Investor Relations Commentary
4th Quarter FY07
May 22, 2007

Martha Goldberg Aronson
Good Afternoon and welcome to Medtronic's fourth quarter and fiscal year end 2007 Conference Call and Webcast. During the next hour, we will review the results of our fourth quarter and fiscal year, which ended April 27, 2007. Following these introductory remarks, Medtronic Chairman and Chief Executive Officer, Art Collins, will comment briefly on the fiscal year. Next, Bill Hawkins, Medtronic President and Chief Operating Officer, will provide insights on the fourth quarter results. Chief Financial Officer, Gary Ellis, will follow with a financial summary by business as well as an update on guidance. After our prepared remarks, we will conduct a Q&A session, concluding the conference call around 4:30 pm Central time.

A few logistical comments: this call is being webcast via our website, www.medtronic.com. Our press release, earnings statement, balance sheet, cash flow, revenue-by-business-summaries, non-GAAP to GAAP reconciliations, as well as a transcript of the prepared remarks will all be posted on our website. The transcript will remain available on our website until our next earnings call. Today's commentary should be considered and evaluated in light of the important disclosures and reconciliations contained within our press release, as filed with the Securities and Exchange Commission. Please telephone Medtronic Investor Relations or Corporate Communications if you are unable to access the press release or the transcript.

Today's webcast includes statements regarding Medtronic's anticipated financial results, market growth, product acceptance and regulatory approvals, as well as other forward-looking statements based on management's current expectations. It's important to note that our actual results may differ materially from those anticipated. Information on factors that could cause actual results to differ materially from these forward-looking statements is contained in Medtronic's Form 10-K for the year ended April 28th, 2006, filed with the Securities and Exchange Commission. We encourage you to review those carefully. All statements are made as of today's date, and we undertake no duty to update the information provided in this call.

Unless we say otherwise, the comparisons we make today will be on an "as reported" basis, not on a constant currency basis, and quarterly results increasing or decreasing are in comparison to the fourth quarter of Fiscal Year 2006.

With that, I am now pleased to turn the call over to Medtronic Chairman and Chief Executive Officer, Art Collins.

Art Collins
Thank you Martha and good afternoon everyone.

By now, most of you should have seen the press release discussing our fiscal 2007 full year and fourth quarter financial results.

While generating $12.3 billion in revenue this past year, we were able to post a 15 percent annual increase in diluted earnings per share even though the year-over-year downturn in the U.S. ICD market negatively affected our performance throughout the fiscal year. As you will note, annual results exceeded the upper end of our most recent EPS guidance. After subtracting the net positive effect of

unusual items including special charges for asset impairment, restructuring and tax benefits, fourth quarter diluted earnings per share on a non-GAAP operating basis grew 12 percent.

Our annual and quarterly performance again reflected the benefits of Medtronic's broad product portfolio and geographic diversity, together with successful initiatives to enhance leverage throughout the P&L.

While delivering strong bottom line performance, we continued to invest in our future with annual R&D expenditures of over $1.2 billion running at 10 percent of revenue for the year and the fourth quarter. Important new products have been introduced across the company and our product pipelines are full with a number of major launches planned during the remainder of fiscal year 08.

As you will hear later in this call and in more detail at our upcoming Investor's Conference, many of our new product programs are directed at improving patient outcomes while simplifying surgical procedures and reducing hospital stays and readmissions. We're also incorporating new therapeutic agents, additional sensors and advanced information technology into many of our devices. All of these efforts will benefit patients and support more cost-effective delivery of healthcare in the U.S. and around the world.

In order to give you a deeper look into some of the core technologies and emerging therapies that will continue to improve our competitive position, drive growth in our existing markets and open up new markets, we have restructured the format of our Investor's Conference on June 20th in Minneapolis. This will be my last Medtronic Investors Conference, and I look forward to sharing with you some final thoughts on several key trends that will help shape our industry in the future, together with the steps we are taking to enhance Medtronic's leadership position. Stay tuned for information on this topic in the coming weeks.

Before I turn the call over to Bill, I'd like to cover two additional topics. First, you will remember that at this time last year we were very concerned about the potential negative impact of the draft rule for inpatient DRG rates in the U. S. Through a great deal of effort, we were able to work constructively with the Center for Medicare and Medicaid Services (CMS) to obtain modifications in the final rule that resulted in more realistic reimbursement rates. During this year's cycle, we started discussions early with CMS, and the draft rule that was issued on April 13th is a much more reasonable starting point than last year. We are currently in discussions with CMS to address areas that still need some attention, and we are optimistic that these discussions will result in an acceptable outcome when the final rule is published on or around August 1st.

The second item I would like to discuss is the CEO transition that we announced on February 28th. This process started over three years ago, and was approached by the Board in a very thoughtful and comprehensive fashion, as has been the case in past CEO transitions at Medtronic. The transition continues to run smoothly, and Bill Hawkins will assume responsibilities as President and CEO, and Michael DeMane will step into the COO position at the annual shareholders meeting on August 23rd. I am confident that these moves, together with other related organizational changes, will continue to position Medtronic with the leadership necessary to deliver strong performance in the future.

With that, it is now my pleasure to turn the call over to Bill.

Bill Hawkins
Thanks Art.

Let me start by saying that I am proud of our teams around the globe who rallied in the face of some challenging market conditions to achieve a very strong quarter and fiscal year.

Compared to the fourth quarter last fiscal year, revenue of $3 billion 280 million increased 7%, including a $71 million positive impact of foreign currency translation. If you exclude Physio-Control from both periods, the revenue growth was 10%.

During the fourth quarter, four of our business segments saw double digit revenue growth. Vascular and Diabetes each grew 22%, Neurological grew 15%, and Spinal and Navigation grew 11%.

Fourth quarter revenue in the United States was $2 billion, 27 million, up 1%. Outside the U.S., revenue of $1 billion, 253 million, which represents nearly 40% of the corporation's total revenue, increased 18%, including a $71 million positive impact of foreign currency. We continue to be very pleased with the growth of our operations outside the United States, and look forward to sustaining this level of growth going forward.

I'd like to focus my comments around the strategic imperatives we have been highlighting in our more recent meetings: namely market development, geographic expansion and operational excellence. Gary will take you through the quarter's financial details by business, but I want to share with you my thoughts on some of the key achievements and challenges of the fourth quarter, along with the reasons I am excited about Fiscal Year 08.

Market development is critical to our growth going forward. Let me start by commenting on the growth of the ICD market and our performance during the fourth quarter. We believe the U.S. market grew 5% sequentially this quarter. It was still down 6% versus the fourth quarter last year. The good news is that going forward, the comparisons will be more favorable. Globally, we believe the worldwide market grew approximately 8% sequentially and 2% versus last year. Our worldwide ICD revenue was $770 million, and was driven by growth outside the U.S. of 30%. Recent market dynamics are encouraging. However, we continue to be somewhat cautious about the exact timing and degree of rebound of the U.S. ICD market. For the year, our share was flat versus a year ago in the U.S. and up approximately 3 points outside the United States. Going forward, we will be opportunistic in gaining profitable share and we will vigorously defend our existing share.

On the pacing front, we are encouraged by recent performance and the prospects that growth will continue. The pacing market grew 7% this quarter.

Looking ahead, CRDM has a number of new products such as Concerto® AT with a unique suite of AF features, Reveal® XT/DX, our subcutaneous diagnostic with long term AF monitoring, Attain StarFix™ lead, and a new common platform of pacemaker, defibrillator and cardiac resynchronization devices.

Our Neurological business met several key market development milestones during Q4. The PROCESS study, the first multicenter randomized controlled clinical trial, demonstrated the benefits of neuro stimulation to control pain versus conventional medical management, and has been accepted for publication in the journal ***Pain*****.** An article supporting the cost-effectiveness of our Intrathecal Baclofen Therapy for children with severe spasticity from Cerebral Palsy was published in *The Journal of Child Neurology*. Knowing that guideline adherence is a key element of market development for all our therapies, we are working closely with the American Academy of Neurology to disseminate their recently adopted Parkinson's treatment guidelines, which include our Activa deep brain stimulation therapy as a viable treatment option. We also completed enrollment during the fourth quarter for the SANTE trial, utilizing deep brain stimulation for the treatment of epilepsy. Looking ahead, we anticipate

receiving a Humanitarian Device Exemption this quarter from the FDA for deep brain stimulation as a treatment for severe and intractable obsessive compulsive disorder.

Finally, InterStim® Therapy revenue grew over 50% this quarter due to the strengths of our latest product as well as the success of our efforts to reach out to new implanting physicians.

Moving to our Spinal business, you can see another example of leveraging technology. During the fourth quarter, we launched InFuse® for certain Oral Maxillofacial and Dental Regenerative Applications. It is estimated that more than 350,000 bone grafting procedures to generate or regenerate bone in sinus augmentations are performed in the United States each year. So far, hundreds of physicians have begun the training program. Needless to say, we are excited to be entering this market. InFuse continues to be a strong growth driver for our Spinal business, and we remain optimistic about expanding indications going forward.

In addition to the Prestige® cervical disc, for which we expect final FDA approval in the near future, I am pleased to announce on this call that we are scheduled to present BRYAN® Cervical Disc data to the FDA Orthopaedic panel on July 17th. On the heels of BRYAN is our Maverick™ Lumbar Disc. Positive clinical data was presented recently from the Maverick IDE trial, and the study will be published this summer.

Now that we are talking about FDA panels, let me give you an update on Endeavor®. Late last week, the FDA requested ENDEAVOR IV 9-month data prior to setting a panel date. Given that we expect to have the ENDEAVOR IV clinical results next month, the FDA informed us that they anticipate we will be on a panel in September or October. With this timeline, we still believe that a U.S. launch in the second half of calendar year 2007 is achievable.

A few hours ago, some of you may have seen in Barcelona at the PCR meeting, the very positive data that was presented on our Endeavor drug eluting stent as well as our next generation DES Resolute™. Four-year results from the ENDEAVOR I trial and three-year results from ENDEAVOR II continued to demonstrate excellent safety, sustained efficacy, low clinical event rates and no late stent thrombosis. The ENDEAVOR II study also showed that our Driver® bare metal stent offers consistent and durable long-term clinical results. With long-term follow-up now available on approximately 1,300 ENDEAVOR patients, the performance of the Endeavor stent has become well characterized over time. In addition, the RESOLUTE 9-month results showed a low number of adverse cardiac events and no stent thrombosis. In stent late loss, the study's primary endpoint, was 0.22 mm.

Finally, in Europe, we just launched the Endeavor Sprint, a second generation product that combines best in class Sprinter balloon technology with an Endeavor stent providing even better deliverability.

I would like to comment now on the FDA panel that took place during the fourth quarter to review the Chronicle® Implantable Hemodynamic Monitor. As you know, the panel voted against recommending approval for Chronicle, and we subsequently received a non-approvable letter from the FDA. Although we were able to show an improvement in hospitalizations, the study did not show a statistically significant reduction. Given the positive input from heart failure specialists on the power of this diagnostic tool, we remain committed to bringing this technology to the market. We are currently evaluating the clinical program options for Chronicle and will share more information with you on this program at our Investors Conference in June.

As you heard Art mention, new product introductions are key to our growth going forward. Here are just a few of the key products that I believe will drive market growth and market share this coming fiscal year. First, the Endeavor drug eluting stent. The Prestige, Bryan and Maverick discs, and Progenix™

demineralized bone matrix Putty, a bone graft substitute, which we announced yesterday. A new neurological surgical lead and the Restore Ultra™, a smaller rechargeable neurostimulator. Reveal XT™, the Attain StarFix lead, and the Advisa™ pacemaker, the first pacemaker with wireless connectivity. Consulta™, our first CRT-P and CRT-D built on a common platform, and the Secura™ ICD, with increasing commonality and simplicity. And finally Resolute outside the United States, the next generation drug eluting stent.

The other key growth strategy is geographic expansion, and as I mentioned earlier, we continue to be very pleased with our growth outside the United States. In Western Europe, ICDs grew well over 20%, and pacing grew well over 10% during the fourth quarter. Japan continues its very high growth in ICDs as well. We submitted our Talent thoracic Shonin in April, and our Endeavor Shonin earlier this month. Endeavor is our first product to use a new process called "Harmonization by Doing", or HBD, which is an international effort to develop global clinical trials and address regulatory barriers that may be impediments to timely device approvals. We are optimistic this will accelerate approval time.

During the fourth quarter, we also announced the formation of the new CardioVascular Business unit under the leadership of Scott Ward, which combines our Vascular and Cardiac Surgery businesses. This new organization will be focused on coronary artery, vascular and structural heart diseases. The combined effort between these groups on the transcatheter valve, which utilizes both catheter and valve technology, is just the first example of the power of this new combination. I just attended the American Association for Thoracic Surgery meeting and the news of this new business was very well received by the surgeons I spoke to there.

Before I turn the call over to Gary, I'd like to provide a quick update on Physio-Control®. We continue to address the issues that led us to suspend U.S. shipments at Physio-Control. We are in the final phase of discussions with the FDA regarding the corrective actions we need to complete before resuming shipments in the U.S. We expect to finalize these actions and resume shipments in the back half of Fiscal Year 08. During the quarter we eliminated approximately 300 positions to better align the cost structure given the revenue reduction. And I want to re-emphasize that these challenges have not changed our intent to spin-off Physio-Control, although the original timing has been delayed.

Having just attended several major medical congresses and Medtronic sales meetings, I can tell you that our organization is upbeat and enthusiastic as we enter the new fiscal year. I also want to reiterate that we remain very confident in our overall market position in all businesses and in our ability to continue to deliver industry-leading performance. We will continually innovate to drive new products, therapies and growth platforms. We also will develop the necessary clinical and cost-effective evidence, and be extremely focused on executing on our strategies. These three themes: Innovation, Evidence and Execution comprise the framework for the June Investor Conference. I look forward to sharing more with you at that time.

Now, I will turn the call over to Gary.

Gary Ellis

Thanks Bill.

In my remarks, I'll review this quarter's revenue performance by business, and then discuss the income statement, balance sheet and cash flow statement. I will also provide detail on the unusual items that, while having only a minor impact on the year, do complicate the understanding of our income statement this quarter. Finally, I'll close the call by discussing our financial guidance for fiscal year 2008.

As you heard earlier, fourth-quarter revenue was $3 billion, 280 million, while net earnings were $812 million, or $0.70 diluted earnings per share. These earnings and Earnings Per Share represent increases of 10% and 15%, respectively, over the prior year. The fourth quarter was the first full quarter with US shipments suspended at Physio-Control. Excluding Physio-Control in both periods, revenue growth was 10%. After adjusting for non-GAAP reconciling items, our adjusted FY07 fourth quarter net earnings and diluted Earnings Per Share were $767 million and $0.66, respectively, an increase of 9% and 12% over FY06 fourth quarter adjusted results. Physio-Control had a negative impact of $0.01 on Earnings Per Share in Q4.

These non-GAAP results have been adjusted for a number of unusual items. First, we recorded a $129 million benefit, or $0.11 per share, tax benefit associated with the reversal of excess tax accruals for settlements reached with the IRS and other tax authorities, as well as adjustments related to the finalization of our 2006 tax returns.

Also, we incurred a $59 million, or $0.05 per share, after-tax special charge related to the impairment of intangible assets associated with the acquisitions of Transneuronix and Angiolink. Inadequate clinical results and resulting delays in product developments have impaired the carrying value of these intangible assets and we recorded a non-cash charge to write them off.

Additionally, during the quarter we recorded a $25 million, or $0.02 per share, after-tax restructuring charge related to initiatives designed to drive manufacturing efficiencies in our Vascular business, downsize our Physio-Control business, and adjust resources within our Cardiac Rhythm Disease Management business. $5 million of the after-tax charge relates to inventory and assets written off in Cost of Sales and the remainder relates to severance costs for affected employees.

In total, all of these unusual items had a net benefit in Q4 of $45 million on after-tax profits and $0.04 in diluted Earnings Per Share.

Let's turn now to a brief review of our business segments; we'll start with **Cardiac Rhythm Disease Management**. Starting this quarter, we have broken out separately the Physio-Control results. CRDM will only reflect implantables. This quarter, total CRDM revenue of $1 billion, 291 million increased 4%. Worldwide ICD revenue of $770 million, increased 2%, but ICD revenue in the U.S. decreased 8%, which was fairly consistent with the estimated U.S. market decrease. Outside the U.S., ICD revenue grew 30%. Worldwide pacing revenue was very strong, growing almost 9%.

Turning to our **Spinal and Navigation** business, fourth quarter revenue of $690 million increased 11%. Spinal Instrumentation sales increased 9%, while Spinal Biologics grew 15%. Navigation revenue increased 31%. The revenue was driven by InFuse, the new CD Horizon® Legacy Peek Rod System and our Verte-Stack® Crescent Vertebral Body Spacer.

Total **Vascular** fourth-quarter revenue of $333 million increased 22%. Coronary Vascular revenue increased 22% on a worldwide basis and we saw double-digit growth in all major geographies. Endovascular and Peripheral Vascular revenue increased 19%. Worldwide Coronary stent sales of $161 million increased 41%. Of this amount, Endeavor revenue was $84 million, a 9% sequential uplift from the previous quarter. Endeavor gained share in a tough quarter that saw more competition and an increased focus on safety.

Switching to our **Neurological** business, fourth-quarter revenue of $326 million grew 15%. Core Neuro revenue increased 10%, driven by double-digit growth in our Pain Stimulation and Movement Disorder businesses. Gastro and Urology revenue grew 45%. The overall growth was slowed slightly due to the

divestiture of the Urological diagnostic business. This month, the gastro diagnostic business was divested, and this is expected to be followed next quarter by our neuro diagnostics business.

Our **Diabetes** business had another strong quarter with revenue of $229 million, an increase of 22%. We recently commenced the national roll-out of our Guardian™ Real-Time continuous glucose monitor for consumers. Our Guardian and Paradigm® products now communicate with CGM sensors via the MiniLink™ transmitter that we also launched during the quarter. MiniLink is the smallest and lightest transmitter on the market, two features that we believe will increase patient comfort and appeal.

Cardiac Surgery fourth-quarter revenue of $195 million grew 7%, led by strong sales in heart valves, which grew 10%.

Ear, Nose and Throat had fourth-quarter revenue of $147 million, an increase of 9%, driven by strong growth in disposables.

Finally, **Physio-Control**, which we are breaking out for the first time in Q4, had revenue of $69 million, a decrease of 52% reflecting the suspension of U.S. shipments for the entire quarter.

Overall, these revenue results of the Company in light of several challenges, reiterate the strength of our portfolio of businesses.

Now, let's turn to the rest of the income statement.

This quarter's **gross profit margin** of 73.6% was impacted by 60 basis points for Physio-Control and 20 basis points due to the restructure related inventory and asset write-offs primarily associated with Physio-Control. Without these items our gross margin would have been approximately 74.5% and we expect margins to normalize back to that level in FY 08.

Fourth-quarter **R&D** spending of $327 million represented 10% of revenue.

Fourth-quarter **SG&A** expenditures of $1 billion, 95 million, increased 12% over the prior year, mostly in marketing and selling, and represented 33.4% of sales. The expensing of stock options increased SG&A as a percentage of revenue by nearly 75 basis points versus the prior year.

Net Other Expense for the quarter was $52 million compared to $66 million in the prior year fourth quarter. This change is partially due to currency hedges, which resulted in gains in the quarter of $4 million versus gains in the fourth quarter of the prior year of $31 million. Similar to Q3, the quarter also reflects an incremental $29 million of royalty income from the accelerated amortization of payments previously received in connection with a product supply agreement.

Net interest income for the quarter was $41 million compared to $35 million in the prior-year period. As of April 27, 2007, we had approximately $6.1 billion in cash and cash investments compared to debt of about $6.1 billion. We continue to generate in excess of $600 million of free cash flow per quarter, defined as operating cash flow minus capital expenditures.

Let's now turn to our **tax rate.** As I discussed earlier, we did record a $129 million, or $0.11 per share, tax benefit associated with a settlement reached with the IRS, other tax authorities, and adjustments related to the finalization of our 2006 tax returns. In addition to these adjustments, the tax benefit of our OUS operations was larger than we estimated for FY 07 resulting in a reduction of our tax rate, to 24.5% from the 25.25% rate we had recorded during the year. We project that the 24.5% tax rate will continue into FY 08. Our current tax position reflects the success of a number of actions taken over the

last several years, and we will continue to make investments and put in place strategies that have the potential to further reduce our tax rate. These efforts are designed to provide additional funds to invest in growth initiatives and to help improve return to our shareholders.

Fourth quarter **weighted average shares outstanding**, on a diluted basis, were 1 billion, 160 million shares. In fiscal year 2007, we repurchased over $1 billion of our common stock, which represents over 21 million shares. Even though the repurchase of our shares reduces our net earnings because of the foregone interest income, it is accretive to Earnings Per Share and remains a very compelling use of our cash. In the fourth quarter alone, we repurchased approximately $600 million of stock or 12 million shares. As of April 27, 2007, we had remaining capacity to repurchase over 15 million additional shares under our Board authorized stock repurchase plan. We will continue to be opportunistic with our stock repurchasing activities.

As before, we have attached an unaudited balance sheet and cash flow statement to this quarter's press release, and I direct your attention to these statements for additional financial details.

That's all for our financial overview. Let me now turn to financial guidance for fiscal year 2008.

We have received a lot of input from many investors on how and when we provide guidance. And we have listened to you. Our goal has always been to be as transparent and realistic as possible in providing guidance. We also acknowledge that there are several factors affecting our markets that can significantly influence our business, both positively and negatively.

Our diversified business model provides us the opportunity to minimize the impact of some of these market fluctuations and we are convinced that we are in the right markets with the right strategies to deliver long-term sustainable results. Having said that, providing very precise guidance is not easy, especially more than one year out.

Considering these factors, and input from the investment community, we have made several decisions regarding guidance:

- First, we will not provide guidance past one year. We have long term objectives, but guidance will be limited to the fiscal year we are in.
- Second, we will not provide quarterly guidance. Timing of new product introductions and market shifts can have a material impact on quarterly results that make precise guidance difficult to predict and less meaningful.
- Third, particularly at the beginning of a fiscal year, our annual guidance will be more general and directional in nature versus specific.

In light of these decisions, let me address FY08 guidance.

With respect to revenue, most analyst estimates have our revenue growth in FY08 in the low double digits and we are comfortable with that view.

Regarding Earnings Per Share, we have communicated our intent and action plans to continue to improve our overall operating leverage and, as a result, we would expect Earnings Per Share to grow somewhat faster than revenue in FY08. We have assumed Physio-Control is included for the full year, although we still intend to spin off that business. As in the past, the guidance that I just provided excludes the impact of any unusual charges or gains that might occur.

That's all for our prepared remarks.

We will now answer your questions. Please limit your question to only one per firm. We would like to end the call by about 4:30 p.m. central time. Operator, please initiate the question and answer period.

Art Collins (Post Q&A)

Thanks for your questions and comments.

We look forward to seeing you in Minneapolis for our Investors Conference on June 20th.

BRYAN® TCD Instruments and INFUSE® used with LT CAGE®, INTERFIX™ or INTERFIX™ RP devices incorporate technology developed by Gary K. Michelson, M.D.