39.53	3,785	35.60
Vested	(2,210)	35.76	(2,445)	35.58	(2,194)	44.74
Forfeited	(809)	39.41	(612)	36.34	(818)	38.46
Nonvested at year-end	<u>9,558</u>	\$ 44.06	<u>10,058</u>	\$ 38.97	<u>9,980</u>	\$ 37.80

Unrecognized compensation expense related to restricted stock awards as of April 25, 2014 was \$170 million and is expected to be recognized over a weighted average period of 3.4 years and will be adjusted for any future changes in estimated forfeitures.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

13. Income Taxes

The provision for income taxes is based on earnings before income taxes reported for financial statement purposes. The components of earnings from continuing operations before income taxes, based on tax jurisdiction, are as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
U.S.	\$ 1,690	\$ 1,806	\$ 1,620
International	2,015	2,445	2,525
Earnings from continuing operations before income taxes	\$ 3,705	\$ 4,251	\$ 4,145

The provision for income taxes from continuing operations consists of the following:

(in millions)	Fiscal Year		
	2014	2013	2012
Current tax expense:			
U.S.	\$ 532	\$ 509	\$ 664
International	248	219	231
Total current tax expense	780	728	895
Deferred tax expense (benefit):			
U.S.	(175)	46	(138)
International	35	10	(27)
Net deferred tax expense (benefit)	(140)	56	(165)
Total provision for income taxes	\$ 640	\$ 784	\$ 730

Deferred taxes arise because of the different treatment of transactions for financial statement accounting and income tax accounting, known as “temporary differences.” The Company records the tax effect of these temporary differences as “deferred tax assets” and “deferred tax liabilities.” Deferred tax assets generally represent items that can be used as a tax deduction or credit in a tax return in future years for which the Company has already recorded the tax benefit in the consolidated statements of earnings. The Company establishes valuation allowances for deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. The Company has established valuation allowances for federal, state, and foreign net operating losses, credit carryforwards, capital loss carryforwards, and deferred tax assets which are capital in nature of \$397 million and \$313 million at April 25, 2014 and April 26, 2013, respectively. These carryover attributes expire at various points in time, from within a year to no expiration date. These valuation allowances would result in a reduction to the *provision for income taxes* in the consolidated statements of earnings, if they are ultimately not required. Deferred tax liabilities generally represent tax expense recognized in the consolidated financial statements for which payment has been deferred or expense has already been taken as a deduction on the Company’s tax return but has not yet been recognized as an expense in the

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

consolidated statements of earnings. Tax assets (liabilities), shown before jurisdictional netting of deferred tax assets (liabilities), are comprised of the following:

(in millions)	<u>April 25, 2014</u>	<u>April 26, 2013</u>
Deferred tax assets:		
Net operating loss, capital loss, and credit carryforwards	\$ 487	\$ 423
Other accrued liabilities	205	140
Accrued compensation	201	98
Pension and post-retirement benefits	194	239
Stock-based compensation	171	223
Other	142	200
Inventory	118	121
Federal and state benefit on uncertain tax positions	79	57
Unrealized loss on available-for-sale securities and derivative financial instruments	29	—
Gross deferred tax assets	1,626	1,501
Valuation allowance	(397)	(313)
Total deferred tax assets	1,229	1,188
Deferred tax liabilities:		
Intangible assets	(652)	(712)
Basis impairment	(225)	(214)
Realized loss on derivative financial instruments	(110)	(110)
Other	(24)	(29)
Accumulated depreciation	(20)	(56)
Unrealized gain on available-for-sale securities and derivative financial instruments	—	(87)
Total deferred tax liabilities	(1,031)	(1,208)
Prepaid income taxes	320	321
Income tax receivables	113	114
Tax assets, net	<u>\$ 631</u>	<u>\$ 415</u>
Reported as (after valuation allowance and jurisdictional netting):		
Tax assets	\$ 736	\$ 539
Long-term tax assets	300	232
Deferred tax liabilities	(19)	(16)
Long-term deferred tax liabilities	(386)	(340)
Tax assets, net	<u>\$ 631</u>	<u>\$ 415</u>

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The Company's effective income tax rate from continuing operations varied from the U.S. federal statutory tax rate as follows:

	Fiscal Year		
	2014	2013	2012
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
U.S. state taxes, net of federal tax benefit	0.6	0.5	0.9
Research and development credit	(0.5)	(1.1)	(0.6)
Domestic production activities	(0.4)	(0.3)	(0.5)
International	(17.7)	(16.7)	(16.9)
Puerto Rico Excise Tax	(1.6)	(1.3)	(1.4)
Impact of restructuring charges, net, certain litigation charges, net, and acquisition-related items	5.6	2.0	0.3
Reversal of excess tax accruals	(1.9)	—	(0.8)
Valuation allowance release	—	(0.2)	(0.8)
Other, net	(1.8)	0.5	2.4
Effective tax rate	<u>17.3%</u>	<u>18.4%</u>	<u>17.6%</u>

In fiscal year 2014, the Company recorded a \$71 million net tax benefit associated with the reversal of excess tax accruals. This net tax benefit included \$63 million related to the settlement of certain issues reached with the U.S. Internal Revenue Service (IRS) involving the review of the Company's fiscal years 2009 through 2011 domestic income tax returns and the remaining amount related to the resolution of various state and foreign audit proceedings covering multiple years and issues. The \$71 million net tax benefit was recorded in the *provision for income taxes* in the consolidated statement of earnings for fiscal year 2014.

In fiscal year 2012, the Company entered into a sale-leaseback agreement that was recorded as a capital lease and as a result of the transaction, the Company recorded a \$33 million tax benefit associated with the release of a valuation allowance associated with the usage of a capital loss carryover. The \$33 million tax benefit was recorded in the *provision for income taxes* in the consolidated statement of earnings for fiscal year 2012.

The Company has not provided U.S. income taxes on approximately \$20.529 billion, \$18.123 billion, and \$16.033 billion of undistributed earnings, net, from non-U.S. subsidiaries as of April 25, 2014, April 26, 2013, and April 27, 2012, respectively. These earnings are indefinitely reinvested outside the U.S. and are available for use by the Company's non-U.S. operations. The Company continues to be focused on goals to grow its business through increased globalization of the Company. Determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Currently, the Company's operations in Puerto Rico, Switzerland, and Singapore have various tax incentive grants. The tax reductions as compared to the local statutory rate favorably impacted earnings per diluted share by \$0.42 in fiscal year 2014, \$0.42 in fiscal year 2013, and \$0.43 in fiscal year 2012. Unless these grants are extended, they will expire between fiscal years 2015 and 2027. The Company's historical practice has been to renew, extend, or obtain new tax incentive grants upon expiration of existing tax incentive grants. If the Company is not able to renew, extend, or obtain new tax incentive grants, the expiration of existing tax incentive grants could have a material impact on the Company's financial results in future periods. The expiration of a tax incentive grant in fiscal year 2015 is not expected to have a material impact on the provision for income taxes in the consolidated statements of earnings in future years.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The Company had \$1.172 billion, \$1.068 billion, and \$917 million of gross unrecognized tax benefits as of April 25, 2014, April 26, 2013, and April 27, 2012, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits for fiscal years 2014, 2013, and 2012 is as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Gross unrecognized tax benefits at beginning of fiscal year	\$ 1,068	\$ 917	\$ 769
Gross increases:			
Prior year tax positions	64	12	47
Current year tax positions	166	169	171
Gross decreases:			
Prior year tax positions	(58)	(21)	(53)
Settlements	(66)	(6)	(4)
Statute of limitation lapses	(2)	(3)	(13)
Gross unrecognized tax benefits at end of fiscal year	<u>\$ 1,172</u>	<u>\$ 1,068</u>	<u>\$ 917</u>

If all of the Company's unrecognized tax benefits as of April 25, 2014, April 26, 2013, and April 27, 2012 were recognized, \$1.104 billion, \$1.028 billion, and \$858 million would impact the Company's effective tax rate, respectively. Although the Company believes that it has adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on the Company's effective tax rate in future periods. The Company has recorded the gross unrecognized tax benefits as a long-term liability, as it does not expect significant payments to occur or the total amount of unrecognized tax benefits to change significantly over the next 12 months.

The Company recognizes interest and penalties related to income tax matters in the *provision for income taxes* in the consolidated statements of earnings and records the liability in the current or long-term accrued income taxes in the consolidated balance sheets, as appropriate. The Company had \$141 million, \$88 million, and \$120 million of accrued gross interest and penalties as of April 25, 2014, April 26, 2013, and April 27, 2012, respectively. During the fiscal years ended April 25, 2014, April 26, 2013, and April 27, 2012, the Company recognized gross interest expense of approximately \$36 million, \$33 million, and \$32 million in the *provision for income taxes* in the consolidated statements of earnings, respectively.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to the Company's allocation are required between jurisdictions with different tax rates. Tax authorities periodically review the Company's tax returns and propose adjustments to the Company's tax filings. The IRS has settled its audits with the Company for all years through fiscal year 2004. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries. The major foreign jurisdictions where the Company conducts business have generally concluded all material tax matters through fiscal year 2004. In addition, substantially all material state and local tax matters have been concluded through fiscal year 2004.

In March 2009, the IRS issued its audit report for fiscal years 2005 and 2006. The Company reached agreement with the IRS on some, but not all matters related to these fiscal years. On December 23, 2010, the IRS issued a statutory notice of deficiency with respect to the remaining issues. The Company filed a Petition with the U.S. Tax Court on March 21, 2011 objecting to the deficiency. During October and November 2012, the Company reached resolution with the IRS on various matters, including the deductibility of a settlement payment. The remaining unresolved issues relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, which is one of the Company's key manufacturing sites.

In October 2011, the IRS issued its audit report for fiscal years 2007 and 2008. The Company reached agreement with the IRS on some but not all matters related to these fiscal years. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, and proposed adjustments associated with the tax effects of the Company's acquisition of Kyphon Inc. (Kyphon). Associated with the Kyphon acquisition,

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

Medtronic entered into an intercompany transaction whereby the Kyphon U.S. tangible assets were sold to another wholly-owned Medtronic subsidiary in a taxable transaction. The IRS has disagreed with the Company's valuation of these assets and proposed that all U.S. goodwill, the value of the ongoing business, and the value of the workforce in place related to the Kyphon acquisition be included in the tangible asset sale. The Company disagrees that these items were sold, as well as with the IRS valuation of these items. The IRS continues to evaluate the overall transaction that Medtronic entered into and because a foreign subsidiary acquired part of Kyphon directly from the Kyphon shareholders, the IRS has argued that a deemed taxable event occurred. The Company disagrees with the IRS and is currently attempting to resolve these matters at the IRS Appellate level and will proceed through litigation, if necessary.

In April 2014, the IRS issued its audit report for fiscal years 2009, 2010, and 2011. The Company reached agreement with the IRS on some but not all matters related to these fiscal years. The significant issues that remain unresolved relate to the allocation of income between Medtronic, Inc. and its wholly-owned subsidiary operating in Puerto Rico, and proposed adjustments associated with the tax effects of its acquisition structures for Ardian, CoreValve, Inc., and Ablation Frontiers, Inc. The IRS's positions are similar to those presented in the Kyphon proposed adjustments. The Company disagrees with the IRS and will attempt to resolve these matters at the IRS Appellate level, however, it will proceed through litigation, if necessary.

The Company's reserves for uncertain tax positions relate to unresolved matters with the IRS and other taxing authorities. These reserves are subject to a high degree of estimation and management judgment. Resolution of these significant unresolved matters, or positions taken by the IRS or foreign tax authorities during future tax audits, could have a material impact on the Company's financial results in future periods. The Company continues to believe that its reserves for uncertain tax positions are appropriate and that it has meritorious defenses for its tax filings and will vigorously defend them during the audit process, appellate process, and through litigation in courts, as necessary.

14. Retirement Benefit Plans

The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans, and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. The expense related to these plans was \$419 million, \$419 million, and \$319 million in fiscal years 2014, 2013, and 2012, respectively.

In the U.S., the Company maintains a qualified pension plan designed to provide guaranteed minimum retirement benefits to all eligible U.S. employees. Pension coverage for non-U.S. employees is provided, to the extent deemed appropriate, through separate plans. In addition, U.S. and Puerto Rico employees are also eligible to receive specified Company paid health care and life insurance benefits through the Company's post-retirement benefits. In addition to the benefits provided under the qualified pension plan, retirement benefits associated with wages in excess of the IRS allowable limits are provided to certain employees under a non-qualified plan.

As of April 25, 2014 and April 26, 2013, the net underfunded status of the Company's benefit plans was \$488 million and \$584 million, respectively.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The change in benefit obligation and funded status of the Company's employee retirement plans are as follows:

(in millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Post-Retirement Benefits	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2014	2013	2014	2013	2014	2013
Accumulated benefit obligation at end of year:	\$ 1,996	\$ 1,924	\$ 871	\$ 689	\$ 327	\$ 302
Change in projected benefit obligation:						
Projected benefit obligation at beginning of year	\$ 2,154	\$ 1,877	\$ 811	\$ 717	\$ 302	\$ 339
Service cost	107	104	54	43	19	19
Interest cost	97	94	29	27	14	15
Employee contributions	—	—	16	15	9	9
Plan amendments	—	—	—	(8)	—	—
Plan curtailments	—	—	(2)	—	—	—
Actuarial (gain) loss	(104)	151	88	65	1	(62)
Benefits paid	(51)	(72)	(27)	(25)	(19)	(19)
Medicare Part D reimbursements	—	—	—	—	1	1
Foreign currency exchange rate changes	—	—	62	(23)	—	—
Projected benefit obligation at end of year	\$ 2,203	\$ 2,154	\$ 1,031	\$ 811	\$ 327	\$ 302
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 1,717	\$ 1,470	\$ 733	\$ 638	\$ 233	\$ 204
Actual return on plan assets	163	129	61	69	24	19
Employer contributions	88	190	48	49	20	20
Employee contributions	—	—	16	15	9	9
Benefits paid	(51)	(72)	(27)	(25)	(19)	(19)
Foreign currency exchange rate changes	—	—	58	(13)	—	—
Fair value of plan assets at end of year	\$ 1,917	\$ 1,717	\$ 889	\$ 733	\$ 267	\$ 233
Funded status at end of year:						
Fair value of plan assets	\$ 1,917	\$ 1,717	\$ 889	\$ 733	\$ 267	\$ 233
Benefit obligations	2,203	2,154	1,031	811	327	302
Underfunded status of the plans	\$ (286)	\$ (437)	\$ (142)	\$ (78)	\$ (60)	\$ (69)
Recognized liability	\$ (286)	\$ (437)	\$ (142)	\$ (78)	\$ (60)	\$ (69)
Amounts recognized on the consolidated balance sheets consist of:						
Non-current assets	\$ —	\$ —	\$ 17	\$ 19	\$ —	\$ —
Current liabilities	(10)	(9)	(4)	(4)	(1)	(1)
Non-current liabilities	(276)	(428)	(155)	(93)	(59)	(68)
Recognized liability	\$ (286)	\$ (437)	\$ (142)	\$ (78)	\$ (60)	\$ (69)
Amounts recognized in accumulated other comprehensive (loss) income:						
Prior service cost (benefit)	\$ 4	\$ 5	\$ (2)	\$ (1)	\$ (3)	\$ (3)
Net actuarial loss	837	1,048	254	190	39	43
Ending balance	\$ 841	\$ 1,053	\$ 252	\$ 189	\$ 36	\$ 40

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Notes to Consolidated Financial Statements (Continued)

In certain countries outside the U.S., fully funding pension plans is not a common practice, as funding provides no income tax benefit. Consequently, certain pension plans were partially funded as of April 25, 2014 and April 26, 2013. U.S. and non-U.S. plans with accumulated benefit obligations in excess of plan assets consist of the following:

(in millions)	Fiscal Year	
	2014	2013
Accumulated benefit obligation	\$ 2,426	\$ 2,003
Projected benefit obligation	2,703	2,243
Plan assets at fair value	2,268	1,740

Plans with projected benefit obligations in excess of plan assets consist of the following:

(in millions)	Fiscal Year	
	2014	2013
Projected benefit obligation	\$ 2,864	\$ 2,637
Plan assets at fair value	2,419	2,104

The net periodic benefit cost of the plans include the following components:

(in millions)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Post-Retirement Benefits		
	Fiscal Year			Fiscal Year			Fiscal Year		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Service cost	\$ 107	\$ 104	\$ 92	\$ 54	\$ 43	\$ 42	\$ 19	\$ 19	\$ 19
Interest cost	97	94	87	29	27	29	14	15	17
Expected return on plan assets	(141)	(128)	(121)	(35)	(33)	(36)	(19)	(17)	(16)
Amortization of prior service cost (credit)	1	(1)	(1)	1	1	1	—	—	—
Amortization of net actuarial loss	85	71	45	11	8	4	1	3	3
Net periodic benefit cost	\$ 149	\$ 140	\$ 102	\$ 60	\$ 46	\$ 40	\$ 15	\$ 20	\$ 23

The other changes in plan assets and projected benefit obligations recognized in accumulated other comprehensive loss for fiscal year 2014 are as follows:

(in millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Post-Retirement Benefits
Net actuarial (gain) loss	\$ (126)	\$ 61	\$ (3)
Amortization of prior service cost	(1)	(1)	—
Amortization of net actuarial gain	(85)	(11)	(1)
Effect of exchange rates	—	14	—
Total recognized in accumulated other comprehensive loss	\$ (212)	\$ 63	\$ (4)
Total recognized in net periodic benefit cost and accumulated other comprehensive loss	\$ (63)	\$ 124	\$ 11

The estimated amounts that will be amortized from *accumulated other comprehensive loss* into net periodic benefit cost, before tax, in fiscal year 2015 are as follows:

(in millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Post-Retirement Benefits
Amortization of net actuarial loss	\$ 65	\$ 13	\$ —
	\$ 65	\$ 13	\$ —

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Notes to Consolidated Financial Statements (Continued)

The actuarial assumptions are as follows:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Post-Retirement Benefits		
	Fiscal Year			Fiscal Year			Fiscal Year		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Weighted average assumptions – projected benefit obligation:									
Discount rate	4.75%	4.55%	5.05%	3.32%	3.52%	3.98%	4.75%	4.55%	5.05%
Rate of compensation increase	3.90%	3.90%	3.80%	2.80%	2.78%	2.85%	N/A	N/A	N/A
Initial health care cost trend rate pre-65	N/A	N/A	N/A	N/A	N/A	N/A	7.50%	7.75%	7.50%
Initial health care cost trend rate post-65	N/A	N/A	N/A	N/A	N/A	N/A	6.75%	7.00%	7.25%
Weighted average assumptions – net periodic benefit cost:									
Discount rate	4.55%	5.05%	5.80%	3.52%	3.98%	4.75%	4.55%	5.05%	5.80%
Expected return on plan assets	8.25%	8.25%	8.25%	4.76%	5.19%	5.82%	8.25%	8.25%	8.25%
Rate of compensation increase	3.90%	3.80%	3.80%	2.78%	2.85%	2.97%	N/A	N/A	N/A
Initial health care cost trend rate pre-65	N/A	N/A	N/A	N/A	N/A	N/A	7.75%	7.50%	7.75%
Initial health care cost trend rate post-65	N/A	N/A	N/A	N/A	N/A	N/A	7.00%	7.25%	7.50%

The Company's discount rates are determined by considering current yield curves representing high quality, long-term fixed income instruments. The resulting discount rates are consistent with the duration of plan liabilities.

The expected long-term rate of return on plan assets assumptions are determined using a building block approach, considering historical averages and real returns of each asset class. In certain countries, where historical returns are not meaningful, consideration is given to local market expectations of long-term returns.

Retirement Benefit Plan Investment Strategy The Company has an account that holds the assets for both the U.S. pension plan and other U.S. post-retirement benefits, primarily retiree medical benefits. For investment purposes, the plans are managed in an identical way, as their objectives are similar.

The Company has a Qualified Plan Committee (the Plan Committee) that sets investment guidelines for U.S. pension plan and other U.S. post-retirement benefits with the assistance of an external consultant. These guidelines are established based on market conditions, risk tolerance, funding requirements, and expected benefit payments. The Plan Committee also oversees the investment allocation process, selects the investment managers, and monitors asset performance. As pension liabilities are long-term in nature, the Company employs a long-term total return approach to maximize the long-term rate of return on plan assets for a prudent level of risk. An annual analysis on the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption.

The investment portfolio contains a diversified portfolio of investment categories, including equities, fixed income securities, hedge funds, and private equity. Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value styles, large cap and small cap stocks, active and passive management, and derivative-based styles.

Outside the U.S., pension plan assets are typically managed by decentralized fiduciary committees. There is significant variation in policy asset allocation from country to country. Local regulations, local funding rules, and local financial and tax considerations are part of the funding and investment allocation process in each country.

The Plan did not hold any investments in the Company's common stock as of April 25, 2014 or April 26, 2013.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The Company's pension plan target allocations at April 25, 2014 and April 26, 2013, by asset category, are as follows:

U.S. Plans

Asset Category	Target Allocation	
	2014	2013
Equity securities	50%	50%
Debt securities	20	20
Other	30	30
Total	100%	100%

Non-U.S. Plans

Asset Category	Target Allocation	
	2014	2013
Equity securities	41%	40%
Debt securities	22	22
Other	37	38
Total	100%	100%

Retirement Benefit Plan Asset Fair Values The following is a description of the valuation methodologies used for retirement benefit plan assets measured at fair value.

Short-term investments: Valued at the closing price reported in the active markets in which the individual security is traded.

U.S. government securities: Certain U.S. government securities are valued at the closing price reported in the active markets in which the individual security is traded. Other U.S. government securities are valued based on inputs other than quoted prices that are observable.

Corporate debt securities: Valued based on inputs other than quoted prices that are observable.

Common stock: Valued at the closing price reported in the active markets in which the individual security is traded.

Equity Mutual Funds/Commingled Trusts: Valued based on the year-end net asset values of the investment vehicles. The net asset values of the investment vehicles are based on the fair values of the underlying investments of the partnerships valued at the closing price reported in the active markets in which the individual security is traded. Equity mutual funds have a daily reported net asset value and the Company classifies these investments as Level 2. Commingled trusts do not have a daily reported net asset value and the Company classifies these investments as Level 3.

Fixed Income Mutual Funds: Valued based on the year-end net asset values of the investment vehicles. The net asset values of the investment vehicles are based on the fair values of the underlying investments of the partnerships valued based on inputs other than quoted prices that are observable.

Partnership Units: Valued based on the year-end net asset values of the underlying partnerships. The net asset values of the partnerships are based on the fair values of the underlying investments of the partnerships. Quoted market prices are used to value the underlying investments of the partnerships, where the partnerships consist of the investment pools which invest primarily in common stocks. Partnership units include partnerships, private equity investments, and real asset investments. Partnerships primarily include long/short equity and absolute return strategies. These investments can be redeemed monthly

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

with notice periods ranging from 45 to 95 days. As of April 25, 2014, there are two absolute return strategy funds totaling \$5 million that are in the process of liquidation. The Company expects to receive the majority of the proceeds over the next five years. Private equity investments consist of common stock and debt instruments of private companies. For private equity funds, the sum of the unfunded commitments as of April 25, 2014 is \$64 million and the estimated liquidation period of these funds is expected to be one to 15 years. Real asset investments consist of commodities, derivatives, Real Estate Investment Trusts, and illiquid real estate holdings. These investments have redemption and liquidation periods ranging from 30 days to 10 years. If a quoted market price is not available for a partnership investment, other valuation procedures are utilized to arrive at fair value.

Registered Investment Companies: Valued at the quoted market prices of shares held by the plan at year-end in the active market on which the individual securities are traded.

Insurance Contracts: Comprised of investments in collective (group) insurance contracts, consisting of individual insurance policies. The policyholder is the employer and each member is the owner/beneficiary of their individual insurance policy. These policies are a part of the insurance company's general portfolio and participate in the insurer's profit-sharing policy on an excess yield basis.

The methods described above may produce fair values that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no transfers between Level 1, Level 2, or Level 3 during fiscal years 2014, 2013, or 2012.

The following tables provide information by level for the retirement benefit plan assets that are measured at fair value, as defined by U.S. GAAP. See Note 6 for discussion of the fair value measurement terms of Levels 1, 2, and 3.

U.S. Pension Benefits

(in millions)	Fair Value as of April 25, 2014	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Short-term investments	\$ 157	\$ 157	\$ —	\$ —
U.S. government securities	158	108	50	—
Corporate debt securities	60	—	59	1
Other common stock	125	125	—	—
Equity mutual funds/commingled trusts	578	—	293	285
Fixed income mutual funds	166	—	166	—
Partnership units	673	—	—	673
	<u>\$ 1,917</u>	<u>\$ 390</u>	<u>\$ 568</u>	<u>\$ 959</u>

(in millions)	Fair Value as of April 26, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Short-term investments	\$ 195	\$ 195	\$ —	\$ —
U.S. government securities	172	145	27	—
Corporate debt securities	62	—	61	1
Other common stock	216	216	—	—
Equity mutual funds/commingled trusts	377	—	150	227
Fixed income mutual funds	72	—	72	—
Partnership units	623	—	—	623
	<u>\$ 1,717</u>	<u>\$ 556</u>	<u>\$ 310</u>	<u>\$ 851</u>

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The following tables provide a reconciliation of the beginning and ending balances of U.S. pension benefit assets measured at fair value that used significant unobservable inputs (Level 3):

(in millions)	Total Level 3 Investments	Corporate Debt Securities	Commingled Trusts	Partnership Units
Balance as of April 26, 2013	\$ 851	\$ 1	\$ 227	\$ 623
Total realized gains (losses) included in earnings	23	—	—	23
Total unrealized gains (losses) included in accumulated other comprehensive loss	86	—	58	28
Purchases and sales, net	(1)	—	—	(1)
Balance as of April 25, 2014	<u>\$ 959</u>	<u>\$ 1</u>	<u>\$ 285</u>	<u>\$ 673</u>

(in millions)	Total Level 3 Investments	Corporate Debt Securities	Commingled Trusts	Partnership Units
Balance as of April 27, 2012	\$ 752	\$ 1	\$ 193	\$ 558
Total realized gains (losses) included in earnings	8	—	—	8
Total unrealized gains (losses) included in accumulated other comprehensive loss	62	—	34	28
Purchases and sales, net	29	—	—	29
Balance as of April 26, 2013	<u>\$ 851</u>	<u>\$ 1</u>	<u>\$ 227</u>	<u>\$ 623</u>

Non-U.S. Pension Benefits

(in millions)	Fair Value as of April 25, 2014	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Registered investment companies	\$ 868	\$ —	\$ 868	\$ —
Insurance contracts	11	—	—	11
Partnership units	10	—	—	10
	<u>\$ 889</u>	<u>\$ —</u>	<u>\$ 868</u>	<u>\$ 21</u>

(in millions)	Fair Value as of April 26, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Registered investment companies	\$ 715	\$ —	\$ 715	\$ —
Insurance contracts	10	—	—	10
Partnership units	8	—	—	8
	<u>\$ 733</u>	<u>\$ —</u>	<u>\$ 715</u>	<u>\$ 18</u>

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The following tables provide a reconciliation of the beginning and ending balances of non-U.S. pension benefit assets measured at fair value that used significant unobservable inputs (Level 3):

(in millions)	<u>Total Level 3 Investments</u>	<u>Insurance Contracts</u>	<u>Partnership Units</u>
Balance as of April 26, 2013	\$ 18	\$ 10	\$ 8
Total unrealized gains (losses) included in accumulated other comprehensive loss	1	—	1
Purchases and sales, net	1	—	1
Foreign currency exchange	1	1	—
Balance as of April 25, 2014	<u>\$ 21</u>	<u>\$ 11</u>	<u>\$ 10</u>

(in millions)	<u>Total Level 3 Investments</u>	<u>Insurance Contracts</u>	<u>Partnership Units</u>
Balance as of April 27, 2012	\$ 16	\$ 9	\$ 7
Total unrealized gains (losses) included in accumulated other comprehensive loss	1	—	1
Purchases and sales, net	1	1	—
Balance as of April 26, 2013	<u>\$ 18</u>	<u>\$ 10</u>	<u>\$ 8</u>

Post-Retirement Benefits

(in millions)	<u>Fair Value as of April 25, 2014</u>	<u>Fair Value Measurements Using Inputs Considered as</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 22	\$ 22	\$ —	\$ —
U.S. government securities	23	16	7	—
Corporate debt securities	9	—	9	—
Other common stock	18	18	—	—
Equity mutual funds/commingled trusts	83	—	42	41
Fixed income mutual funds	24	—	24	—
Partnership units	97	—	—	97
Total	<u>\$ 276</u>	<u>\$ 56</u>	<u>\$ 82</u>	<u>\$ 138</u>
Other items to reconcile to fair value of plan assets	(9)			
	<u>\$ 267</u>			

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Notes to Consolidated Financial Statements (Continued)

(in millions)	Fair Value as of April 26, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Short-term investments	\$ 28	\$ 28	\$ —	\$ —
U.S. government securities	24	20	4	—
Corporate debt securities	9	—	9	—
Other common stock	31	31	—	—
Equity mutual funds/commingled trusts	53	—	21	32
Fixed income mutual funds	10	—	10	—
Partnership units	88	—	—	88
Total	\$ 243	\$ 79	\$ 44	\$ 120
Other items to reconcile to fair value of plan assets	(10)			
	\$ 233			

The following tables provide a reconciliation of the beginning and ending balances of post-retirement benefit assets measured at fair value that used significant unobservable inputs (Level 3):

(in millions)	Total Level 3 Investments	Commingled Trusts	Partnership Units
Balance as of April 26, 2013	\$ 120	\$ 32	\$ 88
Total realized gains (losses) included in earnings	4	—	4
Total unrealized gains (losses) included in accumulated other comprehensive loss	13	9	4
Purchases and sales, net	1	—	1
Balance as of April 25, 2014	\$ 138	\$ 41	\$ 97

(in millions)	Total Level 3 Investments	Commingled Trusts	Partnership Units
Balance as of April 27, 2012	\$ 108	\$ 28	\$ 80
Total realized gains (losses) included in earnings	5	4	1
Total unrealized gains (losses) included in accumulated other comprehensive loss	4	—	4
Purchases and sales, net	3	—	3
Balance as of April 26, 2013	\$ 120	\$ 32	\$ 88

Retirement Benefit Plan Funding It is the Company's policy to fund retirement costs within the limits of allowable tax deductions. During fiscal year 2014, the Company made discretionary contributions of approximately \$88 million to the U.S. pension plan and approximately \$20 million to fund post-retirement benefits. Internationally, the Company contributed approximately \$48 million for pension benefits during fiscal year 2014. During fiscal year 2015, the Company anticipates that its contribution for pension benefits and post-retirement benefits will be less than those contributions made during fiscal year 2014. Based on the guidelines under the U.S. Employee Retirement Income Security Act of 1974 and the various guidelines which govern the plans outside the U.S., the majority of anticipated fiscal year 2015 contributions will be discretionary. The Company believes that, along with pension assets, the returns on invested pension assets, and Company contributions, the Company will be able to meet its pension and other post-retirement obligations in the future.

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Notes to Consolidated Financial Statements (Continued)

Retiree benefit payments, which reflect expected future service, are anticipated to be paid as follows:

(in millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Post-Retirement Benefits	
	Gross Payments	Gross Payments	Gross Payments	Gross Medicare Part D Receipts
Fiscal Year				
2015	\$ 59	\$ 36	\$ 12	\$ —
2016	69	30	14	—
2017	78	31	16	—
2018	88	33	18	—
2019	98	32	20	—
2020 – 2024	659	187	137	—
Total	\$ 1,051	\$ 349	\$ 217	\$ —

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Affordability Reconciliation Act (Reconciliation Act). Included among the major provisions of these laws is a change in the tax treatment of the Medicare Part D subsidy. The subsidy came into existence with the enactment of the Medicare Modernization Act (MMA) in 2003 and is available to sponsors of retiree health benefit plans with a prescription drug benefit that is actuarially equivalent to the benefit provided by the Medicare Part D program. Prior to the enactment of the PPACA and the Reconciliation Act, the Company was allowed to deduct the full cost of its retiree drug plans without reduction for subsidies received.

Under U.S. GAAP, the Company records a liability on its balance sheet for the expected cost of earned future retiree health benefits. When the MMA was enacted in 2003, this liability was reduced to reflect expected future subsidies from the Medicare Part D program. In addition, the Company recorded a reduction to the deferred tax liability on the balance sheet for the value of future tax deductions for these retiree health benefits. Each year, as additional benefits are earned and benefit payments are made, the Company adjusts the post-retirement benefits liability and deferred tax liability.

After the passage of the PPACA and the Reconciliation Act, the Company must reduce the tax deduction for retiree drug benefits paid by the amount of the Medicare Part D subsidy beginning in 2013. U.S. GAAP requires the impact of a change in tax law to be recognized immediately in the income statement in the period that includes the enactment date, regardless of the effective date of the change in tax law. As a result of this change in tax law, the Company recorded a non-cash charge of \$15 million in fiscal year 2010 to increase the deferred tax liability. As a result of this legislation, the Company will be evaluating prospective changes to the active and retiree health care benefits offered by the Company.

The Company's U.S. qualified defined benefit plans are funded in excess of 80 percent and, therefore, the Company expects that the plans will not be subject to the "at risk" funding requirements of the Pension Protection Act and that the law will not have a material impact on future contributions.

The initial health care cost trend rates for post-retirement benefit plans was 7.50 percent for pre-65 and 6.75 percent for post-65 at April 25, 2014. Based on actuarial data, the trend rates are expected to decline to 5.0 percent over a five-year period. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(in millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on post-retirement benefit cost	\$ 1	\$ (1)
Effect on post-retirement benefit obligation	11	(9)

Defined Contribution Savings Plans The Company has defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on employee contributions and Company performance and since fiscal year 2006, the entire match has been made in cash. Expense under these plans was \$145 million, \$163 million, and \$106 million in fiscal years 2014, 2013, and 2012, respectively.

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Notes to Consolidated Financial Statements (Continued)

Effective May 1, 2005, the Company froze participation in the existing defined benefit pension plan in the U.S. and implemented two new plans including an additional defined benefit pension plan and a new defined contribution pension plan, respectively: the Personal Pension Account (PPA) and the Personal Investment Account (PIA). Employees in the U.S. hired on or after May 1, 2005 have the option to participate in either the PPA or the PIA. Participants in the PPA receive an annual allocation of their salary and bonus on which they will receive an annual guaranteed rate of return which is based on the ten-year Treasury bond rate. Participants in the PIA also receive an annual allocation of their salary and bonus; however, they are allowed to determine how to invest their funds among identified fund alternatives. The cost associated with the PPA is included in U.S. Pension Benefits in the tables presented earlier. The defined contribution cost associated with the PIA was approximately \$50 million, \$50 million, and \$48 million in fiscal years 2014, 2013, and 2012, respectively.

15. Leases

The Company leases office, manufacturing, and research facilities and warehouses, as well as transportation, data processing, and other equipment under capital and operating leases. A substantial number of these leases contain options that allow the Company to renew at the fair rental value on the date of renewal.

Future minimum payments under capitalized leases and non-cancelable operating leases at April 25, 2014 are:

(in millions) Fiscal Year	Capitalized Leases	Operating Leases
2015	\$ 18	\$ 112
2016	17	77
2017	34	45
2018	22	21
2019	22	13
Thereafter	64	23
Total minimum lease payments	\$ 177	\$ 291
Less amounts representing interest	(24)	N/A
Present value of net minimum lease payments	\$ 153	N/A

Rent expense for all operating leases, including discontinued operations in prior years, was \$150 million, \$140 million, and \$153 million in fiscal years 2014, 2013, and 2012, respectively.

In April 2012, the Company entered into a \$165 million sale-leaseback agreement with a financial institution whereby certain manufacturing equipment was sold to the financial institution and is being leased by the Company over a ten-year period. The transaction was recorded as a capital lease and is included in the table above. Payments for the remaining balance of the sale-leaseback agreement are due monthly for the first five years, and then annually, for the remaining five years. The lease provides for an early buyout option whereby the Company, at its option, could repurchase the equipment at a pre-determined fair market value in calendar year 2017.

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Notes to Consolidated Financial Statements (Continued)

16. Accumulated Other Comprehensive Loss

In the first quarter of fiscal year 2014, the Company prospectively adopted guidance issued by the FASB that requires additional disclosure related to the impact of reclassification adjustments out of AOCI on net income. Changes in AOCI by component are as follows:

(in millions)	Unrealized Gain (Loss) on Available-for- Sale Securities	Cumulative Translation Adjustments (a)	Net Change in Retirement Obligations	Unrealized Gain (Loss) on Derivatives	Total Accumulated Other Comprehensive Loss
Balance as of April 26, 2013, net of tax	\$ 97	\$ 205	\$ (852)	\$ 58	\$ (492)
Other comprehensive (loss) income before reclassifications, before tax	(89)	13	60	(120)	(136)
Tax benefit (expense)	32	—	(37)	44	39
Other comprehensive (loss) income before reclassifications, net of tax	(57)	13	23	(76)	(97)
Reclassifications, before tax	(72)	—	99	(42)	(15)
Tax benefit (expense)	26	—	(35)	16	7
Reclassifications, net of tax	(46)(b)	—	64(c)	(26)(d)	(8)
Other comprehensive (loss) income, net of tax	(103)	13	87	(102)	(105)
Balance as of April 25, 2014, net of tax	<u>\$ (6)</u>	<u>\$ 218</u>	<u>\$ (765)</u>	<u>\$ (44)</u>	<u>\$ (597)</u>

- (a) Taxes are not provided on CTA as substantially all translation adjustments relate to earnings that are intended to be indefinitely reinvested outside the U.S.
- (b) Represents net realized gains on sales of available-for-sale securities that were reclassified from AOCI to *other expense, net* (see Note 5).
- (c) Includes net amortization of prior service costs and actuarial losses included in net periodic benefit cost (see Note 14).
- (d) Relates to foreign currency cash flow hedges that were reclassified from AOCI to *other expense, net* or *cost of products sold* and forward starting interest rate derivative instruments that were reclassified from AOCI to *interest expense, net* (see Note 9).

17. Discontinued Operations

Beginning in the third quarter of fiscal year 2012, the results of operations, assets, and liabilities of the Physio-Control business, which were previously presented as a component of the Cardiac and Vascular Group operating segment, are classified as discontinued operations.

On January 30, 2012, the Company completed the sale of the Physio-Control business to Bain Capital Partners, LLC. The Company sold \$164 million in net assets and received \$386 million in net cash. Additionally, the Company entered into a Transition Services Agreement (TSA) with Physio-Control in which the Company provided transition services for Physio-Control through fiscal year 2013 as it established standalone processes separate from Medtronic. The TSA required the Company to continue to provide certain back-office support functions to Physio-Control in the areas of finance, facilities, human resources, customer service, IT, quality and regulatory, and operations. The Company was compensated for the services specified in the TSA. The Company recorded the income earned from the TSA in *other expense, net* in the consolidated statements of earnings.

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The following is a summary of the operating results of Physio-Control for discontinued operations for fiscal year 2012:

(in millions)	<u>2012</u>
Discontinued operations:	
Net sales	\$ 323
Earnings from operations of Physio-Control	\$ 48
Physio-Control divestiture-related costs	(42)
Gain on sale of Physio-Control	218
Income tax expense	(22)
Earnings from discontinued operations	<u>\$ 202</u>

In the fourth quarter of fiscal year 2012, the Company recognized a pre-tax gain on sale of \$218 million, which included a reversal of the portion of the Company's currency translation adjustment related to Physio-Control. Additionally, during fiscal year 2012, the Company recorded \$42 million of Physio-Control divestiture-related costs in discontinued operations. The Company reclassified \$12 million of Physio-Control divestiture-related costs previously recorded in *acquisition-related items* within continuing operations on the consolidated statements of earnings in the first and second quarters of fiscal year 2012 to discontinued operations.

18. Contingencies

The Company is involved in a number of legal actions. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief (including injunctions barring the sale of products that are the subject of the lawsuit), that could require significant expenditures or result in lost revenues. In accordance with U.S. GAAP, the Company records a liability in the consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete scientific facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines or punitive damages; or could result in a change in business practice. While it is not possible to predict the outcome for most of the matters discussed, the Company believes it is possible that costs associated with them could have a material adverse impact on the Company's consolidated earnings, financial position, or cash flows.

Litigation with Wyeth and Cordis Corporation

On February 22, 2008, Wyeth and Cordis Corporation (Cordis) filed a lawsuit against the Company and its subsidiary, Medtronic AVE, Inc., in U.S. District Court for the District of New Jersey, alleging that Medtronic's Endeavor drug-eluting stent infringes three U.S. "Morris" patents alleged to be owned by Wyeth and exclusively licensed to Cordis. On January 19, 2012, the Court found the patent claims asserted against Medtronic to be invalid and entered an Order and Judgment in favor of Medtronic and the other defendants. Wyeth and Cordis have appealed. On June 24, 2013, the Court of Appeals for the Federal Circuit affirmed the District Court's order. The Company is indemnified for the claims made by Wyeth and Cordis. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

Litigation with Edwards Lifesciences Corporation

On March 19, 2010, the U.S. District Court for the District of Delaware added Medtronic CoreValve LLC (CoreValve) as a party to litigation pending between Edwards and CoreValve, Inc. In the litigation, Edwards asserted that CoreValve's

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transcatheter aortic valve replacement product infringed three U.S. “Andersen” patents owned by Edwards. Before trial, the court granted summary judgment to Medtronic as to two of the three patents. Following a trial, on April 1, 2010 a jury found that CoreValve willfully infringed a claim on the remaining “Andersen” patent and awarded total lost profit and royalty damages, as of that time, of \$74 million. On November 13, 2012, the Court of Appeals for the Federal Circuit upheld the jury verdict and remanded to the District Court to reconsider issuing an injunction. Medtronic petitioned for certiorari to the U.S. Supreme Court, but the petition was denied on October 7, 2013. Medtronic recorded an expense of \$245 million related to probable and reasonably estimated damages for this matter in the second quarter of fiscal year 2013, of which \$84 million was paid on February 28, 2013. On March 12, 2010, Edwards served a second lawsuit in the Delaware court upon CoreValve, Medtronic Vascular, and Medtronic, asserting that Medtronic’s transcatheter aortic valve replacement product from CoreValve infringed three U.S. “Andersen” patents owned by Edwards, including two of the patents that were the subject of the first lawsuit.

On January 15, 2014, the Delaware court found that the CoreValve transcatheter aortic valve replacement product willfully infringed on a “Cribier” patent, with a jury award in the amount of \$394 million.

Edwards has also brought actions in Europe alleging patent infringement. Edwards previously asserted that the CoreValve product infringed an “Andersen” patent in Germany and the United Kingdom, which is a counterpart to the U.S. “Andersen” patents. Courts in both countries found that the CoreValve product does not infringe the European “Andersen” patent and dismissed both cases. On August 30, 2012, Edwards commenced a proceeding in Mannheim, Germany, alleging that Medtronic’s CoreValve transcatheter valve infringes three European patents and seeking injunctive and other relief. On June 14, 2013, the Mannheim court dismissed Edwards’ case on the merits that Medtronic’s CoreValve transcatheter valve infringes the “Cribier” patent. On July 12, 2013, the Mannheim court found that Medtronic’s CoreValve transcatheter valve infringes the “Spenser” patent and issued an injunction against Medtronic’s sale or use of the CoreValve product in Germany. Medtronic appealed the court’s finding of infringement. On August 26, 2013, Edwards posted a 50 million Euro bond, as mandated by the court, to enforce the injunction. On November 14, 2013, the appeals court in Karlsruhe stayed the injunction based on the likelihood that the “Spenser” patent would be found to be invalid. On March 5, 2014, the European Patent Office (EPO) determined the “Spenser” patent was invalid. The Mannheim court stayed a third proceeding that had been scheduled for trial on December 20, 2013, involving a related “Cribier” patent, until EPO proceedings conclude regarding the validity of the first “Cribier” patent which was revoked by the Opposition Division of the EPO on December 17, 2013.

On May 19, 2014, Medtronic and Edwards agreed to settle all pending litigation, and the parties will dismiss with prejudice all claims in the pending matters. The settlement agreement provided for a one-time payment of \$750 million from Medtronic to Edwards. The agreement also requires ongoing royalties for Medtronic sales of its CoreValve transcatheter valve with minimum annual payments of \$40 million through April 9, 2022. As a result, Medtronic recognized a \$589 million expense (net of existing accrual) in fiscal year 2014. The \$750 million was paid on May 23, 2014. The parties also agreed to cross license the relevant patents in the litigations, and covenanted not to sue each other for eight years in the field of transcatheter valves and related accessories.

Sprint Fidelis Product Liability Matters

In 2007, a putative class action was filed in the Ontario Superior Court of Justice in Canada seeking damages for personal injuries allegedly related to the Company’s Sprint Fidelis family of defibrillation leads. On October 20, 2009, the court certified a class proceeding but denied class certification on plaintiffs’ claim for punitive damages. Pretrial proceedings are underway. The Company has not recorded an expense related to damages in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

INFUSE Product Liability Litigation

As of the end of fiscal year 2014, plaintiffs filed approximately 750 lawsuits against the Company in the U.S. state and federal courts, reflecting approximately 1,200 individual personal injury claims from the INFUSE bone graft product. Certain law firms have advised the Company that they may bring a large number of similar claims against the Company in the future. The Company estimates those law firms represent approximately 3,600 additional unfiled claimants. The Company recorded an expense of \$140 million in fiscal year 2014, related to probable and reasonably estimated damages in connection with these matters.

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Other INFUSE Litigation

On June 5, 2014, Humana, Inc. filed a lawsuit for unspecified monetary damages in the U.S. District Court for the Western District of Tennessee, alleging that Medtronic violated federal racketeering (RICO) law and various state laws, by conspiring with physicians to promote unapproved uses of INFUSE. The Company has not recorded an expense related to damages in connection with this matter because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

Shareholder Related Matters

On March 12, 2012, Charlotte Kokocinski filed a shareholder derivative action against both the Company and certain of its current and former officers and members of the Board of Directors in the U.S. District Court for the District of Minnesota, setting forth certain allegations, including a claim that defendants violated various purported duties in connection with the INFUSE bone graft product and otherwise. On March 25, 2013, the Court dismissed the case without prejudice. In May 2012, Daniel Himmel and the Saratoga Advantage Trust commenced two other separate shareholder derivative actions in Hennepin County, Minnesota, District Court against the same defendants, making allegations similar to those in the *Kokocinski* case.

West Virginia Pipe Trades and Phil Pace, on June 27 and July 3, 2013, respectively, filed putative class action complaints against Medtronic and certain of its officers in the U.S. District Court for the District of Minnesota, alleging that the defendants made false and misleading public statements regarding the INFUSE Bone Graft product during the period of December 8, 2010 through August 3, 2011. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from these matters.

Mirowski

Medtronic is a licensee to the RE 38,119 patent ('119 Patent) and RE 38,897 patent ('897 Patent) owned by Mirowski Family Ventures, LLC (Mirowski) relating to the treatment of hemodynamic dysfunction. Medtronic and Mirowski dispute the application of the '119 and '897 Patents to certain Medtronic cardiac resynchronization products. On December 17, 2007, Medtronic filed an action in U.S. District Court for the District of Delaware seeking a declaration that none of its products infringe any valid claims of either the '119 or '897 Patents. If certain conditions are fulfilled, the '119 and/or '897 Patents are determined to be valid, and the Medtronic products are found to infringe the '119 and/or '897 Patents, Medtronic will be obligated to pay royalties to Mirowski based upon sales of certain cardiac resynchronization therapy-defibrillator (CRT-D) products. On March 30, 2011, the trial court entered a judgment of non-infringement in Medtronic's favor. On September 16, 2012, the Federal Circuit reversed and remanded the trial court's decision for a new trial, based on its holding that the trial court did not properly allocate the burden of proof in the initial proceedings. Medtronic's petition for certiorari to the U.S. Supreme Court was granted, and on January 22, 2014, the Supreme Court reversed the Federal Circuit's decision regarding the burden of proof. On March 11, 2014, the Federal Circuit affirmed the trial court's judgment of non-infringement. The Company has not recorded an expense pursuant to U.S. GAAP requirements in connection with this matter because any loss is not probable or reasonably estimable. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from this matter.

Other Matters

The Company has received subpoenas or document requests from certain government bodies seeking information regarding sales, marketing, clinical, and other information relating to the INFUSE bone graft product, including civil investigative demands from the Attorneys General in Massachusetts, California, Oregon, Illinois, and Washington. The Company is fully cooperating with these requests.

On September 16, 2009, the Company received a subpoena from the Office of Inspector General for the Department of Health and Human Services in the Eastern District of California requesting production of documents relating to the Company's cardiac rhythm medical devices, including revenue, sales, marketing, and promotional documents, documents relating to reimbursement communications to customers pertaining to the devices, documents relating to scientific studies and registries pertaining to the devices, and documents relating to payments or items of value provided to customers. The Company recorded an expense of

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

\$10 million in fiscal year 2014, related to probable and reasonably estimated damages. In May 2014, the Company settled this matter for \$10 million and certain legal fees.

On October 14, 2010, the Company received a subpoena issued by the U.S. Attorney's Office for the Western District of New York pursuant to the Health Insurance Portability & Accountability Act of 1996, relating to the Company's sales, marketing, and reimbursement support practices regarding certain neurostimulation devices. The Company is fully cooperating with this inquiry.

On November 9, 2010, the French Competition Authority commenced an investigation of the Company, along with a number of other medical device companies, and the companies' trade association, Syndicat National de l'Industrie des Technologies Medicales (SNITEM), to determine whether such companies or SNITEM engaged in any anticompetitive practices in responding to tenders to purchase certain medical devices. The Company is fully cooperating with the investigation.

On December 3, 2013, the Company received a subpoena for records from the U.S. Attorney's Office for the District of Minnesota related to the same topic addressed in its letter of May 6, 2013, requesting information relating to the Company's compliance with the Trade Agreements Act. The Company is fully cooperating with this inquiry.

Except as described above, the Company has not recorded an expense related to losses in connection with these matters because any potential loss is not currently probable or reasonably estimable under U.S. GAAP. Additionally, the Company cannot reasonably estimate the range of loss, if any, that may result from these matters.

In the normal course of business, the Company periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of the Company's products or the negligence of its personnel or claims alleging that its products infringe third-party patents or other intellectual property. The Company's maximum exposure under these indemnification provisions cannot be estimated, and the Company has not accrued any liabilities within the consolidated financial statements. Historically, the Company has not experienced significant losses on these types of indemnifications.

19. Quarterly Financial Data (unaudited)

(in millions, except per share data)		<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Fiscal Year</u>
Net Sales						
	2014	\$ 4,083	\$ 4,194	\$ 4,163	\$ 4,566	\$ 17,005
	2013	4,008	4,095	4,027	4,459	16,590
Gross Profit						
	2014	\$ 3,061	\$ 3,104	\$ 3,113	\$ 3,395	\$ 12,672
	2013	3,035	3,075	3,028	3,325	12,464
Net Earnings						
	2014	\$ 953	\$ 902	\$ 762	\$ 448	\$ 3,065
	2013	864	646	988	969	3,467
Basic Earnings per Share						
	2014	\$ 0.94	\$ 0.90	\$ 0.76	\$ 0.45	3.06
	2013	0.84	0.63	0.98	0.96	3.40
Diluted Earnings per Share						
	2014	\$ 0.93	\$ 0.89	\$ 0.75	\$ 0.44	3.02
	2013	0.83	0.63	0.97	0.95	3.37

The data in the schedule above has been intentionally rounded to the nearest million, and therefore, the quarterly amounts may not sum to the fiscal year-to-date amounts.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

20. Segment and Geographic Information

The Company's management evaluates performance and allocates resources based on profit and loss from operations before income taxes and interest expense, net, not including special charges, restructuring charges, net, certain litigation charges, net, acquisition-related items, and certain tax adjustments. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 1.

In the first quarter of fiscal year 2014, the Company amended the way in which management evaluates performance and allocates resources for the Diabetes business including separating the Diabetes business from the Restorative Therapies Group. As a result, the Company began to operate under three reportable segments and three operating segments with the Diabetes business operating as a separate group. Accordingly, the segment information for the prior years has been restated to present three reportable segments.

The Company's Cardiac and Vascular Group consists of four businesses: Cardiac Rhythm Disease Management (CRDM), Coronary, Structural Heart, and Endovascular. The primary products sold by this operating segment include those for cardiac rhythm disorders and cardiovascular disease. The Company's Restorative Therapies Group consists of three businesses: Spine, Neuromodulation, and Surgical Technologies. The primary products sold by this operating segment include those for spinal conditions and musculoskeletal trauma, neurological disorders, urological and digestive disorders, and ear, nose, and throat conditions. The primary products sold by the Company's Diabetes Group include those for diabetes management.

Net sales of the Company's reportable segments include end-customer revenues from the sale of products they each develop and manufacture or distribute. Net sales and earnings before income taxes by reportable segment are as follows:

(in millions)	Fiscal Year		
	2014	2013	2012
Cardiac and Vascular Group	\$ 8,847	\$ 8,695	\$ 8,482
Restorative Therapies Group	6,501	6,369	6,221
Diabetes Group	1,657	1,526	1,481
Total Net Sales	\$ 17,005	\$ 16,590	\$ 16,184

(in millions)	Fiscal Year		
	2014	2013	2012
Cardiac and Vascular Group	\$ 2,982	\$ 2,935	\$ 2,772
Restorative Therapies Group	1,821	1,778	1,707
Diabetes Group	457	432	396
Total Reportable Segments' Earnings Before Income Taxes	5,260	5,145	4,875
Special charges	(40)	—	—
Restructuring charges, net ^(a)	(88)	(182)	(87)
Certain litigation charges, net	(770)	(245)	(90)
Acquisition-related items	(117)	49	(12)
Interest expense, net	(108)	(151)	(149)
Corporate	(432)	(365)	(392)
Total Earnings From Continuing Operations Before Income Taxes	\$ 3,705	\$ 4,251	\$ 4,145

(a) For fiscal years 2014 and 2013, restructuring charges, net within this table include the impact of amounts recorded within cost of products sold in the consolidated statements of earnings related to the fiscal year 2014 initiative and fiscal year 2013 initiative, respectively.

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

The following table presents the Company's net assets by reportable segment:

(in millions)	April 25, 2014	April 26, 2013
Cardiac and Vascular Group	\$ 6,578	\$ 6,941
Restorative Therapies Group	9,604	10,058
Diabetes Group	1,819	1,857
Total Net Assets of Reportable Segments	18,001	18,856
Short-term borrowings	(1,613)	(910)
Long-term debt	(10,315)	(9,741)
Corporate	13,370	10,466
Total Net Assets	\$ 19,443	\$ 18,671

Geographic Information

Net sales to external customers and property, plant, and equipment, net by geography are as follows:

(in millions)	United States	Europe and Canada	Asia Pacific	Other Foreign	Consolidated
Fiscal Year 2014					
Net sales to external customers	\$ 9,209	\$ 4,380	\$ 2,600	\$ 816	\$ 17,005
Property, plant, and equipment, net	\$ 1,762	\$ 388	\$ 195	\$ 47	\$ 2,392
Fiscal Year 2013					
Net sales to external customers	\$ 9,059	\$ 4,199	\$ 2,604	\$ 728	\$ 16,590
Property, plant, and equipment, net	\$ 1,849	\$ 391	\$ 206	\$ 44	\$ 2,490
Fiscal Year 2012					
Net sales to external customers	\$ 8,828	\$ 4,313	\$ 2,399	\$ 644	\$ 16,184
Property, plant, and equipment, net	\$ 1,894	\$ 389	\$ 154	\$ 36	\$ 2,473

No single customer represented over 10 percent of the Company's consolidated net sales in fiscal years 2014, 2013, or 2012.

21. Subsequent Events

On June 15, 2014, Medtronic, Inc., a Minnesota corporation (Medtronic), entered into a Transaction Agreement (the Transaction Agreement) by and among Medtronic, Covidien public limited company, an Irish public limited company (Covidien), Kalani I Limited, a private limited company organized under the laws of Ireland (New Medtronic), Makani II Limited, a private limited company organized under the laws of Ireland and a wholly-owned subsidiary of New Medtronic (IrSub), Aviation Acquisition Co., Inc., a Minnesota corporation (U.S. AcquisitionCo), and Aviation Merger Sub, LLC, a Minnesota limited liability company and a wholly-owned subsidiary of U.S. AcquisitionCo (MergerSub). Under the terms of the Transaction Agreement, (i) New Medtronic and IrSub will acquire Covidien (the Acquisition) pursuant to the Irish Scheme of Arrangement under Section 201, and a capital reduction under Sections 72 and 74, of the Irish Companies Act of 1963 (the Arrangement) and (ii) MergerSub will merge with and into Medtronic, with Medtronic as the surviving corporation in the merger (such merger, the Merger, and the Merger together with the Acquisition, the Pending Acquisition). As a result of the Pending Acquisition, both Medtronic and Covidien will become wholly-owned direct or indirect subsidiaries of New Medtronic.

At the effective time of the Arrangement, (a) Covidien shareholders will be entitled to receive \$35.19 in cash and 0.956 of a newly issued New Medtronic share (the Arrangement Consideration) in exchange for each Covidien share held by such shareholders, and (b) each share of Medtronic common stock will be converted into the right to receive one New Medtronic share. The total cash and stock value of the Pending Acquisition is approximately \$42.9 billion based on Medtronic's closing share price of \$60.70 on June 13, 2014. It is expected that immediately after the closing of the Pending Acquisition, Covidien

Medtronic, Inc.
Notes to Consolidated Financial Statements (Continued)

shareholders will own approximately 30 percent of New Medtronic on a fully diluted basis. Shares of New Medtronic are expected to trade on the New York Stock Exchange.

The Transaction Agreement may be terminated by mutual written consent of the parties. The Transaction Agreement also contains certain termination rights, including, among others, the right of either party to terminate if (a) the Arrangement has not become effective by March 15, 2015 (the End Date), subject to certain conditions, provided that the End Date will be extended to June 15, 2015 in certain circumstances, (b) the Covidien or Medtronic shareholder approvals are not obtained, (c) the other party breaches its representations and covenants and such breach would result in the closing conditions not being satisfied, subject to a cure period, (d) the Irish High Court declines to sanction the Arrangement, unless both parties agree to appeal the decision, or (e) there is a failure of the tax condition as described in Medtronic's Current Report on Form 8-K filed with the SEC on June 16, 2014. Covidien also has the right, prior to the receipt of Covidien shareholder approval, to terminate the Transaction Agreement to accept a Covidien Superior Proposal (as defined in the Transaction Agreement) in certain circumstances.

The Transaction Agreement also provides that Medtronic must pay Covidien a termination fee of \$850 million if the Transaction Agreement is terminated because the Medtronic board of directors changes its recommendation for the transaction and the Medtronic shareholders vote against the Transaction, and either (i) Covidien obtained the requisite Covidien shareholder approval or (ii) Medtronic effected such termination prior to the completion of the Covidien shareholder meeting.

The consummation of the Pending Acquisition is subject to certain conditions, including approvals by Medtronic and Covidien shareholders. In addition, the proposed transaction requires regulatory clearances in the U.S., the E.U., China, and certain other countries. The Pending Acquisition is expected to close in the fourth calendar quarter of 2014 or early 2015. Covidien is a global health care products company that creates innovative medical solutions for better patient outcomes and delivers value through clinical leadership and excellence. Covidien develops, manufactures, and sells a diverse range of industry-leading medical device and supply products.

On June 15, 2014, Medtronic entered into a 364-day senior unsecured bridge credit agreement (the "Bridge Credit Agreement") among Medtronic, New Medtronic, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent. Under the Bridge Credit Agreement, Bank of America, N.A. has committed to provide Medtronic with unsecured financing in an aggregate principal amount of up to \$2.8 billion. The commitments are intended to be drawn to finance, in part, the cash component of the acquisition consideration and certain transaction expenses to the extent Medtronic does not arrange for alternative financing prior to the consummation of the Pending Acquisition. New Medtronic has guaranteed the obligations of Medtronic under the Bridge Credit Agreement. If Medtronic draws loans under the Bridge Credit Agreement, it intends to refinance any debt incurred thereunder.

Medtronic will require an additional \$13.5 billion in order to finance the cash component of the acquisition consideration and certain transaction expenses. Medtronic expects to have cash equivalents in such amount available to it by the time of the consummation of the Pending Acquisition. In order to backstop the anticipated amount of cash on hand at the consummation of the Pending Acquisition, on June 15, 2014, IrSub entered into a 60-day senior unsecured cash bridge credit agreement (the "Cash Bridge Credit Agreement" and together with the Bridge Credit Agreement, the "Credit Agreements") among IrSub, New Medtronic, the lenders from time to time party thereto and Bank of America as administrative agent. Under the Cash Bridge Credit Agreement, Bank of America, N.A. has committed to provide IrSub with unsecured financing in an aggregate principal amount of up to \$13.5 billion for a 60-day period. New Medtronic has also guaranteed the obligations of IrSub under the Cash Bridge Credit Agreement and each of Medtronic and Covidien has agreed to provide additional guarantees of such obligations following the consummation of the Pending Acquisition. Loans drawn under the Cash Bridge Credit Agreement are expected to be repaid from cash equivalents liquidated by Medtronic.

The funding of the loans under each Credit Agreement (the Closing Date) is conditioned on, among other things, the consummation of the Pending Acquisition and the absence of certain events of defaults described in each Credit Agreement. The commitments under each Credit Agreement automatically terminate on the earliest of (a) the funding and disbursement of the loans to the borrower on the Closing Date, (b) the occurrence of certain mandatory cancellation events or (c) March 15, 2015 (or if all but certain conditions under the Transaction Agreement have been completed, one year after June 15, 2015).

Medtronic, Inc.

Notes to Consolidated Financial Statements (Continued)

For further information regarding the Pending Acquisition and the Credit Agreements, please see the full text of the Transaction Agreement, a copy of which is filed as exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on June 16, 2014, the full text of the Bridge Credit Agreement, a copy of which is filed as exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 18, 2014, and the full text of the Cash Bridge Credit Agreement, a copy of which is filed as exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 18, 2014.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (as defined in Exchange Act Rule 13a-15(f)). Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of April 25, 2014. Our internal control over financial reporting as of April 25, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who has also audited our consolidated financial statements, as stated in their report in the section entitled "Report of Independent Registered Public Accounting Firm," which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of April 25, 2014, which is included in "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The sections entitled “Proposal 1 — Election of Directors — Directors and Nominees,” “Governance of Medtronic — Committees of the Board and Meetings,” “Governance of Medtronic — Audit Committee,” “Governance of Medtronic — Audit Committee — Audit Committee Independence and Financial Experts,” “Governance of Medtronic — Nominating and Corporate Governance Committee,” and “Share Ownership Information — Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for our 2014 Annual Shareholders’ Meeting are incorporated herein by reference. See also “Executive Officers of Medtronic” on pages 19 to 20 herein.

We have adopted a written Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Treasurer, Corporate Controller, and other senior financial officers performing similar functions who are identified from time to time by the Chief Executive Officer. We have also adopted a written Code of Business Conduct and Ethics for Members of the Board of Directors. The Code of Ethics for Senior Financial Officers, which is part of our broader Code of Conduct applicable to all employees, and the Code of Business Conduct and Ethics for Members of the Board of Directors are posted on our website, www.medtronic.com under the “Investors” caption and then under the “Corporate Governance” subcaption. Any amendments to, or waivers for executive officers or directors of, these ethics codes will be disclosed on our website promptly following the date of such amendment or waiver.

Item 11. Executive Compensation

The sections entitled “Governance of Medtronic — Director Compensation,” “Governance of Medtronic — Compensation Committee — Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis (CD&A),” and “Executive Compensation” in our Proxy Statement for our 2014 Annual Shareholders’ Meeting are incorporated herein by reference. The section entitled “Compensation Committee Report” in our Proxy Statement for our 2014 Annual Shareholders’ Meeting is furnished herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The sections entitled “Share Ownership Information — Significant Shareholders,” “Share Ownership Information — Beneficial Ownership of Management,” and “Executive Compensation — Equity Compensation Plan Information” in our Proxy Statement for our 2014 Annual Shareholders’ Meeting are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The sections entitled “Proposal 1 — Election of Directors — Director Independence” and “Proposal 1 — Election of Directors — Related Transactions and Other Matters” in our Proxy Statement for our 2014 Annual Shareholders’ Meeting are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The sections entitled “Governance of Medtronic — Audit Committee — Audit Committee Pre-Approval Policies” and “Report of the Audit Committee — Audit and Non-Audit Fees” in our Proxy Statement for our 2014 Annual Shareholders’ Meeting are incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statement Schedules

Schedule II. Valuation and Qualifying Accounts — years ended April 25, 2014, April 26, 2013, and April 27, 2012 (set forth on page 137 of this report).

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

2. Exhibits

Exhibit No.	Description
2.1	Transaction Agreement, dated as of June 15, 2014, by and among Covidien public limited company, Medtronic, Inc., Kalani I Limited, Makani II Limited, Aviation Acquisition Co., Inc. and Aviation Merger Sub, LLC (Exhibit 2.1).(bb)
3.1	Medtronic, Inc. Amended and Restated Articles of Incorporation (Exhibit 3.1).(g)
3.2	Medtronic, Inc. Bylaws, as amended through May 30, 2014 (Exhibit 3.1).(h)
4.1	Medtronic, Inc. Specimen Common Stock Certificate (Exhibit 4.1).(aa)
4.2	Indenture dated as of September 11, 2001 between Medtronic, Inc. and Wells Fargo Bank Minnesota, National Association (Exhibit 4.2).(c)
4.3	Form of Indenture between Medtronic, Inc. and Wells Fargo Bank, National Association (Exhibit 4.1).(e)
4.4	Indenture dated as of September 15, 2005 between Medtronic, Inc. and Wells Fargo Bank, N. A. (including the Forms of Notes thereof) (Exhibit 4.1).(f)
4.5	Form of 4.750% Senior Notes, Series B due September 15, 2015 (Exhibit 4.3).(f)
4.6	Form of Indenture between Medtronic, Inc. and Wells Fargo Bank, National Association regarding 2009 offering (Exhibit 4.1).(q)
4.7	First Supplemental Indenture Dated March 12, 2009 between Medtronic, Inc. and Wells Fargo Bank, National Association (including the Forms of Notes thereof) (Exhibit 4.1).(r)
4.8	Second Supplemental Indenture Dated March 16, 2010 between Medtronic, Inc. and Wells Fargo Bank, National Association (including the Forms of Notes thereof) (Exhibit 4.1).(t)
4.9	Third Supplemental Indenture Dated March 15, 2011 between Medtronic, Inc. and Wells Fargo Bank, National Association (including the Forms of Notes thereof) (Exhibit 4.1).(u)
4.10	Fourth Supplemental Indenture Dated March 19, 2012 between Medtronic, Inc. and Wells Fargo Bank, National Association (including the Forms of Notes thereof) (Exhibit 4.2).(y)
4.11	Fifth Supplemental Indenture Dated March 26, 2013 between Medtronic, Inc. and Wells Fargo Bank, National Association (including the Forms of Notes thereof) (Exhibit 4.1).(w)
4.12	Sixth Supplemental Indenture Dated February 27, 2014 between Medtronic, Inc. and Wells Fargo Bank, National Association (including the Form of Global Note thereof) (Exhibit 4.2).(m)
*10.1	1994 Stock Award Plan (amended and restated as of January 1, 2008) (Exhibit 10.1).(l)
*10.2	Medtronic Incentive Plan (amended and restated effective January 1, 2008) (Exhibit 10.2).(l)
*10.3	Medtronic, Inc. Capital Accumulation Plan Deferral Program (as restated generally effective January 1, 2008)(Exhibit 10.5).(n)
*10.4	Stock Option Replacement Program (Exhibit 10.8).(a)

- *10.5 Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (as amended and restated effective as of January 1, 2008) (Exhibit 10.3).(m)
- *10.6 Form of Restricted Stock Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.3).(d)
- *10.7 Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan (four year vesting) (Exhibit 10.1).(d)
- *10.8 Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan (immediate vesting) (Exhibit 10.2).(d)
- *10.9 Form of Initial Option Agreement under the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (Exhibit 10.17).(i)
- *10.10 Form of Annual Option Agreement under the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (Exhibit 10.18).(i)
- *10.11 Form of Replacement Option Agreement under the Medtronic, Inc. 1998 Outside Director Stock Compensation Plan (Exhibit 10.19).(i)
- *10.12 Form of Restricted Stock Units Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.20).(i)
- *10.13 Form of Performance Share Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.21).(i)
- *10.14 Medtronic, Inc. Supplemental Executive Retirement Plan (as restated generally effective January 1, 2008) (Exhibit 10.1).(k)
- *10.15 2003 Long-Term Incentive Plan (as amended and restated effective January 1, 2008) (Exhibit 10.4).(l)
- *10.16 Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.23).(j)
- *10.17 Form of Restricted Stock Award Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.24).(j)
- *10.18 Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.25).(j)
- *10.19 Form of Performance Award Agreement under 2003 Long-Term Incentive Plan effective June 22, 2006 (Exhibit 10.26).(j)
- *10.20 Form of Restricted Stock Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.3).(k)
- *10.21 Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.4).(k)
- *10.22 Medtronic, Inc. Israeli Amendment to the 2003 Long-Term Incentive Plan (Exhibit 10.5).(l)
- *10.23 Medtronic, Inc. – Kyphon Inc. 2002 Stock Plan (Amended and Restated July 26, 2007, as further amended on October 18, 2007) (Exhibit 10.6).(l)
- *10.24 Addendum: Medtronic, Inc. – Kyphon Inc. 2002 Stock Plan (dated December 13, 2007) (Exhibit 10.7).(l)
- *10.25 Medtronic, Inc. 2008 Stock Award and Incentive Plan (as amended and restated effective August 27, 2009) (Exhibit 10.2).(s)
- *10.26 Form of Non-Qualified Stock Option Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.39).(n)
- *10.27 Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.40).(n)
- *10.28 Form of Restricted Stock Unit Award Agreement under 2003 Long-Term Incentive Plan (Exhibit 10.41).(n)
- *10.29 Form of Restricted Stock Unit Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.2).(o)
- *10.30 Form of Restricted Stock Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.3).(o)
- *10.31 Form of Restricted Stock Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.4).(o)
- *10.32 Form of Restricted Stock Unit Award Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.5).(o)

- *10.33 Form of Non-Qualified Stock Option Agreement under 2008 Stock Award and Incentive Plan (Exhibit 10.6).(o)
- *10.34 Terms of Non-Employee Director Compensation under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.42).(aa)
- *10.35 Form of Non-Employee Director Initial Option Agreement under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.1).(p)
- *10.36 Form of Non-Employee Director Annual Option Agreement under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.2).(p)
- *10.37 Form of Non-Employee Director Deferred Unit Award Agreement under the Medtronic, Inc. 2008 Stock Award and Incentive Plan (Exhibit 10.3).(p)
- *10.38 Form of Change of Control Employment Agreement for Medtronic Executive Officers (Exhibit 10.1).(s)
- *10.39 Medtronic, Inc. 2005 Employees Stock Purchase Plan, as amended and restated effective August 27, 2009 (Exhibit 10.3).(s)
- *10.40 Amendment dated December 18, 2008 to the Medtronic, Inc. Capital Accumulation Plan Deferral Program and Supplemental Executive Retirement Plan (Exhibit 10.57).(v)
- *10.41 Letter Agreement by and between Medtronic, Inc. and Omar Ishrak dated May 11, 2011 (Exhibit 10.1).(x)
- *10.42 Amendment to Letter Agreement dated May 11, 2011 by and between Medtronic, Inc. and Omar Ishrak (Exhibit 10.1) (z)
- *10.43 Letter Agreement by and between Medtronic, Inc. and Michael J. Coyle dated November 19, 2009 (Exhibit 10.55).(aa)
- *10.44 Letter Agreement by and between Medtronic, Inc. and Carol Surface dated August 22, 2013
- *10.45 Medtronic, Inc. Change of Control Severance Plan – Section 16b Officers
- *10.46 Form of Non-Employee director Deferred Unit Award Agreement under the Medtronic, Inc. 2013 Stock Award and Incentive Plan
- *10.47 Medtronic, Inc. 2013 Stock Award and Incentive Plan (Exhibit 10.1).(b)
- *10.48 Form of Non-Qualified Stock Option Agreement under 2013 Stock Award and Incentive Plan (Exhibit 10.2).(b)
- *10.49 Form of Restricted Stock Unit Award Agreement under 2013 Stock Award and Incentive Plan (Exhibit 10.3).(b)
- *10.50 Form of Restricted Stock Unit Award Agreement under 2013 Stock Award and Incentive Plan (Exhibit 10.4).(b)
- *10.51 Form of Restricted Stock Unit Award Agreement under 2013 Stock Award and Incentive Plan (Exhibit 10.5).(b)
- *10.52 Medtronic, Inc. Israeli Amendment to the 2013 Long-Term Incentive Plan (Exhibit 10.6).(b)
- *10.53 Form of Stock Option Agreement under 2013 Stock Award and Incentive Plan (Exhibit 10.7).(b)
- *10.54 Form of Restricted Stock Unit Award Agreement under 2013 Stock Award and Incentive Plan (Exhibit 10.8).(b)
- 10.55 Senior Unsecured Bridge Credit Agreement, dated as of June 15, 2014, by and among Medtronic, Inc., Kalani I Limited, the lenders from time to time part thereto, and Bank of America, N.A., as administrative agent (Exhibit 10.1).(cc)
- 10.56 Senior Unsecured Cash Bridge Credit Agreement, dated as of June 15, 2014, by and among Makani II Limited, Kalani I Limited, the lenders from time to time part thereto, and Bank of America, N.A., as administrative agent (Exhibit 10.2).(cc)
- 12.1 Computation of ratio of earnings to fixed charges
- 21 List of Subsidiaries

23	Consent of Independent Registered Public Accounting Firm
24	Power of Attorney
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Medtronic's Annual Report on Form 10-K for the year ended April 25, 2014, formatted in Extensible Business Reporting Language (XBRL), (i) consolidated statements of earnings, (ii) consolidated statements of comprehensive income, (iii) consolidated balance sheets, (iv) consolidated statements of cash flows, (v) consolidated statements of shareholders' equity, and (vi) the notes to the consolidated financial statements.

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- (a) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 27, 2001, filed with the Commission on July 26, 2001.
- (b) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on August 27, 2013.
- (c) Incorporated herein by reference to the cited exhibit in our amended Current Report on Form 8-K/A, filed with the Commission on November 13, 2001.
- (d) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended January 28, 2005, filed with the Commission on March 7, 2005.
- (e) Incorporated herein by reference to the cited exhibit in our registration statement on Amendment No. 2 to Form S-4, filed with the Commission on January 10, 2005.
- (f) Incorporated herein by reference to the cited exhibit in our registration statement on Form S-4, filed with the Commission on December 6, 2005.
- (g) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on October 23, 2013.
- (h) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on June 2, 2014.
- (i) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 29, 2005, filed with the Commission on June 29, 2005.
- (j) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 28, 2006, filed with the Commission on June 28, 2006.
- (k) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 26, 2007, filed with the Commission on December 4, 2007.
- (l) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended January 25, 2008, filed with the Commission on March 4, 2008.
- (m) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on February 27, 2014.
- (n) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 25, 2008, filed with the Commission on June 24, 2008.

- (o) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended July 25, 2008, filed with the Commission on September 3, 2008.
- (p) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 24, 2008, filed with the Commission on December 3, 2008.
- (q) Incorporated herein by reference to the cited exhibit in our registration statement on Form S-3, filed with the Commission on March 9, 2009.
- (r) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on March 12, 2009.
- (s) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q for the quarter ended October 30, 2009, filed with the Commission on December 9, 2009.
- (t) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on March 16, 2010.
- (u) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on March 16, 2011.
- (v) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 30, 2010, filed with the Commission on June 29, 2010.
- (w) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on March 26, 2013.
- (x) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on May 11, 2011.
- (y) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on March 20, 2012.
- (z) Incorporated herein by reference to the cited exhibit in our Quarterly Report on Form 10-Q, for the quarter ended July 29, 2011, filed with the Commission on September 7, 2011.
- (aa) Incorporated herein by reference to the cited exhibit in our Annual Report on Form 10-K for the year ended April 27, 2012, filed with the Commission on June 26, 2012.
- (bb) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on June 16, 2014.
- (cc) Incorporated herein by reference to the cited exhibit in our Current Report on Form 8-K, filed with the Commission on June 18, 2014.

*Exhibits that are management contracts or compensatory plans or arrangements.

MEDTRONIC, INC. AND SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

(in millions)

	Balance at Beginning of Fiscal Year*	Additions		Deductions		Balance at End of Fiscal Year*
		Charges to Earnings*	Charges to Other Accounts*	Other Changes (Debit) Credit*		
Allowance for doubtful accounts:						
Year ended 4/25/14	\$ 98	\$ 43	\$ —	\$ (30) (a)	\$ 4 (b)	\$ 115
Year ended 4/26/13	\$ 100	\$ 51	\$ —	\$ (53) (a)	\$ — (b)	\$ 98
Year ended 4/27/12	\$ 97	\$ 66	\$ —	\$ (55) (a)	\$ (8) (b)	\$ 100
Deferred tax valuation allowance:						
Year ended 4/25/14	\$ 313	\$ 104	\$ 5	\$ (29) (c)	\$ 4 (b)	\$ 397
Year ended 4/26/13	\$ 258	\$ 71	\$ —	\$ (15) (c)	\$ (1) (b)	\$ 313
Year ended 4/27/12	\$ 286	\$ 49	\$ —	\$ (77) (c)	\$ — (b)	\$ 258

* For the fiscal year ended April 27, 2012, amounts include the results from both continuing operations and discontinued operations.

(a) Uncollectible accounts written off, less recoveries.

(b) Reflects primarily the effects of foreign currency fluctuations.

(c) Decrease in deferred tax valuation allowance due to carryover attribute utilization and expiration.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDTRONIC, INC.

Dated: June 20, 2014

By: /s/ Omar Ishrak

**Omar Ishrak
Chairman and
Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

MEDTRONIC, INC.

Dated: June 20, 2014

By: /s/ Omar Ishrak

**Omar Ishrak
Chairman and
Chief Executive Officer
(Principal Executive Officer)**

Dated: June 20, 2014

By: /s/ Gary L. Ellis

**Gary L. Ellis
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)**

Directors

**Richard H. Anderson*
Scott C. Donnelly*
Victor J. Dzau, M.D.*
Omar Ishrak*
Shirley Ann Jackson, Ph.D*
Michael O. Leavitt*
James T. Lenehan*
Denise M. O'Leary*
Kendall J. Powell*
Robert C. Pozen*
Preetha Reddy***

*Bradley E. Lerman, by signing his name hereto, does hereby sign this document on behalf of each of the above named directors of the registrant pursuant to powers of attorney duly executed by such persons.

Dated: June 20, 2014

By: /s/ Bradley E. Lerman

Bradley E. Lerman



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