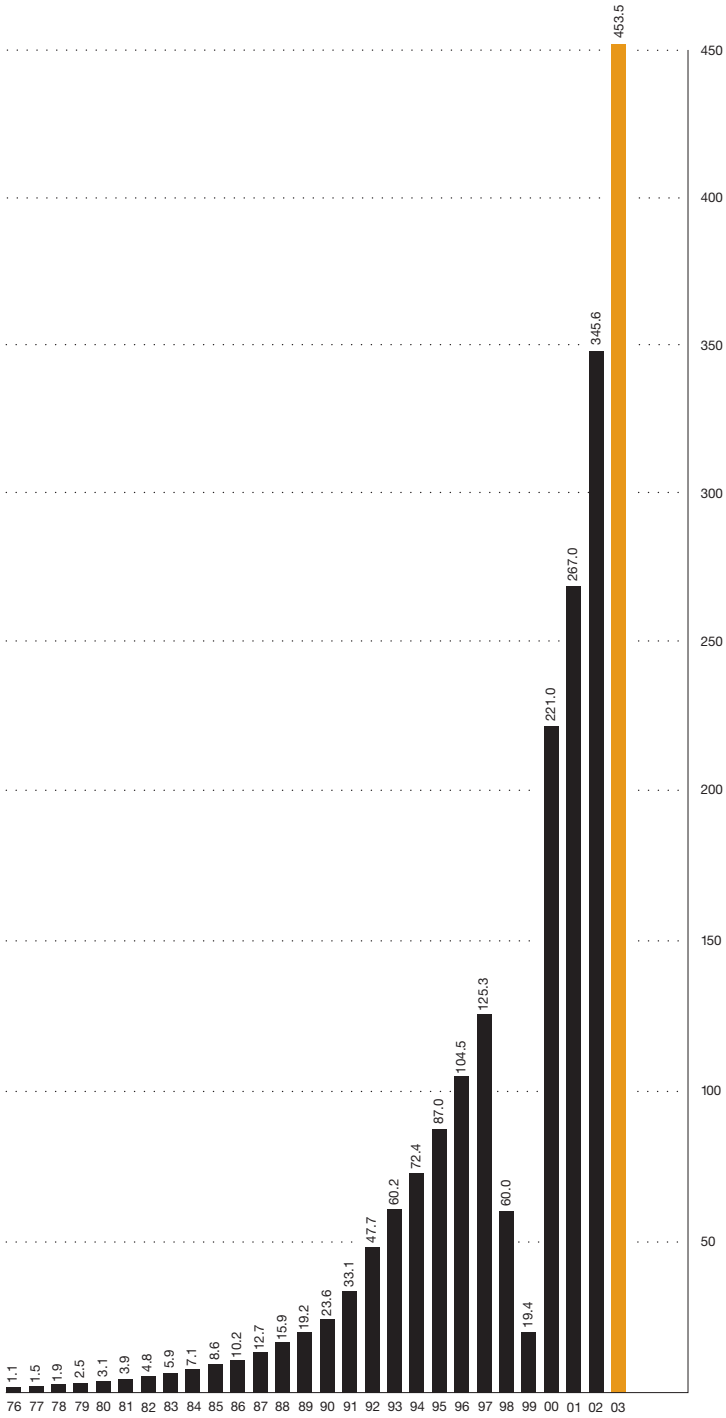
2003 Annual Report

CONTENTS

NET EARNINGS*

($ millions)

27-Year Compound Annual Growth Rate of 25%



* Before 1990 extraordinary gain; 1998 and 1999 reflect Howmedica acquisition-related costs and charges.

Company Overview

Stryker Corporation is a leader in the worldwide orthopaedic market and is one of the world's largest medical device companies. Stryker delivers results through a wide range of capabilities including joint replacements, trauma, spine and micro implant systems, orthobiologics, powered surgical instruments, surgical navigation systems and endoscopic products as well as patient handling and emergency medical equipment. Stryker also provides outpatient physical therapy services in the United States.

Stryker Divisions

ORTHOPAEDIC IMPLANTS

Reconstructive Implants

Stryker Orthopaedics
Orthopaedic reconstructive products including hip, knee and shoulder implants and bone cement. Production facilities in New Jersey, Ireland and France.
Note: this division was previously named Stryker Howmedica Osteonics.

Spinal Systems

Stryker Spine
Spinal implant products including cervical, thoracolumbar and interbody systems used in spine injury, deformity and degenerative therapies. Global development centers in New Jersey and France; production facilities in France.

Trauma and Micro Implants

Stryker Trauma
Trauma-related products including nailing, plating, hip fracture and external fixation systems. Production facilities in Germany and Switzerland.

Stryker Leibinger Micro Implants
Micro plating systems and related products for craniomaxillofacial and hand surgery. Production facilities in Germany.

Orthobiologics

Stryker Biotech
Osteogenic protein-1 (OP-1) bone growth factor. Production facilities in Massachusetts, New Hampshire and Ireland.

Financial Highlights

(in millions, except per share amounts)

	2003	2002	% Change
Net sales	$3,625.3	$3,011.6	20
Earnings before income taxes	652.5	506.7	29
Income taxes	199.0	161.1	24
Net earnings	$453.5	$345.6	31
Net earnings per share of common stock:			
Basic	$2.28	$1.75	30
Diluted	$2.23	$1.70	31

MEDICAL AND SURGICAL EQUIPMENT

Stryker Instruments
Powered surgical instruments, operating room equipment, surgical navigation systems and interventional pain products. Production facilities in Michigan, Puerto Rico, Germany and Ireland.

Stryker Endoscopy
Medical video-imaging and communications equipment and instruments for arthroscopy and general surgery. Production facilities in California and Puerto Rico.

Stryker Medical
Specialty hospital beds and stretchers, patient-room beds and emergency medical service products. Production facilities in Michigan and Canada.

REHABILITATIVE SERVICES

Physiotherapy Associates
Outpatient rehabilitation services focusing on physical and occupational therapy; 374 locations throughout the United States.

INTERNATIONAL SALES

Stryker Europe, Middle East, Africa
Sale and distribution of Stryker products throughout Europe, the Middle East and Africa.

Stryker Japan
Sale and distribution of Stryker products in Japan.

Stryker Pacific
Sale and distribution of Stryker products throughout Asia and the Pacific, with the exception of Japan.

Stryker Canada
Sale and distribution of Stryker products in Canada.

Stryker Latin America
Sale and distribution of Stryker products throughout Central and South America, Mexico and the Caribbean.

At Stryker, we believe in results. Everything we do is aimed at delivering results that are nothing short of exceptional. Products and services that help millions of people around the world to lead more active and satisfying lives. Partnerships that enable medical professionals to exercise their skills to the utmost. Efficiencies in our operations and those of our customers. Remarkably consistent financial performance. We succeed in delivering these results because we are driven–to innovate and constantly improve, to focus intently, to serve and hold ourselves accountable. We invite you to review what we achieved in 2003.

To Our Shareholders:

During the past year, Stryker strengthened its position as a worldwide leader in orthopaedics. In 2003, we increased our standing in medical markets around the world, particularly Europe and Japan. We drove innovation by developing new products and bringing them to market. Drawing on exceptional talent, we made confident strides in our ongoing transition in leadership. By focusing on the Company's capabilities and results, we increased awareness of the Stryker name. Finally, we delivered excellent financial results.

The Company achieved strong sales in 2003, ending the year with net sales of $3,625 million, an increase of 20 percent over 2002. Net earnings increased 31 percent, to $454 million. Diluted earnings per share were $2.23 versus $1.70 in the prior year, an increase of 31 percent. Cash flow from operations was strong again in 2003, ending the year at $649 million.

Meeting the Challenge of Leadership Transition

Succession in leadership is a major test for companies. With our transition well underway, we are confident that our approach will ensure success. By identifying the right people, communicating clearly and taking gradual steps, Stryker is proceeding smoothly on succession matters. Commitment and cooperation are at high levels, and the Company has never been better positioned for growth.

In the spring of 2003, it was my great pleasure to announce the appointment of Stephen P. MacMillan as Stryker's new President and Chief Operating Officer. Steve is an outstanding individual with a great record of leadership at Pharmacia Corporation and Johnson & Johnson, and with significant experience in global business. Since joining Stryker on June 1, Steve has had direct responsibility for our operating groups and has spearheaded our new communication and marketing initiatives.

My confidence that Steve MacMillan is the right person to succeed me in leading Stryker was high when he was appointed, and it has grown higher as we have worked together. Since his first day on the job, Steve has thrown himself into his new role. In 2004, he and I will work closely together in guiding the Company as the transition progresses. I fully expect that in 2005, Steve will assume the major responsibility for the Company's leadership.

Other aspects of our transition are also proceeding smoothly. In early 2003, Dean Bergy took the Chief Financial Officer reins from Dave Simpson, who continues to advise me and the Company as Executive Vice President. I commend Dean on his achievements in his new position.

In the fall, we announced other management changes. To accelerate our spine business, we have appointed Stryker veteran Tim Scannell as Vice President and General Manager of that division. Over his 13 years with the Company, Tim has performed extremely well at Endoscopy and, more recently, at Biotech, where he led the initial commercialization of OP-1. Jamie Kemler, Group President of Biotech, Spine, Trauma, has ably stepped into the interim leadership of Biotech.

As of January 2004, Ned Lipes assumed the role of Executive Vice President. Over the last 16 years, Ned has led our reconstructive business and made major contributions to our current position in orthopaedics. He is now advising the Company on new product and technology developments for reconstructive implants, counseling on business development and helping maintain our close relationships with key surgeons.

With the change in Ned's role, we decided on two other strategic changes to best position our reconstructive business for the future. We expanded the responsibilities of Group President Ron Lawson to include Orthopaedics along with his leadership of our International group. With his long tenure in the orthopaedics industry, Ron has developed deep knowledge and relationships in the U.S. marketplace, and the transition is proceeding well. We also promoted Jeff Paulsen from Senior Vice President and Chief Operating Officer of Orthopaedics to President of the division. Jeff played a key role in the integration of Howmedica and the restructuring of Orthopaedics' manufacturing operations, including the orderly phase-out of production at the plant in Rutherford, New Jersey.

As these changes take effect, we extend our deep thanks to each of the talented individuals cited above; to Si Johnson, Group President of MedSurg; to Jason Blackwood, President of our service business, Physiotherapy Associates; and to each of their teams. Thanks are also due to the other Company and division leaders, and to all of Stryker's 15,000 employees around the world.

Achievements and Directions in 2003

Early in the year, the U.S. Food and Drug Administration granted Stryker marketing approval for our Trident ceramic-on-ceramic hip. This revolutionary product has been helping patients elsewhere in the world, and its enthusiastic reception in the United States demonstrates the potential this innovation holds for the U.S. market.

In September, legendary golfer Jack Nicklaus, who received a Stryker ceramic-on-ceramic hip implant in 1999 as part of a clinical trial, became the spokesperson for our new patient education program. This campaign and related initiatives testify to the Company's commitment to providing objective, useful information to people investigating orthopaedic options for themselves or family members.

Minimally invasive techniques for reconstructive joint replacement are of great interest to surgeons and their patients, and Stryker is making substantial progress in supporting this surgical preference with responsible science. Following a multicenter clinical study, in 2003 we introduced the Scorpio Total Knee Minimally Invasive Instrumentation, a new line of instruments to complement the minimally invasive knee replacement technique developed by Peter Bonutti, M.D., using our Scorpio knee implant. We have also invested significant resources to create best-in-class instruments for minimally invasive total hip replacement. We continue to make advances in image-guided joint replacement surgery, another less invasive approach. We have launched the second generation of our knee navigation software and are developing our initial hip navigation platform.

We are pleased with the progress we have made in our Leibinger Micro Implants division. With the completion of the Universal Fixation System in 2003 and other innovations underway, we expect micro implants for craniomaxillofacial surgery to become a growth area for Stryker in the near future.

In recent years, Stryker has made global product development a priority so that we can more effectively serve regional needs and preferences around the world. In 2003, we saw the fruits of that approach in our international sales. We had strong results in Europe, with an exceptionally robust performance in the United Kingdom.

Leadership in Orthopaedics

Stryker consistently delivers excellent results as measured by patient outcomes, physician and hospital satisfaction and loyalty, and financial returns to our shareholders. Ultimately, these results stem from the Company's character and values and from our commitment to innovation.

Two events in 2003 serve to showcase the depth that underlies our results. One was the First Annual Stryker Corporation Research and Development Recognition Program Awards. This ceremony was the culmination of an initiative begun in 2002 to reward outstanding accomplishment in research and development. It was designed to step up the pace of innovation and recognize outstanding creativity among our scientists and engineers. The second event was the rollout of a new program to more clearly communicate the value behind the Stryker name so that all of our customers, shareholders and employees will immediately associate the Company with the quality of our results.

These initiatives will reinforce our position as a worldwide leader in orthopaedics while we advance toward our goal of becoming a $5 billion company in 2005.

Sincerely,

John W. Brown
Chairman and Chief Executive Officer

A Conversation with Steve MacMillan

Stryker's new President and Chief Operating Officer shares his reflections on his first seven months with the Company.

Why did you choose to join Stryker?

Stryker is a clear leader within the vitally important health-care industry, and its leadership is based on a simple yet rich set of meaningful values. We are a results-oriented company that bases decisions on solid clinical and business data. Our people have a passion for winning and a commitment to integrity. We have the talent to continue to succeed in the future.

What aspects of your professional experience are proving most valuable in your new role?

We are rapidly evolving into a truly global company, and my background living and working outside the United States can be leveraged to support this process. Diverse experience across a range of health-care enterprises—including diagnostics, biologics, prescription drugs and consumer health care—has given me additional perspective on the range of issues faced by our various businesses. From working on the consumer side, I have learned how to approach both product development and marketing from the patient perspective—a plus in this era when the informed, empowered patient represents a changing global dynamic.

Looking to the future, what is your vision for the Company?

Stryker has an exceptional foundation—building upon it will be my most important responsibility and challenge. John Brown and I share common goals, including the determination to serve our customers while delivering for our shareholders. Stryker's commitment to at least 20 percent net earnings growth is firm, and we will also make a concerted effort to communicate the breadth and depth that enable us to achieve this rate of growth. A key objective is to become better recognized for our innovation even as we intensify its level. Staying close to the customer is essential, so we will maintain our decentralized structure. Nevertheless, where it benefits our customers, we will maximize our opportunities to collaborate across divisions. John and our Board of Directors have placed a great deal of trust in me, and along with our senior management team, we intend to further Dr. Stryker's legacy and the organization that John has transformed and built into the world's premier orthopaedics company.

Simplex P with Tobramycin Bone Cement

Stryker's tradition of enduring innovation continues with the availability of Simplex P with Tobramycin, which combines the best-selling bone cement in the United States with the antibiotic of choice among orthopaedic surgeons. Simplex P has an unmatched clinical history with more than 18 million doses implanted worldwide over four decades. The addition of tobramycin provides for optimal delivery of the antibiotic to the patient, while maintaining the same reliable, predictable and trusted results that surgeons have come to expect from Simplex P. It represents Stryker's first U.S. product combining a pharmaceutical with a medical device.

Innovation that Endures

Today, the world demands innovative orthopaedic solutions more than ever. Around the globe, people are living longer, and the growth of the over-65 population far outstrips that of other age groups. This population is particularly prone to chronic, musculoskeletal conditions that call for orthopaedic solutions. Among younger, more active people, contemporary lifestyles often lead to joint problems, and these patients have extremely high expectations for return to excellent functioning and freedom from pain. This is a world that Stryker is uniquely prepared to serve with advanced, best-in-class products across all areas of orthopaedics.

Meeting the Test of Time

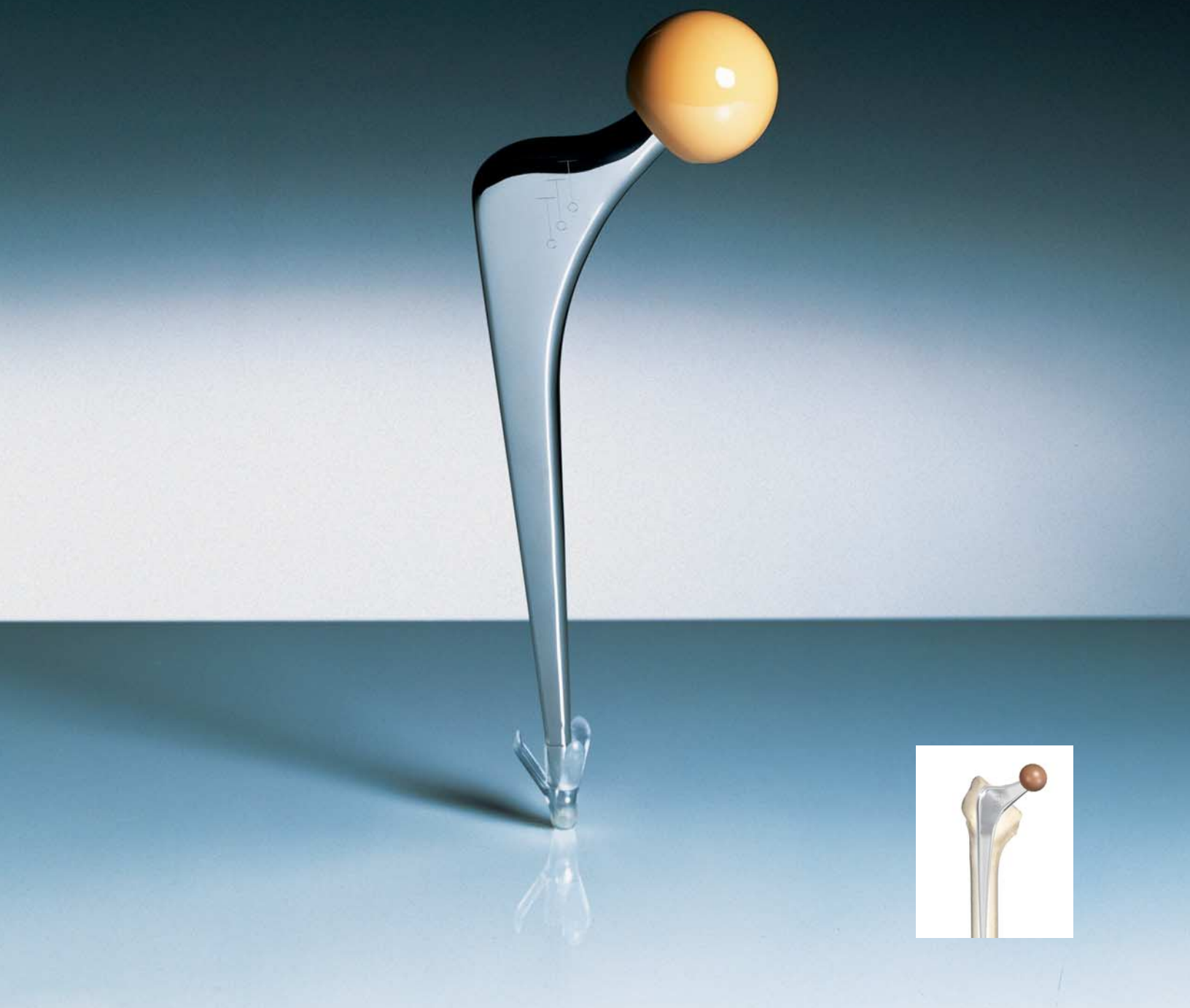
Stryker is committed to innovation in product development—not only for today, but innovation that meets the test of time. Several events in the last year point to how we deliver new and enduring products. In 2003, following approval from the U.S. Food and Drug Administration (FDA), Stryker launched its revolutionary Trident ceramic-on-ceramic hip system in the United States. At the same time, our Exeter hip stem, first introduced in 1970 and backed by more than 30 years of clinical history, continued as a market leader in the United Kingdom. These two innovations can work together to help today's patients, since one of the versions of the Exeter stem is designed to offer a ceramic-on-ceramic option.

Also in 2003, we received FDA clearance to market an antibiotic bone cement based on our Simplex P Bone Cement. Simplex P is the leading bone cement in the United States and has been used worldwide for more than 40 years. Since we received U.S. clearance to market Simplex P with Tobramycin, this product has actually expanded the size of the market due to surgeon demand. The new, blended Simplex, which has been on the market in Europe since 2000, is indicated in the United States for patients who are undergoing the second stage of a two-stage revision for a total joint procedure.

Other recent advances are continuing to support excellent patient outcomes. We continue to develop and refine advanced designs and materials for reconstructive joint replacement, particularly those suited to more active, demanding and informed patients. Our PureFix HA, the first plasma-sprayed hydroxylapatite coating in the marketplace, has demonstrated excellent clinical results in a multicenter study for over 15 years, and our Crossfire highly cross-linked polyethylene has a track record of reducing wear by 90 percent in laboratory hip simulation testing. These are innovations that have truly proved their worth and are poised to benefit patients into the future. In addition, our cross-functional, team-based approach to product development ensures that this innovative spirit will guide the creation of tomorrow's products.

Professor Robin Ling
Exeter, England

Professor Robin S. M. Ling, OBE, FRCS, developed the Exeter Hip System together with Dr. Clive Lee, working at the University of Exeter and the Princess Elizabeth Orthopaedic Centre. The system was introduced in 1970 and today remains a market leader in the United Kingdom. Much of the success is due to the long and detailed clinical history initiated by Professor Ling, who notes that "Gathering clinical data on the Exeter hip was essential, because the double-tapered, collarless design was radical at the time, and excellent follow-up continued to be important as the system was modified and improved over the years. It's satisfying to know that our design has turned out to work so well." Now retired, Professor Ling credits his colleagues at the Hip Unit at the Princess Elizabeth Orthopaedic Centre for their outstanding work using the Exeter hip. These surgeons are Graham A. Gie, FRCS; A. John Timperley, FRCS; Matthew J.W. Hubble, FRCS; and Jonathan Howell, FRCS.



Constant Improvement

Stryker follows a strategy of constant improvement and extension of our products, no matter how well they function or how popular they are in the marketplace. Only constant improvement can bring patients, surgeons and hospital systems the outcomes and efficiencies they require.

Redefining the Operating Room

As a case in point, we have steadily improved and expanded our pioneering work in advanced operating rooms with fully integrated technology. Now covered by the comprehensive term i-Suite Operating Rooms, this family of ground-breaking surgical suites provides the optimal operating environment for surgeons, staff and patients. Currently, we offer the EndoSuite, the first integrated operating room and the most advanced suite for minimally invasive procedures; the CardioSuite, designed around the unique communication and information needs of the heart surgeon; the OrthoSuite, based on our deep understanding of the orthopaedic workflow for total joint procedures; and the NavSuite, which employs an image-guided surgery platform to meet the demands of neurological, spine and ear, nose and throat procedures. Within the i-Suite family, we also focus on improving the components that have made us a technology leader. Our 3-chip cameras have provided multispecialty video imaging through several product generations. In 2003, we extended our leading 988 Digital 3-Chip camera by producing a fully autoclavable model.

Completing and Extending Product Lines

Across the Company, we place great emphasis on making product lines as comprehensive and updated as possible. In 2003, we extended the Xia Spinal System by adding a new, low-profile hook system and additional components for anterior fixation. Xia, launched with great success in 1999, is one of the fastest-growing spinal systems in its category because of continuous improvement and expansion. Throughout our spinal lines, we offer a variety of approaches, including Oasys, a new posterior fixation system developed to serve an emerging area of spine fusion surgery. Overall, our spine products encompass thoracolumbar, cervical and interbody lines.

In trauma systems, we completed our extremely well-received T2 Nailing System for long-bone fracture repair. The T2 system includes femoral, tibial and humeral components with a common instrument platform for accuracy and ease of use. Building on the success of this titanium nail, we introduced the stainless steel S2 tibial and femoral nails, designed to meet the needs of Level 1 trauma centers. There was also an initial release of our Gamma 3 intramedullary hip fracture nail, designed for less invasive procedures. The Universal Fixation System for craniomaxillofacial surgery was extended in 2003 with the launch of the midface system and will be completed with the addition of the cranial/neurological system in early 2004.

988 Autoclavable and 1088 Digital 3-Chip Cameras

Our 988 Digital 3-Chip Camera, launched in 2001 to immediate success, led the market as the first digital output camera in the medical industry. In 2003, we improved this winning product by producing an autoclavable version for more efficient sterilization. In the first quarter of 2004, we plan to launch the 1088 Digital 3-Chip Camera. With its high-definition format, the 1088 model offers startling clarity, depth of focus and color reproduction.

Peter M. Bonutti, M.D., F.A.C.S., has been developing approaches to minimally invasive total knee arthroplasty for over a decade, and he has collaborated with Stryker throughout the development process to create smaller instruments that spare soft tissue. This instrument line was introduced commercially by Stryker in late 2003. "My long-term goal is not simply to reduce postoperative pain and hasten rehabilitation, but to enable patients to resume all activities of daily living. Stryker has helped us develop instrumentation that reduces soft tissue disruption in knee replacement. Working together, we are continuing to evolve this technology for even greater long-term patient benefits," says Dr. Bonutti, who directs the Bonutti Clinic in Effingham, Illinois, and is Associate Clinical Professor at the University of Arkansas in Little Rock.

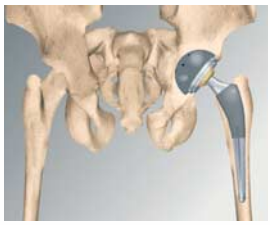
ScorpioFlex Single Axis Knee

Like all of Stryker's Scorpio knees, ScorpioFlex has a geometry that embodies the concept that there is only one true flexion-extension axis in the knee, resulting in earlier return to full active extension and improved ligament stability. In addition, ScorpioFlex provides maximum range of motion for more active, highly motivated patients through the high-performance tibial insert component. The design of this insert is based on research in both the United States and Japan to accommodate the needs of patients whose lifestyles include activities that demand greater knee flexion.

Dr. Peter Bonutti
Effingham, Illinois

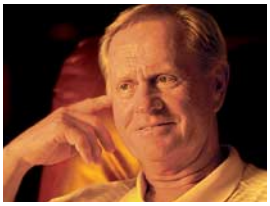
Trident Ceramic Acetabular System with the Accolade TMZF Femoral Stem

Following FDA approval in February 2003, the Trident ceramic-on-ceramic hip system became available to U.S. patients. Now Trident, which has been well received in Europe, Australia and Canada, is becoming widely adopted in the United States because of the benefits it offers to more demanding patients. Among its features are the wear-resistant ceramic insert and the titanium sleeve, which protects and strengthens the insert. The Trident cup is shown with the Accolade TMZF stem, whose design and materials enhance both joint stability and range of motion.



"I had my hip replaced to get back my life, not just for golf."

Jack Nicklaus



In this era of the informed patient, Stryker is committed to bringing useful, objective information to the public. In 2003, Jack Nicklaus, widely considered the greatest player in golf history, became the spokesperson for our patient education campaign about osteoarthritis and joint pain. Nicklaus suffered from hip pain and reduced quality of life for many years until he received a Stryker ceramic-on-ceramic hip as part of a clinical trial in 1999. The national patient education TV and print advertising campaign is reaching millions of joint-pain sufferers who, like Nicklaus, want to take back their lives.

A Winner's Intensity

Stryker wins because we help our customers and patients achieve positive, life-changing outcomes. A vital aspect of our leadership in orthopaedics is the intense focus we devote to meeting informed patient demand with education, high-performance products and less invasive techniques.

In reconstructive implants, many of our latest advances are expressly for more active, demanding patients. Many of these patients are younger than traditional joint replacement recipients, so implants must have the potential for superior longevity in addition to greater strength and range of motion. Our Trident ceramic-on-ceramic hip is one of many examples that testify to the success of this approach. To make certain that new products meet contemporary patient needs, we integrate the patient perspective into our research and development process.

Minimally Invasive Surgery

Stryker's technologically advanced reconstructive implants are suited to minimally invasive procedures that are intended to reduce soft-tissue damage and pain while hastening return to function. Our EIUS Uni Knee System is designed for early intervention, where only one portion of the knee is worn. Not only does EIUS conserve bone, but its precision instrumentation provides accurate alignment while facilitating minimally invasive approaches. Healthy sales growth proves that the market has endorsed this system.

We support surgeons with technology and specialized instrumentation as they develop new minimally invasive techniques. In the third quarter of 2003, we began the initial introduction of Scorpio Total Knee Minimally Invasive Instrumentation. This line of instruments is designed to complement the unique, minimally invasive total knee procedure pioneered by Peter Bonutti, M.D. Dr. Bonutti's technique can reduce the length of the incision by approximately 70 percent, and he has performed more than 500 such procedures. Because of our long-standing commitment to responsible science, we conducted a multicenter study to validate the technique's reproducibility and potential benefits, such as reduced pain and earlier return to function. We are expanding the launch gradually as more surgeons are trained in Dr. Bonutti's technique. In order to facilitate emerging procedural approaches, we are also developing instrumentation for minimally invasive total hip arthroplasty.

Advances in Surgical Navigation

In the spring of 2003, Stryker introduced Knee Navigation 2.0, the next generation of surgical navigation software for total knee replacement. This image-guided system offers high precision and consistency through unique two-way communication between the computer and the surgical instruments, giving the patient the most precise fit ever available. Knee Navigation 2.0 improves the original with a quicker set-up and greater precision in kinematics and alignment.

The market has greeted the new knee navigation system with enthusiasm, not only because of the technology, but also because navigation supports minimally invasive, muscle-sparing procedures. Stryker believes that our image-guided systems are integral to the future of total joint replacement surgery. For this reason, we are also developing a hip navigation platform that will support less invasive hip replacement with smaller incisions and more accurate placement.

Knee Navigation 2.0

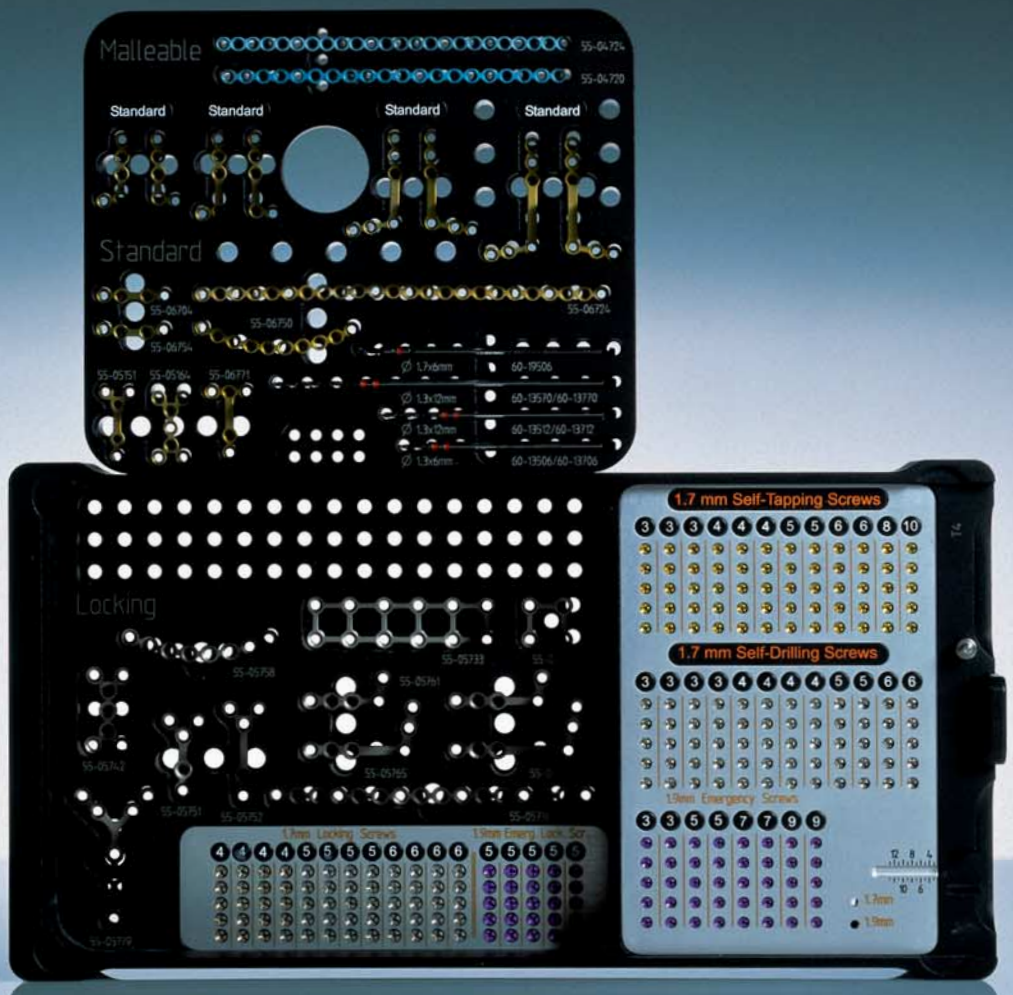
Stryker's next generation of image-guided surgery for total knee replacement made its debut in 2003. Knee Navigation 2.0 features refined technology that supports less invasive surgical procedures. Our unique smart camera provides constant communication between the wireless smart instruments and the navigation system. The 2.0 software eliminates the need for images from CT scans or magnetic resonance imaging. It provides surgeons with assessments of their patients' joint kinematics throughout the procedure, and it offers a unique visualization tool for soft-tissue balancing. The system also records patient data and results.

Global Modular Replacement System (GMRS)

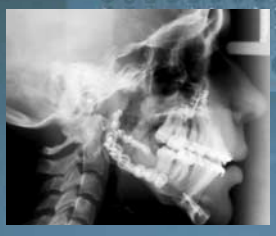
Launched in 2003, GMRS is a global product that offers a comprehensive solution for radical bone loss in oncology, trauma and revision surgery patients. GMRS has tibial and femoral components, including a total femur, and a modular rotating hinge knee. The system employs both titanium and cobalt chrome alloys for strength and lightness of weight, together with the superior flexibility of the hinge. This new product draws on a quarter-century of clinical history, beginning with the introduction of the original Kinematic Rotating Hinge.

Dr. Mark Ochs
with patient Jennifer Connelly
Pittsburgh, Pennsylvania

Mark W. Ochs, D.M.D., M.D., is pictured here with patient Jennifer Connelly, whose serious developmental jaw condition he corrected using Stryker's CMF Universal Fixation System. Dr. Ochs, Chair of the Department of Oral and Maxillofacial Surgery at the University of Pittsburgh School of Dental Medicine and University of Pittsburgh Medical Center, notes that "Stryker has led the development of advanced internal fixation systems and instrumentation. They meet with interested surgeons and bring new ideas from these thought leaders to their engineers for consideration. Through the Advanced CranioMaxilloFacial educational initiative, Stryker provides a unique forum for practitioners in various specialties to discuss emerging topics and innovative techniques."




Pre-Op


Post-Op

CORE System

The CORE platform enhanced Stryker's micropowered surgical instruments in 2003. Specialty-driven handpieces including those for spine and neurosurgery procedures were introduced, providing increased power and torque, greater speed and precision cutting. Shown here are the universal driver, which has 100 percent more power and 40 percent more torque than its predecessor, and the sagittal saw, which offers a new rotating, indexing head.

Service Ethic

Stryker brings a strong ethic of service to all its businesses. Across many product lines, our sales representatives work closely with surgeons, sharing knowledge and soliciting feedback. Customer needs and preferences are then incorporated into new products, such as next-generation powered surgical instruments. In late 2003, we introduced CORE, a new platform for our micropowered surgical instruments. CORE, with its upgraded technology and greater cutting performance, represents an advance over our highly regarded TPS line and addresses all small-bone systems.

Our commitment to service enables hospitals to increase efficiency and achieve greater cost-effectiveness. Our widely adopted service program for micropowered and heavy-duty surgical instruments extends to inventory management consultation as well as repair in order to dramatically reduce downtime. Even seemingly small details can make a big difference to hospitals, as the response to our innovative delivery program for patient-handling equipment proves. Beds and stretchers can be delivered with a simple blanket wrap, making visual inspection easier and eliminating expensive packaging materials and disposal costs.

New Medical Markets

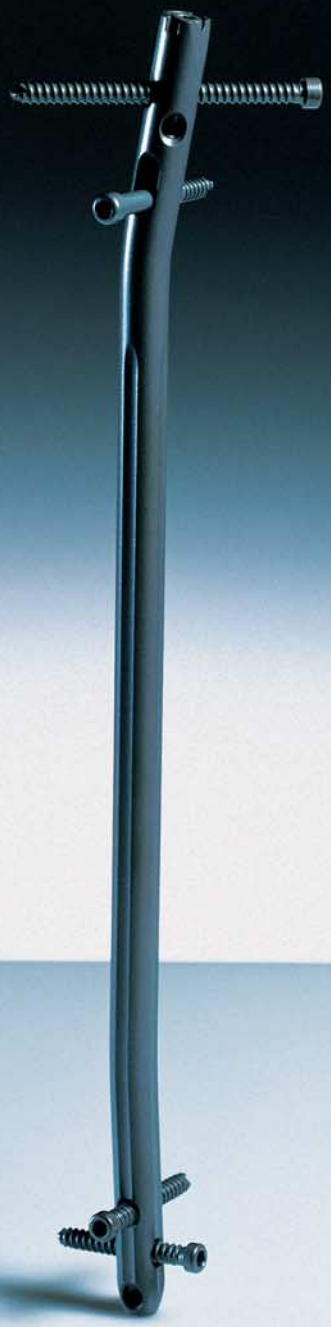
To bring solutions to more patients, Stryker continues to explore new medical markets. Our entry into the interventional pain market, supported by a focused and dedicated sales team, has met with exceptional results since the launch of the DEKOMPRESSOR in early 2003. This single-use probe removes disc material, offering an early, less invasive approach to mitigating back pain. The treatment may delay or eliminate the need for spinal surgery. We are also addressing postoperative pain management with our PainPump2. In 2003, we made product improvements allowing for additional applications in regional anesthesia, providing a seamless extension of peripheral nerve blockage during surgery. This innovation enables both the surgeon and the anesthesiologist to target the surgical site with non-narcotic pain management following the procedure.

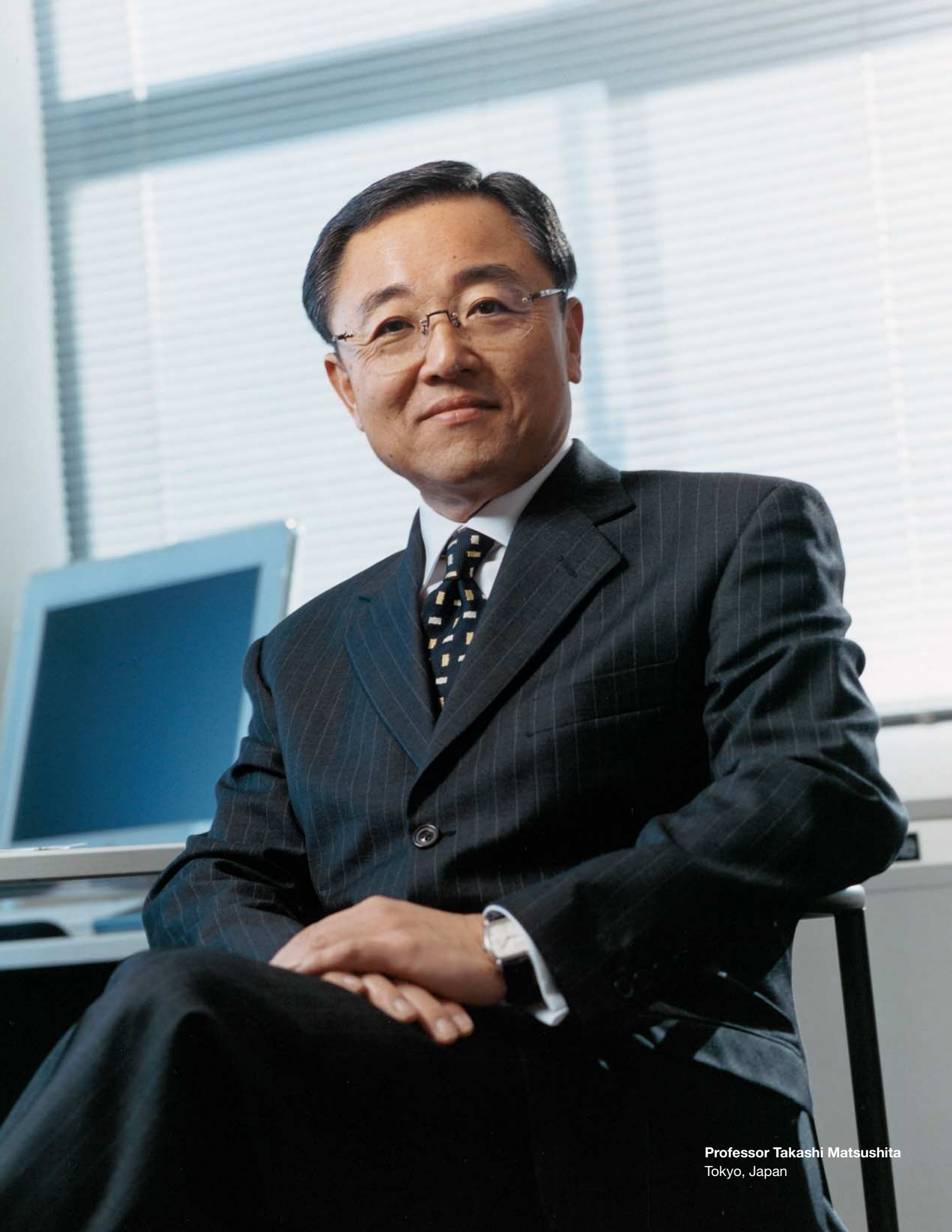
We are also seeking new applications for OP-1, our proprietary, recombinant version of the bone growth factor osteogenic protein-1. In 2003, we completed enrollment in a multicenter U.S. and Canadian pivotal clinical trial involving approximately 300 patients for posterolateral spine fusion using OP-1 to treat spinal stenosis. In Japan, we completed a 32-patient Phase 2 trial for the same indication, using OP-1 in conjunction with rods and screws, and we expect to proceed to a larger study.

Serving the World

Stryker maintains an active commitment to serving the needs of patients and surgeons in all parts of the world. The most dramatic manifestation of this commitment underlies our achievements in Japan and the Asia-Pacific region. Stryker supports these areas with a dedicated product development team, which focuses on both anatomical and cultural considerations in designing reconstructive and trauma products. As a result, not only do our products better meet needs, but new products can be developed more quickly. In the United States, Physiotherapy Associates, Stryker's service business, continues to grow by delivering rehabilitative services that change patients' lives and earning the trust of physicians. The division ended the year with 374 outpatient rehabilitative centers, up from 331 at the end of 2002.

Takashi Matsushita, M.D., A.J.O.A., D.M.Sc., is Professor and Director of the Department of Orthopaedic Surgery at Teikyo University School of Medicine. He is devoted to advancing the level of acute fracture care in Japan, an effort supported by Stryker's T2 Nailing System, engineered for the Japanese anatomy. As Professor Matsushita explains, "Because Stryker has a marketing and R&D team dedicated to Japan, doctors here have direct communication with the Company, and our needs and opinions are integrated into new product development. Stryker's global organization has also been instrumental in furthering my efforts to build relationships with top-level trauma surgeons in the United States and Europe."





Professor Takashi Matsushita
Tokyo, Japan

Culture of Accountability

Accountability is a Stryker hallmark. Within the Company, cross-functional and intradivisional teams are reinforced by a commitment to individual responsibility, and we employ sophisticated metrics to ensure the reliability of our manufacturing, distribution and service. Our relationships with our customers—both surgeons and health-care administrators—are strong not only because of our technology, but because of our investment in serving their needs.

Operating Room Safety

Stryker works closely with hospitals and other health-care organizations to promote safety for patients and medical staff. Operating room safety is a top clinical priority, and our leading products promote efficiency while increasing safety. The Neptune Waste Management System is rapidly becoming the standard for fluid waste management in the operating room. This self-contained device, first introduced in late 2000 and consistently improved, collects and disposes of fluid and smoke waste from surgical procedures, minimizing the need for operator intervention and therefore the risk of exposure. In addition to the primary benefit of safety, Neptune improves the utilization of operating rooms and reduces waste-disposal costs. The Steri-Shield Personal Protection System, which helps protect OR staff from infection, cross-contamination and harmful micro-organisms, continues to gain market share.

Patient-Handling Innovations

Stryker has also pioneered ergonomic and safety features in patient-handling equipment for hospitals. The launch of our motorized, self-propelled Zoom stretcher in 2003 completes the application of this innovative technology across critical care beds, medical-surgical beds and stretchers. Coupled with our Big Wheel technology for maneuverability, Zoom technology produces patient-handling equipment that provides a safe and comfortable surface for patients while reducing the risk of back injury for staff. This mix of ergonomics and functionality is ideally suited to today's hospital environment, with heavier patients and reduced staff.

Advances in EMS Products

Our products for the emergency medical services market are equally focused on the safety of patients and medical personnel, with the added challenges of difficult locations outside the health-care setting. Our emergency cots include such features as ergonomic designs for lifting, all-terrain wheels, single-handed operation and the ability to accommodate heavier patients. A new EMS innovation, introduced in early 2003, is the Stair-Pro Stair Chair. This product serves a new segment of the EMS market by providing a safe, easily maneuverable means to evacuate compromised individuals from multistory buildings without the use of elevators. Our innovative technology has actually driven an increase in the size of this market segment and enabled us to make strong gains.

Stair-Pro Stair Chair

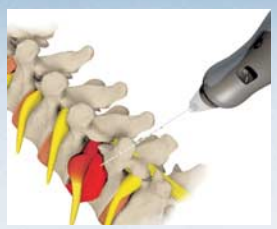
Stryker's most recent innovation for the emergency medical services market, the Stair-Pro enables EMS professionals to safely evacuate ill or injured people from upper floors and confined spaces while reducing the risk of injury. The device incorporates our Rugged technology for EMS cots and features the innovative Stair-Tread system, which allows operators to control movement down stairs without lifting. Intuitive to use and full of safety features, the Stair-Pro has been recognized nationally in the Medical Design Excellence Awards.

Upstairs

Downstairs

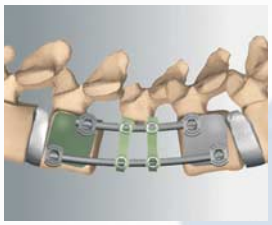
Edith McCullough, patient
Houston, Texas

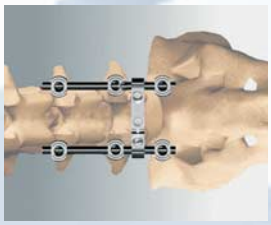
Edith McCullough is a competitive country and western dancer whose activities were severely limited by chronic back pain and numbness since an automobile accident in 1994. She was treated in 2003 with Stryker's DEKOMPRESSOR by Kenneth M. Alo, M.D., at Houston Texas Pain Management. According to Ms. McCullough, "Since Dr. Alo treated me with the DEKOMPRESSOR, I have had no pain or numbness at all. Now I'm preparing for the qualifying competitions of the United Country Western Dance Council, and I hope to participate in the worldwide competition in late 2004. I really have a new life."



Xia Spinal System

Stryker's Xia Spinal System is one of the fastest growing thoracolumbar spine fusion products in the market because of both its underlying technology and constant enhancements. In 2003, we advanced the Xia system by introducing a lower-profile hook and additional components for anterior fixation. The year before, we reduced the profile of the screw and improved the ergonomics of the instrumentation. In addition to the titanium system, shown here, we also offer Xia in stainless steel for use in correcting such deformities as scoliosis.





FINANCIAL REVIEW

SUMMARY OF OPERATIONS	*2003*	*2002*	*2001*
Net sales	$3,625.3	$3,011.6	$2,602.3
Cost of sales:			
Before inventory step-up	1,312.4	1,111.2	963.8
Inventory step-up	–	–	–
Total cost of sales	1,312.4	1,111.2	963.8
Gross profit	2,312.9	1,900.4	1,638.5
Research, development and engineering expenses	180.2	141.4	142.1
Selling, general and administrative expenses	1,416.0	1,165.4	985.4
Purchased research and development	–	–	–
Restructuring, acquisition-related and special charges (credits)	–	17.2	0.6
Gain on patent judgment	–	–	–
	1,596.2	1,324.0	1,128.1
Other expense (income)	64.2	69.7	104.7
Earnings before income taxes and extraordinary item	652.5	506.7	405.7
Income taxes	199.0	161.1	133.9
Earnings before extraordinary item	453.5	345.6	271.8
Extraordinary loss, net of income taxes	–	–	(4.8)
Net earnings	$453.5	$345.6	$267.0
Net earnings per share of common stock[(a)]:			
Basic	$2.28	$1.75	$1.38[(b)]
Diluted	$2.23	$1.70	$1.34[(b)]
Dividend per share of common stock[(a)]	$.14	$.12	$.10
Average number of shares outstanding – in millions[(a)]:			
Basic	198.9	197.5	196.3
Diluted	203.4	203.8	203.0

(a) Adjusted for the two-for-one stock splits effective June 10, 1996 and May 12, 2000.
(b) Excludes net extraordinary loss per share of $.02 basic and $.02 diluted.

FINANCIAL AND STATISTICAL DATA	*2003*	*2002*	*2001*
Cash and marketable securities	65.9	37.8	50.1
Working capital	547.1	443.8	459.7
Current ratio	1.6	1.6	1.9
Property, plant and equipment – net	604.7	519.2	444.0
Capital expenditures	144.5	139.0	161.9
Depreciation and amortization	229.7	186.1	172.0
Total assets	3,159.1	2,815.5	2,423.6
Long-term debt, including current maturities	26.1	501.7	722.6
Stockholders' equity	2,154.8	1,498.2	1,056.2
Return on average equity	24.8%	27.1%	27.9%
Net cash provided by operating activities	648.5	516.2	473.2
Number of stockholders of record	3,084	2,983	2,886
Number of employees	14,762	14,045	12,839

2000	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*
$2,289.4	$2,103.7	$1,103.2	$980.1	$910.1	$871.9	$681.9
815.2	791.5	464.3	397.7	392.4	369.4	300.4
–	198.2	7.8	–	–	–	–
815.2	989.7	472.1	397.7	392.4	369.4	300.4
1,474.2	1,114.0	631.1	582.4	517.7	502.5	381.5
122.2	105.2	61.0	56.9	56.9	43.8	39.6
885.6	808.4	373.6	334.3	326.6	301.4	221.4
–	–	83.3	–	7.5	–	–
(1.0)	18.9	19.0	–	34.3	–	–
–	–	–	–	(61.1)	–	–
1,006.8	932.5	536.9	391.2	364.2	345.2	261.0
132.5	151.7	3.3	(4.1)	(12.6)	3.4	(2.7)
334.9	29.8	90.9	195.3	166.1	153.9	123.2
113.9	10.4	30.9	70.0	61.6	66.9	50.8
221.0	19.4	60.0	125.3	104.5	87.0	72.4
–	–	–	–	–	–	–
$221.0	$19.4	$60.0	$125.3	$104.5	$87.0	$72.4
$1.13	$.10	$.31	$.65	$.54	$.45	$.37
$1.10	$.10	$.31	$.64	$.53	$.44	$.37
$.08	$.065	$.06	$.055	$.05	$.023	$.02
195.1	193.8	192.6	192.5	193.7	193.9	193.5
201.1	198.6	196.3	196.3	196.9	197.1	196.1

2000	*1999*	*1998*	*1997*	*1996*	*1995*	*1994*
54.0	83.5	138.6	351.1	367.6	264.6	202.0
379.6	440.8	666.2	433.7	501.8	448.8	361.3
1.6	1.7	2.0	2.4	3.0	3.6	3.0
378.1	391.5	429.5	163.9	172.3	182.6	180.7
80.7	76.4	51.3	35.2	26.7	36.3	29.2
168.6	162.8	53.2	49.5	34.7	28.7	20.9
2,430.8	2,580.5	2,875.4	985.1	993.5	854.9	768.0
1,012.5	1,287.4	1,503.0	78.1	93.9	100.0	100.6
854.9	671.5	672.6	612.8	530.4	454.3	358.3
29.0%	2.9%	9.3%	21.9%	21.2%	21.4%	22.4%
331.8	284.0	154.5	91.9	204.3	111.5	97.7
2,904	2,929	3,061	3,127	3,306	3,260	3,684
12,084	10,925	10,974	5,691	5,274	4,629	4,221

Executive Level Overview

Stryker Corporation (the "Company" or "Stryker") is a leader in the worldwide orthopaedic market and is one of the world's largest medical device companies. Stryker delivers results through a wide range of capabilities including joint replacements, trauma, spine and micro implant systems, orthobiologics, powered surgical instruments, surgical navigation systems and endoscopic products as well as patient handling and emergency medical equipment. Stryker also provides outpatient physical therapy services in the United States.

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive (hip, knee and shoulder), trauma and spinal implants, bone cement and the bone growth factor osteogenic protein-1 (OP-1). The MedSurg Equipment segment sells powered surgical instruments, endoscopic products, hospital beds and stretchers and micro implant and surgical navigation systems. Other includes Physical Therapy Services and corporate administration, interest expense and interest income.

Domestic sales accounted for 64% of total revenues in 2003. Most of the Company's products are marketed directly to more than 6,000 hospitals and to doctors and other health-care facilities by approximately 2,100 sales and marketing personnel in the United States. Stryker primarily maintains separate and dedicated sales forces for each of its principal product lines to provide focus and a high level of expertise to each medical specialty served.

International sales accounted for 36% of total revenues in 2003. The Company's products are sold in more than 100 countries through more than 1,900 local dealers and direct sales forces. Local dealer support and direct sales are coordinated by approximately 1,900 sales and marketing personnel. Stryker distributes its products through sales subsidiaries and branches with offices located in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Greece, Hong Kong, India, Italy, Japan, Korea, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. Stryker exports products to dealers and to customers in Africa, Bangladesh, China, the CIS (former Soviet Union), Cyprus, India, Indonesia, Ireland, Korea, Latin America, Malaysia, the Middle East, Philippines, Taiwan, Thailand, Turkey, Vietnam and Yugoslavia.

The Company's business is generally not seasonal in nature; however, the number of orthopaedic implant surgeries is lower during the summer months.

Outlook for 2004

The Company's outlook for 2004 continues to be very optimistic regarding the markets it participates in and the underlying growth rates in orthopaedic procedures. The Company expects diluted net earnings per share for 2004 to approximate $2.68. The financial expectations for 2004 include net sales growth of approximately 16% as a result of strong growth in shipments of Orthopaedic Implants and MedSurg Equipment, favorable foreign currency exchange rate movements and higher revenue from Physical Therapy Services. If foreign currency exchange rates hold at January 27, 2004 levels, the Company anticipates a favorable impact on net sales in the first quarter and full year of 2004 of approximately $45 million and $145 million, respectively.

As the Company pays down outstanding borrowings under its Unsecured Credit Facilities and reduces the $150.0 million outstanding under its accounts receivable securitization facility, the Company expects to generate cash earnings in excess of its needs to fund future working capital requirements. The Company anticipates investing in future business growth, including business and product line acquisitions to supplement its current product offerings, instrumentation in support of new product launches and future building expansions, including manufacturing facility expansions for certain divisions within its MedSurg segment.

Results of Operations

The table below outlines the components of the consolidated statements of earnings as a percentage of net sales and the year-to-year percentage change in dollar amounts:

	Percentage of Net Sales			Percentage Change	
	2003	*2002*	*2001*	*2003/02*	*2002/01*
Net sales	100.0%	100.0%	100.0%	20%	16%
Cost of sales	36.2	36.9	37.0	18	15
Gross profit	63.8	63.1	63.0	22	16
Research, development and engineering expenses	5.0	4.7	5.5	27	–
Selling, general and administrative expenses	39.1	38.7	37.9	22	18
Restructuring and acquisition-related charges	–	0.6	–	(100)	–
Other expense (income)	1.8	2.3	4.0	(8)	(33)
Earnings before income taxes and extraordinary item	18.0	16.8	15.6	29	25
Income taxes	5.5	5.3	5.1	24	20
Earnings before extraordinary item	12.5	11.5	10.4	31	27
Extraordinary loss, net of income taxes	–	–	(0.2)	–	–
Net earnings	12.5%	11.5%	10.3%	31	29

The table below sets forth domestic/international and product line sales information:

	Net Sales *(in millions)*			Percentage Change	
	2003	*2002*	*2001*	*2003/02*	*2002/01*
Domestic/international sales					
Domestic	$2,333.4	$1,973.7	$1,688.4	18%	17%
International	1,291.9	1,037.9	913.9	24	14
Total net sales	$3,625.3	$3,011.6	$2,602.3	20	16
Product line sales					
Orthopaedic Implants	$2,093.0	$1,704.8	$1,447.2	23	18
MedSurg Equipment	1,309.3	1,105.3	974.2	18	13
Physical Therapy Services	223.0	201.5	180.9	11	11
Total net sales	$3,625.3	$3,011.6	$2,602.3	20	16

2003 Compared with 2002

Stryker Corporation's net sales increased 20% in 2003 to $3,625.3 million from $3,011.6 million in 2002. Net sales grew by 12% as a result of increased unit volume and changes in product mix; 2% related to higher selling prices; 5% due to changes in foreign currency exchange rates; and 1% as a result of acquired businesses.

Domestic sales were $2,333.4 million for 2003, representing an increase of 18% as a result of strong shipments of Orthopaedic Implants and MedSurg Equipment and higher revenue from Physical Therapy Services. International sales were $1,291.9 million for 2003, representing an increase of 24% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The impact of foreign currency comparisons to the dollar value of international sales was favorable by $145.9 million for 2003. Excluding the impact of foreign currency, international sales increased 10% in 2003.

Worldwide sales of Orthopaedic Implants were $2,093.0 million for 2003, representing an increase of 23% as a result of higher shipments of reconstructive, trauma and spinal implants. Excluding the impact of foreign currency, sales of Orthopaedic Implants increased 16% for the year. Worldwide sales of MedSurg Equipment were $1,309.3 million for 2003, representing an increase of

18% as a result of higher shipments of powered surgical instruments, endoscopic products, hospital beds and stretchers and micro implant and surgical navigation systems. Excluding the impact of foreign currency, sales of MedSurg Equipment increased 15% for the year. Physical Therapy Services revenues were $223.0 million for 2003, representing an increase of 11% as a result of new physical therapy centers and higher revenues from existing centers.

Cost of sales represented 36.2% of sales compared with 36.9% in 2002. The lower cost of sales percentage in 2003 is due to the faster sales growth in the higher margin Orthopaedic Implants business and an increase in the absorption of fixed manufacturing costs caused by increased production at certain of the Company's manufacturing plants to meet current demand.

Research, development and engineering expenses represented 5.0% of sales in 2003 compared to 4.7% in 2002. The higher spending level is the result of final development spending in advance of the Company's product launches in 2003 and continued focus on new product development for anticipated future product launches. New product introductions in 2003 included the Trident Ceramic Acetabular System, Simplex P with Tobramycin Bone Cement and the CORE platform of micro powered surgical instruments in the United States market and the System 5 heavy-duty, battery-powered surgical instruments in Europe.

Selling, general and administrative expenses increased 22% in 2003 and represented 39.1% of sales compared with 38.7% in 2002. The 22% increase in selling, general and administrative expenses is partially due to an increase in sales commission expense as a result of the 20% increase in net sales in 2003. In addition, the Company incurred a $14.0 million increase in insurance costs during 2003 resulting from increased premiums charged by third-party insurers and a wholly owned captive insurance company established in 2003 as more fully described in Other Matters. The increase in selling, general and administrative expenses as a percentage of sales in 2003 is primarily due to higher distribution costs associated with the increased sales mix of Orthopaedic Implants, increased amortization of loaner instrument sets, the increase in insurance costs and higher advertising costs associated with the Company's previously announced patient education campaign.

The Company recognized charges of $17.2 million ($11.5 million net of income taxes) related to restructuring and acquisition-related items in the third quarter of 2002. The 2002 restructuring and acquisition-related items included a charge of $21.0 million ($14.1 million net of income taxes) for employment-related costs to close the Company's Rutherford, New Jersey, manufacturing facility, partially offset by a credit of $3.8 million ($2.6 million net of income taxes) to reverse certain Howmedica acquisition-related costs to reflect actual final payments required. See the following comparison of 2002 results to 2001 results for additional information.

Interest expense declined to $22.6 million in 2003 from $40.3 million in 2002, primarily as a result of lower outstanding debt balances. The increase in intangibles amortization to $45.4 million in 2003 from $28.9 million in 2002 is primarily the result of the increased intangible assets recorded as a result of the July 1, 2002 acquisition of the Surgical Dynamics Inc. spinal implant business (SDI) from Tyco International Ltd. as more fully described in Other Matters. In addition, the Company recorded a $6.5 million charge related to a trademark impairment resulting from a branding initiative adopted by the Company in the fourth quarter of 2003. The branding initiative is intended to improve the Company's customers' and other stakeholders' overall awareness of Stryker's capabilities. The charge is included in intangibles amortization in the consolidated statements of earnings. Other income was $3.8 million in 2003, compared with $0.5 million of other expense in 2002 due to foreign currency transaction gains in the current year compared to losses in the prior year and higher interest income.

The effective income tax rate was 30.5% in 2003 compared with 31.8% in 2002. The Company's effective income tax rate for 2003 was reduced primarily as a result of increased manufacturing in lower tax jurisdictions such as Ireland and Puerto Rico.

Net earnings increased 31% to $453.5 million from $345.6 million in 2002; basic net earnings per share increased 30% to $2.28 in 2003 from $1.75 in 2002; and diluted net earnings per share increased 31% to $2.23 in 2003 from $1.70 in 2002.

Excluding the impact of the restructuring and acquisition-related items for the year ended December 31, 2002 adjusted net earnings increased 27% from $357.1 million in 2002 to $453.5 million in 2003. Adjusted basic net earnings per share increased 26% from $1.81 in 2002 to $2.28 in 2003. Adjusted diluted net earnings per share increased 27% from $1.75 in 2002 to $2.23 in 2003.

These adjusted non-GAAP financial measures do not replace the presentation of the Company's GAAP financial results. The Company has provided this supplemental non-GAAP information because it provides meaningful information regarding the Company's results on a consistent and comparable basis for the periods presented. Management uses this non-GAAP financial information for reviewing the operating results of its business segments and for analyzing potential future business trends in connection with its budget process. In addition, the Company believes investors utilize this information to evaluate period-to-period results and to understand potential future operating results. The Company believes that the economic nature of the restructuring charge and the acquisition-related credit are sufficiently unique that similar items have not been recorded in the prior two fiscal years nor are they reasonably likely to recur within two years. In addition, the Company reasonably believes that it is probable that the financial impact of each of these individual items will become insignificant by the end of 2004. The Company encourages investors and other users of these financial statements to review its Consolidated Financial Statements and other publicly filed reports in their entirety and to not rely solely on any single financial measure. The reconciliations of these non-GAAP financial measures are as follows (in millions):

	2003	*2002*	*% Change*
Reported net earnings	$453.5	$345.6	31%
Restructuring charge	–	14.1	–
Acquisition-related credit	–	(2.6)	–
Adjusted net earnings	$453.5	$357.1	27
Basic net earnings per share:			
Reported basic net earnings per share	$2.28	$1.75	30
Restructuring charge	–	$.07	–
Acquisition-related credit	–	($.01)	–
Adjusted basic net earnings per share	$2.28	$1.81	26
Diluted net earnings per share:			
Reported diluted net earnings per share	$2.23	$1.70	31
Restructuring charge	–	$.07	–
Acquisition-related credit	–	($.01)	–
Adjusted diluted net earnings per share	$2.23	$1.75	27

2002 Compared with 2001

Stryker Corporation's net sales increased 16% in 2002 to $3,011.6 million from $2,602.3 million in 2001. Net sales grew by 11% as a result of increased unit volume and changes in product mix; 3% related to higher selling prices; and 2% as a result of acquired businesses.

Domestic sales were $1,973.7 million for 2002, representing an increase of 17% as a result of strong shipments of Orthopaedic Implants and MedSurg Equipment and higher revenue from Physical Therapy Services. The July 1, 2002, acquisition of SDI added $22.8 million to domestic sales for 2002. International sales were $1,037.9 million for 2002, representing an increase of 14% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The acquisition of SDI added $2.5 million to international sales for 2002. The impact of foreign currency comparisons to the dollar value of international sales was favorable by $13.7 million for 2002. Excluding the impact of foreign currency, international sales increased 12% in 2002.

Worldwide sales of Orthopaedic Implants were $1,704.8 million for 2002, representing an increase of 18% as a result of higher shipments of reconstructive, trauma and spinal implants. Excluding the impact of foreign currency, sales of Orthopaedic Implants increased 17% for the year. Worldwide sales of MedSurg Equipment were $1,105.3 million for 2002, representing an increase of

13% as a result of higher shipments of powered surgical instruments, endoscopic products, hospital beds and stretchers and micro implant and surgical navigation systems. Excluding the impact of foreign currency, sales of MedSurg Equipment increased 13% for the year. Physical Therapy Services revenues were $201.5 million for 2002, representing an increase of 11% as a result of new physical therapy centers and higher revenues from existing centers.

Cost of sales represented 36.9% of sales compared with 37.0% in 2001. The slightly lower cost of sales percentage in 2002 was due to an increase in the absorption of fixed manufacturing costs caused by increased production at certain of the Company's manufacturing plants to meet current demand and higher sales growth for the higher margin Orthopaedic Implant products, offset partially by higher product obsolescence resulting from product launches.

While research, development and engineering expenses in 2002 were consistent with prior year amounts, they decreased to 4.7% of sales from 5.5% in 2001. Research, development and engineering spending was affected in 2002 by the commercial launch of OP-1, which occurred in various markets in the second and fourth quarters of 2001. Following the launch, in 2002 Stryker Biotech recorded a portion of its expenses as cost of sales and selling, general and administrative expenses, compared with 2001, when this division classified substantially all of its costs as research, development and engineering. Increased spending from the Company's continued focus on new product development partially offset the decreased research, development and engineering expenses related to Stryker Biotech. New product introductions in 2002 included ScorpioFlex knee for the United States market, Super Secur-Fit Plus hip for the Japanese market, Trident Ceramic Acetabular System in Canada, Xia II Spinal System, System 5 heavy-duty, battery-powered surgical instruments, TPS Saber Drill, SDC Pro 2 surgical DVD documentation system, PainPump2, Precision System for percutaneous cement delivery, fluoroscopic software module for the Stryker Navigation System and Go Bed +.

Selling, general and administrative expenses increased 18% in 2002 and represented 38.7% of sales compared with 37.9% in 2001. The increase in selling, general and administrative expenses was partially due to an increase in sales commission expense as a result of the 16% increase in net sales in 2002. In addition, the Company incurred an $8.9 million increase in insurance costs during 2002. The change in classification of certain Stryker Biotech expenses, as discussed above, also contributed to the increase in selling, general and administrative expenses. Discount expense related to the accounts receivable securitization facility, which was included in selling, general and administrative expenses, declined to $2.7 million in 2002 from $5.8 million in 2001 as a result of lower discount rates.

The Company recognized charges of $17.2 million ($11.5 million net of income taxes) related to restructuring and acquisition-related items in the third quarter of 2002. The 2002 restructuring and acquisition-related items included a charge of $21.0 million ($14.1 million net of income taxes) for employment-related costs to close the Company's Rutherford, New Jersey, manufacturing facility, partially offset by a credit of $3.8 million ($2.6 million net of income taxes) to reverse certain Howmedica acquisition-related costs to reflect actual final payments required. The $21.0 million restructuring charge related primarily to a shutdown agreement reached between the Company and the employee bargaining unit to close the Orthopaedics division implant manufacturing facility in Rutherford, New Jersey, which was ratified by the members of the I.U.E.-CWA Local 485 on August 23, 2002. The charge covered employment-related severance costs for 353 employees. The Rutherford facility was closed during 2003 with final severance payments to be made by the end of 2005. The Orthopaedics division has completed the transition of production to its facilities in Mahwah, New Jersey, as well as Cork and Limerick, Ireland.

In the fourth quarter of 2001, the Company recognized charges of $0.6 million related to various restructuring and acquisition-related events. The 2001 restructuring and acquisition-related charges included $2.4 million of charges, partially offset by the reversal of prior year restructuring accruals totaling $1.8 million.

Interest expense declined to $40.3 million in 2002 from $67.9 million in 2001, primarily as a result of lower outstanding debt balances. The decrease in intangibles amortization to $28.9 million in 2002 from $38.4 million in 2001 was primarily the result of the Company's adoption of Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets,* which prohibits the amortization of goodwill. If the nonamortization provisions of Statement No. 142 had been applied in

the prior year, amortization expense for 2001 would have been reduced by $18.1 million and net earnings would have increased by $12.1 million ($.06 per diluted share). Other expense was $0.5 million in 2002, compared with $1.6 million of other income in 2001 due to foreign currency transaction losses in the current year versus gains in the prior year, partially offset by higher interest income.

The effective income tax rate was 31.8% in 2002 compared with 33.0% in 2001. The Company's effective income tax rate for 2002 was reduced from 33.0% to 31.8% in the fourth quarter of 2002, thereby reducing income tax expense by $6.1 million, primarily as a result of increased manufacturing in lower tax jurisdictions such as Ireland and Puerto Rico.

Earnings before extraordinary item increased 27% to $345.6 million from $271.8 million in 2001; basic earnings per share before extraordinary item increased 27% to $1.75 in 2002 from $1.38 in 2001; and diluted earnings per share before extraordinary item increased 27% to $1.70 in 2002 from $1.34 in 2001. In December 2001, the Company refinanced and prepaid the remaining $642.7 million outstanding under the $1,650.0 million Senior Secured Credit Facilities established in 1998 in connection with the Howmedica acquisition. The prepayment of the 1998 Facilities resulted in the write-off in 2001 of related unamortized deferred loan costs of $7.1 million, which was reflected as an extraordinary loss of $4.8 million (net of income taxes of $2.3 million; $.02 per basic and diluted share). Net earnings were $345.6 million (basic and diluted net earnings per share of $1.75 and $1.70, respectively) compared with $267.0 million (basic and diluted net earnings per share of $1.36 and $1.32, respectively) in 2001.

Excluding the impact of the restructuring and acquisition-related items on 2002 and 2001 and the impact of the change in goodwill amortization and the extraordinary item on 2001, adjusted net earnings in 2002 were $357.1 million, representing a 26% increase over adjusted net earnings of $284.3 million in 2001. Adjusted basic net earnings per share increased 25% to $1.81 compared with $1.45 in 2001. Adjusted diluted net earnings per share increased 25% to $1.75 compared with $1.40 in 2001.

These adjusted non-GAAP financial measures do not replace the presentation of the Company's GAAP financial results. The Company has provided this supplemental non-GAAP information because it provides meaningful information regarding the Company's results on a consistent and comparable basis for the periods presented. Management uses this non-GAAP financial information for reviewing the operating results of its business segments and for analyzing potential future business trends in connection with its budget process. In addition, the Company believes investors utilize this information to evaluate period-to-period results and to understand potential future operating results. The Company believes that the economic nature of the restructuring charge, the acquisition-related items and extraordinary loss are sufficiently unique that similar items have not been recorded in the prior two fiscal years nor are they reasonably likely to recur within two years. In addition, the Company reasonably believes that it is probable that the financial impact of each of these individual items will become insignificant by the end of 2004. The Company encourages investors and other users of these financial statements to review its Consolidated Financial Statements and other publicly filed reports in their entirety and to not rely solely on any single financial measure. The reconciliations of these non-GAAP financial measures are as follows (in millions):

	2002	*2001*	*% Change*
Reported net earnings	$345.6	$267.0	29%
Restructuring charge/(credit)	14.1	(0.2)	–
Acquisition-related charge/(credit)	(2.6)	0.6	–
Goodwill and assembled workforce amortization	–	12.1	–
Extraordinary loss	–	4.8	–
Adjusted net earnings	$357.1	$284.3	26
Basic net earnings per share:			
Reported basic net earnings per share	$1.75	$1.36	29
Restructuring charge/(credit)	$.07	–	–
Acquisition-related charge/(credit)	($.01)	–	–
Goodwill and assembled workforce amortization	–	$.06	–
Extraordinary loss	–	$.02	–
Adjusted basic net earnings per share	$1.81	$1.45	25
Diluted net earnings per share:			
Reported diluted net earnings per share	$1.70	$1.32	29
Restructuring charge/(credit)	$.07	–	–
Acquisition-related charge/(credit)	($.01)	–	–
Goodwill and assembled workforce amortization	–	$.06	–
Extraordinary loss	–	$.02	–
Adjusted diluted net earnings per share	$1.75	$1.40	25

Liquidity and Capital Resources

The Company's working capital at December 31, 2003 increased $103.3 million to $547.1 million from $443.8 million at December 31, 2002, including the effect of the proceeds from the sale of an additional $20.0 million of accounts receivable pursuant to the accounts receivable securitization facility, that were used to reduce outstanding borrowings under the Company's Unsecured Credit Facilities. The increase in working capital resulted from growth in the Company's overall business and the use of strong earnings to fund increases in accounts receivable, inventory and prepaid expenses and to pay current liabilities due in 2003, primarily for income taxes and restructuring and acquisition-related liabilities. Trade accounts payable and other accrued liabilities increased in 2003 as a result of the growth in the business, higher obligations for third-party sales agent commissions, third-party royalties, non-income based taxes, increased reserves for legal claims and assessments and increases in other accrued liabilities. Accounts receivable days sales outstanding, excluding the effect of $150.0 million outstanding under the Company's $200.0 million accounts receivable securitization facility, of 58 days was unchanged at December 31, 2003 compared to December 31, 2002. Days sales in inventory decreased 6 days to 120 days at December 31, 2003 from 126 days at December 31, 2002. The lower days sales in inventory is primarily the result of improved inventory management and higher provisions for product obsolescence as a result of product launches.

The Company generated cash of $648.5 million from operations in 2003 compared with $516.2 million in 2002. The generation of cash in 2003 is the result of strong cash earnings (net earnings plus noncash adjustments) and increases in accounts payable and accrued expenses. These items were partially offset by increases in deferred charges and accounts receivable from increased sales and payments of $15.5 million attributable to restructuring and acquisition-related liabilities and acquisition purchase liabilities. In 2003, the Company used cash of $10.8 million for business and product line acquisitions, $144.5 million for capital expenditures and $23.7 million for the payment of dividends. In addition to the borrowings used to fund business and product line acquisitions, the Company borrowed an additional $664.5 million under its existing credit facilities to fund cash flow needs during 2003

and made repayments of $1,144.6 million against the credit facilities. Total borrowings declined by $475.6 million after adjusting for the effect of foreign currency translation.

In 2003, the Company used cash of $144.5 million for capital expenditures, including $27.7 million related to the construction of Phase II of the Company's Mahwah, New Jersey, manufacturing and distribution facility. In addition, the Company spent $4.6 million for the expansion of the Company's manufacturing facility in West Lebanon, New Hampshire, and $3.8 million for the expansion of the Company's Cork, Ireland, manufacturing facility.

The Company had $65.9 million in cash and cash equivalents at December 31, 2003. The Company also had outstanding borrowings totaling $26.1 million at that date. Current maturities of long-term debt at December 31, 2003 are $7.3 million and will increase to $15.6 million in 2006. The Company's $750.0 million five-year, nonamortizing, revolving credit agreement expires in December 2006. As a result of current cash and outstanding debt balances, the Company decided not to renew its previously existing $250.0 million 364-day revolving credit agreement which expired in December 2003. The Company believes its cash on hand, as well as anticipated cash flows from operations, will be sufficient to fund future operating capital requirements, future manufacturing facility construction and other capital expenditures, future business and product line acquisitions and required debt repayments. Should additional funds be required, the Company had $802.1 million of additional borrowing capacity available under all of its existing credit facilities and an additional $50.0 million of eligible accounts receivable which could be sold through its accounts receivable securitization facility at December 31, 2003.

The Company's future contractual obligations for agreements with initial terms greater than one year, including agreements to purchase materials in the normal course of business, are summarized as follows (in millions):

	Payment Period					
	2004	*2005*	*2006*	*2007*	*2008*	*Thereafter*
Long-term debt	$7.3	$0.0	$15.6	$0.0	$0.0	$3.2
Operating leases	43.7	34.8	26.4	20.5	16.9	49.3
Unconditional purchase obligations	162.5	0.7	0.0	0.0	0.0	0.0

The Company's additional borrowing capacity, along with the expected expiration period of the commitments, are summarized as follows (in millions):

		Amount of Commitment Expiration Per Period	
	Total Amount Committed	Less than 1 year	In excess of 1 year
Lines of credit	$785.3	$68.9	$716.4
Standby letters of credit	16.8	4.5	12.3
	$802.1	$73.4	$728.7

Critical Accounting Policies

The preparation of the Company's Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that an understanding of the following critical accounting policies is important in obtaining an overall understanding of the Consolidated Financial Statements.

Allowance for Doubtful Accounts: The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its customers to make required payments based on historical credit experience and expected future trends. If actual customer financial conditions are less favorable than projected by management, additional accounts receivable write-offs may be necessary, which could unfavorably affect future operating results.

Inventory Reserves: The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, with new products and surgical procedures introduced on an ongoing basis. Such marketplace changes may cause the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required, which could unfavorably affect future operating results.

Income Taxes: The Company operates in multiple tax jurisdictions both inside and outside the United States. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions. Tax audits associated with the allocation of this 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 income allocation are required between jurisdictions with different tax rates. Because tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management's best estimate of the probable resolution of these matters. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Other Matters

The Company distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The Company's operating results are primarily exposed to changes in exchange rates among the United States dollar and the Japanese yen and European currencies, in particular the euro and the British pound. When the United States dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the United States dollar strengthens, the opposite situation occurs. The Company manufactures its products in the United States, France, Germany, Ireland, Switzerland, Canada and Puerto Rico and incurs the costs to manufacture in the applicable local currencies. This worldwide deployment of factories serves to partially mitigate the impact of currency exchange rate changes on the Company's cost of sales.

The Company follows the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statements No. 137 and No. 138, in accounting for its derivative financial instruments. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not documented and accounted for as hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes

in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings.

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These nonfunctional currency exposures principally relate to intercompany payables arising from intercompany purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies.

At December 31, 2003, the Company had outstanding forward currency exchange contracts to purchase $123.9 million and sell $154.9 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 30 to 180 days. At December 31, 2002, the Company had outstanding forward currency exchange contracts to purchase $82.0 million and sell $97.7 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 30 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points. A hypothetical 10% change in exchange rates for these currencies would change the 2003 fair value by approximately $2.1 million and would have changed the 2002 fair value by approximately $0.5 million.

At December 31, 2003, the Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

The Company is exposed to market risk for changes in interest rates as a result of its borrowings and the accounts receivable securitization facility. The Company managed a portion of its interest rate risk on its borrowings through interest rate swap agreements, which had fixed the base rate on a $250.0 million notional amount of the variable-rate borrowings during 2003. These interest rate swap agreements expired during 2003. If market interest rates for similar borrowings had averaged 1% more than they did in 2003, the Company's 2003 interest expense, after considering the effects of its interest rate swaps, would have increased, and earnings before income taxes would have decreased, by $0.7 million. By comparison, if market interest rates had averaged 1% less than they did during 2003, the Company's 2003 interest expense, after considering the effects of its interest rate swaps, would have decreased, and earnings before income taxes would have increased, by $0.7 million. If market interest rates for the accounts receivable securitization facility had averaged 1% more than they did in 2003, the Company's discount expense would have increased, and earnings before income taxes would have decreased, by $1.7 million. By comparison, if market interest rates had averaged 1% less than they did in 2003, the Company's discount expense would have decreased, and earnings before income taxes would have increased, by $1.7 million. These amounts are determined by considering the impact of hypothetical interest rates on the Company's borrowing cost, interest rate swap agreements and accounts receivable securitization facility without any actions by management to mitigate its exposure to such changes.

The Company's interest rate swap agreements, which matured over various terms ranging from September 2003 through December 2003, effectively converted a portion of its variable-rate borrowings to a fixed-rate basis, thus reducing the impact of changes in interest rates on interest expense. The Company designated the interest rate swap agreements as cash flow hedges. Gains of $9.2 million and $9.3 million and a loss of $22.0 million attributable to changes in the fair value of interest rate swap agreements were recorded as components of accumulated other comprehensive gain (loss) in 2003, 2002 and 2001, respectively. Interest rate differentials paid or received as a result of interest rate swaps were recognized as an adjustment of interest expense related to the designated borrowings.

The Company has used yen-denominated floating-rate borrowings to protect a portion of the value of its investment in its subsidiary in Japan. Realized and unrealized gains and losses from this hedge were not included in the consolidated statements of earnings, but were recorded as foreign currency translation adjustments within accumulated other comprehensive gain (loss) in stockholders' equity. Net gains (losses) of ($2.1) million, ($1.6) million and $5.8 million attributable to the yen-denominated floating-rate borrowings hedge were recorded as foreign currency translation adjustments in 2003, 2002 and 2001, respectively.

The Company has certain investments in net assets in international locations that are not hedged. These investments are subject to translation gains and losses due to changes in foreign currencies. For the year ended December 31, 2003, the strengthening of foreign currencies relative to the U.S. dollar increased the value of these investments in net assets by $176.3 million. This gain eliminated the previously recorded cumulative loss of $68.6 million that had been deferred and recorded as a separate component of stockholders' equity at December 31, 2002.

On July 1, 2002, the Company acquired SDI from Tyco International Ltd., for $135.0 million in cash. The acquisition expanded the Company's spinal product line by adding interbody spinal cages for the United States market as well as other thoracolumbar and cervical spinal fixation devices. The acquisition was funded using existing credit facilities. The acquisition of SDI was accounted for using the purchase method of accounting. The results of operations for the acquired business are included in the Company's Consolidated Financial Statements beginning July 1, 2002. The Company's pro forma consolidated financial results in 2002 did not differ significantly as a result of the SDI acquisition.

The Company is partially self-insured for product liability claims. In 2003, the Company established a wholly owned captive insurance company in the U.S. to manage its self-insured retention limits. The captive insurance company provides insurance reserves for estimated liabilities for product claims incurred but not reported based on actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events.

During the second quarter of 2003, the Company issued 50,000 shares of restricted stock to its newly appointed President and Chief Operating Officer. The stock vests ratably on the first five anniversary dates of the grant, provided that the recipient is still employed by the Company. The aggregate market value of the restricted stock at the date of issuance of $3.4 million, as measured at the quoted price of the Company's common stock, has been recorded as deferred stock-based compensation, a separate component of stockholders' equity, and is being amortized over the five-year vesting period.

In December 2003, the Company announced that its subsidiary, Physiotherapy Associates, Inc., and Stryker received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a Department of Justice investigation of Physiotherapy Associates' billing and coding practices. Physiotherapy Associates provides physical, occupational and speech therapy services to patients through 374 outpatient centers in the United States and represented 6% and 7% of Stryker's net sales for the years ended December 31, 2003 and 2002, respectively. Revenues derived from billings to U.S. Federal healthcare programs approximated 14% of Physiotherapy Associates' revenues during these periods. The Company is fully cooperating with the Department of Justice regarding this matter.

In December 2003, the FASB issued a revision to Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* This revision requires additional disclosures by the Company regarding its plan assets, investment strategies, plan obligations and cash flows. The Company has adopted these new disclosure requirements for all of its defined benefit plans.

Forward-Looking Statements

The information contained in this report may contain information that includes or is based on forward-looking statements within the meaning of the federal securities laws that are subject to risks and uncertainties. These statements may be identified by the use of words such as “anticipates,” “expects,” “estimates,” “projects,” “intends” and “believes” and variations thereof and other terms of similar meaning. Factors that could cause the Company’s actual results and financial condition to differ from the Company’s expectations include, but are not limited to: regulatory actions, including cost-containment measures, that could adversely affect the price of or demand for the Company’s products; changes in reimbursement levels from third-party payors; a significant increase in product liability claims; changes in economic conditions that adversely affect the level of demand for the Company’s products; changes in foreign exchange markets; changes in financial markets; and changes in the competitive environment.

While the Company believes that the assumptions underlying such forward-looking statements are reasonable, there can be no assurance that future events or developments will not cause such statements to be inaccurate. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

CONSOLIDATED BALANCE SHEETS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	December 31	
	2003	*2002*
ASSETS		
Current Assets		
Cash and cash equivalents	$65.9	$37.8
Accounts receivable, less allowance of $48.9 ($43.7 in 2002)	498.6	406.7
Inventories	467.9	426.5
Deferred income taxes	307.2	227.5
Prepaid expenses and other current assets	58.0	52.8
Total current assets	1,397.6	1,151.3
Property, Plant and Equipment		
Land, buildings and improvements	406.9	333.4
Machinery and equipment	673.2	591.3
	1,080.1	924.7
Less allowance for depreciation	475.4	405.5
	604.7	519.2
Other Assets		
Goodwill	493.4	460.0
Other intangibles, less accumulated amortization of $151.2 ($99.3 in 2002)	472.1	475.1
Deferred charges, less accumulated amortization of $377.4 ($274.1 in 2002)	134.8	123.7
Deferred income taxes	26.1	61.8
Other	30.4	24.4
	1,156.8	1,145.0
	$3,159.1	$2,815.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$137.8	$106.0
Accrued compensation	207.9	161.4
Restructuring and acquisition-related liabilities	8.0	25.5
Income taxes	138.9	133.2
Accrued expenses and other liabilities	350.6	270.7
Current maturities of long-term debt	7.3	10.7
Total current liabilities	850.5	707.5
Long-Term Debt, Excluding Current Maturities	18.8	491.0
Other Liabilities	135.0	118.8
Stockholders' Equity		
Common stock, $.10 par value:		
Authorized—500.0 shares		
Outstanding—199.7 shares (198.1 in 2002)	20.0	19.8
Additional paid-in capital	170.1	120.7
Retained earnings	1,868.1	1,442.6
Deferred stock-based compensation	(3.0)	–
Accumulated other comprehensive gain (loss)	99.6	(84.9)
Total stockholders' equity	2,154.8	1,498.2
	$3,159.1	$2,815.5

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	Years ended December 31		
	2003	*2002*	*2001*
Net sales	$3,625.3	$3,011.6	$2,602.3
Cost of sales	1,312.4	1,111.2	963.8
Gross profit	2,312.9	1,900.4	1,638.5
Research, development and engineering expenses	180.2	141.4	142.1
Selling, general and administrative expenses	1,416.0	1,165.4	985.4
Restructuring and acquisition-related items	–	17.2	0.6
	1,596.2	1,324.0	1,128.1
Other expense (income):			
Interest expense	22.6	40.3	67.9
Intangibles amortization	45.4	28.9	38.4
Other	(3.8)	0.5	(1.6)
	64.2	69.7	104.7
Earnings before income taxes and extraordinary item	652.5	506.7	405.7
Income taxes	199.0	161.1	133.9
Earnings before extraordinary item	453.5	345.6	271.8
Extraordinary loss, net of income taxes	–	–	(4.8)
Net earnings	$453.5	$345.6	$267.0
Basic earnings per share of common stock:			
Before extraordinary item	$2.28	$1.75	$1.38
Extraordinary loss	–	–	($.02)
Net earnings	$2.28	$1.75	$1.36
Diluted earnings per share of common stock:			
Before extraordinary item	$2.23	$1.70	$1.34
Extraordinary loss	–	–	($.02)
Net earnings	$2.23	$1.70	$1.32

See accompanying notes to Consolidated Financial Statements.

(in millions, except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2001	$19.6	$64.3	$873.4	$0.0	($102.4)	$854.9
Cumulative effect of accounting change related to cash flow hedges	–	–	–	–	3.5	3.5
Net earnings for 2001	–	–	267.0	–	–	267.0
Unrealized losses on securities of $0.2, net of $0.1 income tax benefit	–	–	–	–	(0.1)	(0.1)
Unrealized losses related to cash flow hedges	–	–	–	–	(22.0)	(22.0)
Foreign currency translation adjustments	–	–	–	–	(46.4)	(46.4)
Comprehensive earnings for 2001	–	–	–	–	–	198.5
Issuance of 0.8 shares of common stock under stock option and benefit plans, including $10.4 income tax benefit	0.1	18.9	–	–	–	19.0
Cash dividend declared of $.10 per share of common stock	–	–	(19.7)	–	–	(19.7)
Balances at December 31, 2001	19.7	83.2	1,120.7	0.0	(167.4)	1,056.2
Net earnings for 2002	–	–	345.6	–	–	345.6
Unrealized gains on securities of $0.3, net of $0.1 income tax expense	–	–	–	–	0.2	0.2
Unrealized gains related to cash flow hedges	–	–	–	–	9.3	9.3
Unfunded pension losses, net of $3.4 income tax benefit	–	–	–	–	(6.4)	(6.4)
Foreign currency translation adjustments	–	–	–	–	79.4	79.4
Comprehensive earnings for 2002	–	–	–	–	–	428.1
Issuance of 1.4 shares of common stock under stock option and benefit plans, including $22.5 income tax benefit	0.1	37.5	–	–	–	37.6
Cash dividend declared of $.12 per share of common stock	–	–	(23.7)	–	–	(23.7)
Balances at December 31, 2002	19.8	120.7	1,442.6	0.0	(84.9)	1,498.2
Net earnings for 2003	–	–	453.5	–	–	453.5
Unrealized losses on securities of $0.4, net of $0.1 income tax expense	–	–	–	–	(0.3)	(0.3)
Unrealized gains related to cash flow hedges	–	–	–	–	9.2	9.2
Unfunded pension losses, net of $0.2 income tax benefit	–	–	–	–	(0.7)	(0.7)
Foreign currency translation adjustments	–	–	–	–	176.3	176.3
Comprehensive earnings for 2003	–	–	–	–	–	638.0
Issuance of 1.6 shares of common stock under stock option and benefit plans, including $35.7 income tax benefit	0.2	46.0	–	–	–	46.2
Issuance of restricted stock	–	3.4	–	(3.4)	–	0.0
Amortization of deferred stock-based compensation	–	–	–	0.4	–	0.4
Cash dividend declared of $.14 per share of common stock	–	–	(28.0)	–	–	(28.0)
Balances at December 31, 2003	$20.0	$170.1	$1,868.1	($3.0)	$99.6	$2,154.8

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS Stryker Corporation and Subsidiaries

(in millions)

	Years ended December 31		
	2003	*2002*	*2001*
Operating Activities			
Net earnings	$453.5	$345.6	$267.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	97.2	86.3	74.5
Amortization	132.5	99.8	97.5
Income tax benefit from exercise of stock options	35.7	22.5	10.4
Write-off of unamortized deferred loan costs	–	–	7.1
Restructuring and acquisition-related items	–	17.2	0.6
Payments of restructuring and acquisition-related liabilities	(14.7)	(4.9)	(3.7)
Provision for losses on accounts receivable	15.9	16.0	16.9
Deferred income taxes (credit)	(32.9)	(1.8)	29.1
Other	8.7	1.9	9.2
Changes in operating assets and liabilities, net of effects of business and product line acquisitions:			
Proceeds from accounts receivable securitization	20.0	–	2.7
Accounts receivable	(75.9)	(64.4)	(23.8)
Inventories	(5.8)	7.0	(10.2)
Deferred charges	(90.3)	(84.6)	(65.1)
Accounts payable	24.6	(3.2)	9.8
Payments of acquisition purchase liabilities	(0.8)	(3.5)	(7.5)
Accrued expenses	77.3	65.4	34.7
Income taxes	3.9	26.9	27.9
Other	(0.4)	(10.0)	(3.9)
Net cash provided by operating activities	648.5	516.2	473.2
Investing Activities			
Business and product line acquisitions, net of cash acquired	(10.8)	(173.6)	(43.0)
Proceeds from sales of property, plant and equipment	3.7	0.8	9.0
Purchases of property, plant and equipment	(144.5)	(139.0)	(161.9)
Net cash used in investing activities	(151.6)	(311.8)	(195.9)
Financing Activities			
Proceeds from borrowings	664.5	611.6	935.8
Payments on borrowings	(1,144.6)	(836.6)	(1,211.4)
Dividends paid	(23.7)	(19.7)	(15.7)
Proceeds from exercise of stock options	26.9	19.7	9.8
Other	0.6	0.1	(1.0)
Net cash used in financing activities	(476.3)	(224.9)	(282.5)
Effect of exchange rate changes on cash and cash equivalents	7.5	8.2	1.3
Increase (decrease) in cash and cash equivalents	28.1	(12.3)	(3.9)
Cash and cash equivalents at beginning of year	37.8	50.1	54.0
Cash and cash equivalents at end of year	$65.9	$37.8	$50.1

See accompanying notes to Consolidated Financial Statements.

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

Business: Stryker Corporation develops, manufactures and markets specialty surgical and medical products that are sold primarily to hospitals throughout the world and provides outpatient physical therapy services in the United States.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries after elimination of all significant intercompany accounts and transactions.

Revenue Recognition: A significant portion of the Company's Orthopaedic Implants revenue is generated from consigned inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at the time the Company receives appropriate notification that the product has been used or implanted. The Company records revenue from MedSurg Equipment product sales when title and risk of ownership have been transferred to the customer, which is typically upon shipment to the customer. For its Physical Therapy Services line of business, the Company records revenue when the services have been rendered. The Company records estimated sales returns, discounts and other applicable adjustments as a reduction of net sales in the same period revenue is recognized.

Shipping and Handling of Products: Amounts billed to customers for shipping and handling of products are included in net sales. Costs incurred related to shipping and handling of products are included in cost of sales.

Use of Estimates: The preparation of these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires Company management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation: The functional currencies for substantially all of the Company's international affiliates are their local currencies. Accordingly, the financial statements of these international affiliates are translated into United States dollars using current exchange rates for balance sheets and average exchange rates for statements of earnings and cash flows. Unrealized translation adjustments are included in accumulated other comprehensive gain (loss) in stockholders' equity. Transaction gains and losses, such as those resulting from the settlement of nonfunctional currency receivables or payables, are included in net earnings.

Cash Equivalents and Investments: Cash equivalents are highly liquid investments with a maturity of three months or less when purchased. Investments include marketable equity securities and other investments classified in other assets. Other investments consist of mutual funds that are acquired to offset changes in certain liabilities related to deferred compensation arrangements.

The Company's investments are stated at fair value based on quoted market prices. Interest, dividends and realized gains and losses on the sale of cash equivalents and marketable equity securities are included in other expense (income). Adjustments to the fair value of marketable equity securities, which are classified as available-for-sale, are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive gain (loss) in stockholders' equity. Adjustments to the fair value of other investments, which are classified as trading, are recorded in earnings as offsets to the related changes in liabilities under deferred compensation arrangements.

Accounts Receivable: Accounts receivable consist of trade and other miscellaneous receivables. The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its customers to make required payments based on historical credit experience and expected future trends.

Accounts Receivable Securitization: As amended and restated on April 24, 2003, the Company has an accounts receivable securitization facility pursuant to which certain subsidiaries of the Company sell on an ongoing basis all of their domestic accounts receivable to Stryker Funding Corporation (SFC), a wholly owned special-purpose subsidiary of the Company, which in turn may sell up to an aggregate of a $200.0 (the limit was $130.0 at December 31, 2002) undivided percentage ownership interest in such receivables to bank-administered multiseller commercial paper conduits. Creditors of SFC have a claim to its assets before any equity becomes available to the Company.

The amounts of undivided percentage ownership interests in accounts receivable sold to SFC, net of the Company's retained interest, totaled $150.0 at December 31, 2003 and $130.0 at December 31, 2002, and are reflected in the balance sheet as reductions of accounts receivable. The proceeds from the sale of additional accounts receivable interests were used to reduce outstanding borrowings under the Company's unsecured credit facilities. The amount of receivables sold is subject to change monthly, based on the level of defined eligible receivables less contractual reserves. The Company's retained interest in accounts receivable held by SFC, which is in the form of a subordinated note, represents an overcollateralization of the undivided interest sold. This retained interest totaled $107.1 and $98.5 at December 31, 2003 and 2002, respectively. Discount expense associated with the securitization facility, including the conduit's financing cost of issuing its commercial paper, was $2.6 in 2003, $2.7 in 2002 and $5.8 in 2001 and is included in selling, general and administrative expenses.

Inventories: Inventories are stated at the lower of cost or market. Cost for approximately 88% of inventories is determined using the lower of first-in, first-out (FIFO) cost or market. Cost for certain domestic inventories is determined using the last-in, first-out (LIFO) cost method. The FIFO cost for all inventories approximates replacement cost.

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, with new products and surgical procedures introduced on an ongoing basis. Such marketplace changes may cause the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the cost of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. Depreciation is computed by either the straight-line or declining-balance method over the estimated useful lives of 3 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, and customer relationships (which reflect expected continued customer patronage), trademarks, brand names and patents, which are amortized on a straight-line basis over 5 to 40 years (weighted average life of 15 years for other intangible assets).

Deferred Charges: Deferred charges represent the net book value of loaner instruments for surgical implants provided to customers by the Company. These instruments are amortized on a straight-line basis over a three-year period. Amortization expenses for instruments are included in selling, general and administrative expenses.

Deferred Loan Costs: Deferred loan costs associated with the Company's borrowings are amortized over the terms of the related borrowings using the effective-interest method. Deferred loan costs are classified in other assets and had a net book value of $1.9 and $2.5 at December 31, 2003 and 2002, respectively. Amortization expenses for deferred loan costs are included in interest expense and were $0.6 in 2003, $0.6 in 2002 and $5.9 in 2001. The prepayment of the remaining amounts outstanding under the Company's Senior Secured Credit Facilities in December 2001 resulted in the write-off of related unamortized deferred loan costs of $7.1 (see Note 7).

Income Taxes: The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense (credit) represents the change in net deferred tax assets and liabilities during the year.

Derivative Financial Instruments: The Company uses derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates. The Company enters into currency forward contracts to manage these economic risks. The Company had entered into interest rate swap contracts with various maturity dates through December 2003 to manage the economic impact of fluctuations in interest rates.

The Company follows the provisions of Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statements No. 137 and No. 138, in accounting for its derivative financial instruments. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings (see Note 2).

Legal and Other Contingencies: The Company is involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and other matters. The potential future outcomes of these matters are outside of management's complete control and will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory relief, which could result in the payment of significant claims and settlements. In legal matters for which management has sufficient information to reasonably estimate the Company's future obligations, a liability representing management's best estimate of the probable cost for the resolution of these legal matters is recorded. The estimates are based on consultation with outside counsel, previous settlement experience and settlement strategies.

Stock Options: At December 31, 2003, the Company has key employee and director stock option plans, which are described more fully in Note 8. The Company follows Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* in accounting for its stock option plans. Under Opinion No. 25, no compensation expense is recognized because the exercise price of the Company's stock options equals the market price of the underlying stock on the measurement date (date of grant). Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* the Company's net earnings and net earnings per share would have been as follows:

	2003	*2002*	*2001*
Net earnings:			
As reported	$453.5	$345.6	$267.0
Deduct: Compensation expense—fair value method	(19.1)	(17.1)	(11.8)
Pro forma	$434.4	$328.5	$255.2
Basic net earnings per share:			
As reported	$2.28	$1.75	$1.36
Pro forma	$2.18	$1.66	$1.30
Diluted net earnings per share:			
As reported	$2.23	$1.70	$1.32
Pro forma	$2.14	$1.61	$1.26

The weighted-average fair value per share of options granted during 2003, 2002 and 2001, estimated on the date of grant using the Black-Scholes option pricing model, was $30.38, $22.94 and $21.76, respectively. The fair value of options granted was estimated on the date of grant using the following assumptions:

	2003	*2002*	*2001*
Risk-free interest rate	2.27%	3.76%	4.99%
Expected dividend yield	0.18%	0.18%	0.15%
Expected stock price volatility	35.8%	37.4%	38.0%
Expected option life	6.5 years	6.5 years	6.6 years

Comprehensive Gain (Loss): The components of accumulated other comprehensive gain (loss) are as follows:

	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unfunded Pension Losses	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Gain (Loss)
Balances at January 1, 2002	($0.9)	($18.5)	–	($148.0)	($167.4)
Other comprehensive gain (loss) for 2002	0.2	9.3	($6.4)	79.4	82.5
Balances at December 31, 2002	(0.7)	(9.2)	(6.4)	(68.6)	(84.9)
Other comprehensive gain (loss) for 2003	(0.3)	9.2	(0.7)	176.3	184.5
Balances at December 31, 2003	($1.0)	$0.0	($7.1)	$107.7	$99.6

Recently Issued Accounting Standards: In December 2003, the FASB issued a revision to Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* This revision requires additional disclosures by the Company regarding its plan assets, investment strategies, plan obligations and cash flows. The Company has adopted these new disclosure requirements for all of its defined benefit plans (see Note 10).

Reclassifications: Certain prior year amounts have been reclassified to conform with the presentation used in 2003.

NOTE 2
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following is a summary of the Company's investments:

	Cost	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2003:			
Equity securities	$2.6	($1.5)	$1.1
Other investments	18.1	–	18.1
Total	$20.7	($1.5)	$19.2
At December 31, 2002:			
Equity securities	$2.6	($1.1)	$1.5
Other investments	11.3	–	11.3
Total	$13.9	($1.1)	$12.8

Net realized losses on sales of the Company's investments in 2003, 2002 and 2001 totaled $0.1, $0.1, and $0.9, respectively.

Interest income, which is included in other income, totaled $3.1 in 2003, $2.4 in 2002 and $2.2 in 2001.

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These nonfunctional currency exposures relate principally to intercompany receivables and payables arising from intercompany purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All currency forward contracts and cross-currency swaps are marked-to-market each period with resulting gains (losses) included in other expense (income) in the consolidated statements of earnings.

At December 31, 2003, the Company had outstanding forward currency exchange contracts to purchase $123.9 and sell $154.9 of various currencies (principally United States dollars and euros) with maturities ranging principally from 30 to 180 days. At December 31, 2002, the Company had outstanding forward currency exchange contracts to purchase $82.0 and sell $97.7 of various currencies (principally United States dollars and euros) with maturities ranging principally from 30 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points.

During 1998, the Company entered into interest rate swap agreements that effectively converted a portion of its variable-rate borrowings to a fixed-rate basis through 2003, thus reducing the impact of changes in interest rates on interest expense during that period. The swap agreements fixed the Company's base rate on $250.0 of its variable-rate borrowings during 2003 at an average rate of 5.58%. The interest rate swaps matured over various terms ranging from September 2003 through December 2003.

Upon adoption of FASB Statement No. 133, as amended, on January 1, 2001, the Company recognized a gain from the cumulative effect of an accounting change of $3.5 in accumulated other comprehensive gain (loss) related to the interest rate swap agreements. Gains of $9.2 and $9.3 and a loss of $22.0 attributable to changes in the fair value of interest rate swap agreements were recorded as components of accumulated other comprehensive gain (loss) in 2003, 2002 and 2001, respectively. Interest rate differentials paid or received as a result of interest rate swaps were recognized as an adjustment of interest expense related to the designated borrowings.

The Company has used yen-denominated floating-rate borrowings to protect a portion of the value of its investment in its subsidiary in Japan. Realized and unrealized gains and losses from this hedge were not included in the consolidated statements of earnings, but were recorded as foreign currency translation adjustments within accumulated other comprehensive gain (loss) in

stockholders' equity. Net gains (losses) of ($2.1) million, ($1.6) million and $5.8 million attributable to the yen-denominated floating-rate borrowings hedge were recorded as foreign currency translation adjustments in 2003, 2002 and 2001, respectively.

At December 31, 2003, the Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

NOTE 3
INVENTORIES

Inventories are summarized as follows:

	December 31	
	2003	*2002*
Finished goods	$341.8	$319.2
Work-in-process	58.8	51.8
Raw material	73.2	60.7
FIFO cost	473.8	431.7
Less LIFO reserve	5.9	5.2
	$467.9	$426.5

NOTE 4
BUSINESS AND PRODUCT LINE ACQUISITIONS

In October 2002, the Company purchased the DEKOMPRESSOR product line from Pain Concepts, Inc., at a total cost of $10.0, giving the Company access to intellectual property and commercial rights relating to the design and manufacture of certain medical devices. Intangible assets acquired are being amortized over 17 years. The Company is contingently liable for potential future milestone payments of up to $42.5, primarily based on future sales growth.

On October 1, 2002, the Company entered into an agreement with Curis, Inc., which eliminated all royalties payable to Curis relating to future Stryker sales of osteogenic protein-1 (OP-1). Under terms of the agreement, the Company made a one-time cash payment of $14.0 to Curis. The payment was allocated to existing patents and is being amortized over 15 years.

On July 1, 2002, the Company acquired the Surgical Dynamics Inc. spinal implant business (SDI) from Tyco International Ltd., for $135.0 in cash. The acquisition expanded the Company's spinal product line by adding interbody spinal cages for the United States market as well as other thoracolumbar and cervical spinal fixation devices. The acquisition was funded using existing credit facilities.

The acquisition of SDI was accounted for using the purchase method of accounting. The results of operations for the acquired business are included in the Company's Consolidated Financial Statements beginning July 1, 2002. The purchase price of $135.0 in cash, less a contractually required adjustment of $6.6 received in the third quarter of 2003 based on the decrease in SDI's working capital between April 30, 2002 and closing, and liabilities assumed have been allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The purchase price allocation was finalized in 2003. Based on the final purchase price allocation (as adjusted for the determined working capital adjustment amount), $87.7 of the purchase price was allocated to patent licensing agreements to be amortized over their remaining life of eight years, $9.1 to inventory, $34.7 to deferred tax assets related to future tax deductions, $4.8 to other tangible assets and $7.9 to liabilities assumed. Immediately

after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and SDI. In conjunction with the integration plan, the Company recorded additional purchase liabilities of $3.6, which were included in the purchase price allocation. The additional purchase liabilities included $3.1 for severance and related costs and $0.5 for contractual obligations. The severance and related costs were provided for workforce reductions covering 37 SDI employees. The workforce reductions were completed during the fourth quarter of 2002 with severance payments made through the third quarter of 2003. The Company's pro forma consolidated financial results did not differ significantly as a result of the SDI acquisition.

In November 2001, the Company acquired the business of an independent Italian distributor of certain of the Company's products at a cost of approximately euro 28.2 ($25.3). An initial cash payment of euro 7.3 ($6.5) was made in November 2001, with the remaining purchase price to be paid ratably over a five-year period. The purchase consolidates the distribution of substantially all of the Company's products in Italy. The acquisition was accounted for using the purchase method of accounting. Tangible assets acquired included $5.1 of inventory and $0.8 of deferred charges. Intangible assets acquired principally included customer relationships and noncompete agreements. Approximately $10.2 of the purchase price was allocated to customer relationships and is being amortized over 20 years. Approximately $9.2 of the purchase price was allocated to other intangibles, principally noncompete agreements, and is being amortized over a weighted average life of four years.

NOTE 5
GOODWILL AND OTHER INTANGIBLE ASSETS

In the fourth quarter of 2003, the Company recorded a $6.5 charge related to a trademark impairment resulting from a branding initiative adopted by the Company in the fourth quarter of 2003. The branding initiative is intended to improve the Company's customers' and other stakeholders' overall awareness of Stryker's capabilities. The charge reduces the book value of a trademark within the Orthopaedic Implants segment to its fair value as determined by using a discounted cash flow model. The charge is included in intangibles amortization in the consolidated statements of earnings.

As of January 1, 2002, the Company adopted the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* related to acquisitions completed before July 1, 2001. Statement No. 142 prohibits the amortization of goodwill and intangible assets with indefinite lives and requires the Company to evaluate these intangibles for impairment on an annual basis. In accordance with the Statement's provisions, an assembled workforce intangible asset with an unamortized balance of $5.5 as of January 1, 2002 was reclassified from other intangibles to goodwill. In the first quarter of 2002, the Company completed the required initial impairment test of goodwill and, in the fourth quarters of 2002 and 2003, completed the required annual impairment tests of goodwill as prescribed by Statement No. 142 and determined, in all instances, that recorded goodwill was not impaired and that no goodwill write-down was necessary.

If the nonamortization provisions of Statement No. 142 had been applied in 2001, amortization expense would have been reduced by $18.1 ($12.1 net of income taxes). A reconciliation of reported net earnings to adjusted net earnings for 2001 is presented to show what net earnings would have been had the nonamortization provisions of Statement No. 142 been applied in that year and is compared to reported net earnings in 2003 and 2002. This reconciliation, including related per share amounts, is as follows:

	2003	2002	2001
Reported net earnings	$453.5	$345.6	$267.0
Add back: Goodwill amortization	–	–	11.3
Add back: Assembled workforce amortization	–	–	0.8
Adjusted net earnings	$453.5	$345.6	$279.1
Basic net earnings per share:			
Reported basic net earnings per share	$2.28	$1.75	$1.36
Goodwill amortization	–	–	$.06
Assembled workforce amortization	–	–	–
Adjusted basic net earnings per share	$2.28	$1.75	$1.42
Diluted net earnings per share:			
Reported diluted net earnings per share	$2.23	$1.70	$1.32
Goodwill amortization	–	–	$.06
Assembled workforce amortization	–	–	–
Adjusted diluted net earnings per share	$2.23	$1.70	$1.37

The changes in the net carrying amount of goodwill by segment for the year ended December 31, 2003 are as follows:

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Balances as of January 1, 2003	$334.7	$105.6	$19.7	$460.0
Goodwill acquired	–	–	1.4	1.4
Foreign currency translation effects	25.7	6.3	–	32.0
Balances as of December 31, 2003	$360.4	$111.9	$21.1	$493.4

Other intangibles at December 31, 2003 consist of the following:

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Developed technology	$236.1	$60.0	$176.1
Customer relationships	161.5	22.5	139.0
Patents	161.4	39.5	121.9
Trademarks	34.2	13.0	21.2
Other	30.1	16.2	13.9
	$623.3	$151.2	$472.1

Amortization expense for other intangibles, including the $6.5 trademark impairment charge, totaled $45.4 for the year ended December 31, 2003. The estimated amortization expense for each of the five succeeding years is as follows:

2004	$41.9
2005	$36.6
2006	$35.7
2007	$33.6
2008	$33.2

NOTE 6
RESTRUCTURING AND ACQUISITION-RELATED LIABILITIES

The Company recorded restructuring and acquisition-related pretax charges (credits) in 2002 and 2001 consisting of the following items:

	2002	*2001*
Restructuring charges (credits):		
Severance and related costs	$21.0	($0.6)
Reorganization of distribution channels	–	0.7
Discontinuance of product line	–	(0.4)
Total restructuring charges (credits)	21.0	(0.3)
Acquisition-related charges (credits):		
Severance and related costs	–	0.9
Reductions	(3.8)	–
Total acquisition-related charges (credits)	(3.8)	0.9
Total restructuring and acquisition-related charges (credits)	$17.2	$0.6

The 2002 restructuring and acquisition-related items reflect a charge of $17.2 ($11.5 net of income taxes) in the third quarter of 2002. These items included a charge of $21.0 ($14.1 net of income taxes) for employment-related costs to close the Company's Rutherford, New Jersey, manufacturing facility, partially offset by a credit of $3.8 ($2.6 net of income taxes) to reverse certain Howmedica acquisition-related costs to reflect actual final payments required.

The $21.0 restructuring charge related primarily to a shutdown agreement reached between the Company and the employee bargaining unit to close the Orthopaedics division implant manufacturing facility in Rutherford, New Jersey, which was ratified by the members of the I.U.E.-CWA Local 485 on August 23, 2002. The charge covered employment-related severance costs for 353 employees. The Rutherford facility was closed during 2003 with final severance payments to be made by the end of 2005. The Orthopaedics division has completed the transition of production to its facilities in Mahwah, New Jersey, as well as Cork and Limerick, Ireland.

The 2001 restructuring credits of $0.3 relate to various restructuring events in the fourth quarter of 2001. The $0.6 credit for severance and related costs reflects charges of $0.8 offset by credits of $1.4. The $0.8 charge covers severance costs for 10 employees in Europe. Planned workforce reductions were completed in the first quarter of 2002. The $1.4 credit relates to a reduction in the expected cost to complete headcount reductions associated with the 2000 and 1999 reorganizations of the Company's European and Japanese distribution operations. The $0.7 charge related to reorganization of distribution channels reflects the cost to terminate a distributor in Latin America. The cost of the termination was based on contractual terms. The $0.4 credit related to discontinuance of product line represents a reversal of remaining loss reserves established in Japan for discontinued ophthalmology inventories sold on a contingent basis in 1999.

The 2001 acquisition-related charges include $0.9 for severance and related costs associated with the reorganization of the Company's sales structure in Italy to accommodate the integration of the business acquired in the fourth quarter of 2001 from the Company's independent Italian distributor (see Note 4). The reorganization established a direct sales force in Italy that distributes the Company's full product portfolio. The $0.9 charge covers severance costs for three employees in Italy and costs to cancel contracts with discontinued agents. The reorganization of the sales structure in Italy was completed in the first quarter of 2002.

The following table provides a rollforward of remaining liabilities associated with business acquisition purchase liabilities and restructuring and acquisition-related charges recorded by the Company in 2002, 2001 and prior years:

	Distributor Conversions	Severance and Related Costs	Facility Closures and Contractual Obligations	Other
Balances at January 1, 2002	$5.3	$2.7	$1.3	$4.0
Additions (reductions) recognized as charges (credits) in the 2002 consolidated statement of earnings	–	21.0	–	(3.8)
Additions from business acquisitions	–	3.1	0.5	–
Payments	(2.3)	(4.7)	(1.2)	(0.2)
Foreign currency translation effects	–	(0.2)	–	–
Balances at December 31, 2002	3.0	21.9	0.6	$0.0
Transfer to defined benefit pension obligation	–	(2.0)	–	
Payments	(0.3)	(14.9)	(0.3)	
Balances at December 31, 2003	$2.7	$5.0	$0.3	

NOTE 7
LONG-TERM DEBT

Long-term debt is summarized as follows:

	December 31	
	2003	*2002*
United States dollar revolving loans	$15.5	$447.0
Multicurrency loans	–	39.9
Other	10.6	14.8
	26.1	501.7
Less current maturities	7.3	10.7
	$18.8	$491.0

In December 2001, the Company established $1,000.0 in Unsecured Credit Facilities. These Facilities replaced the $1,650.0 Senior Secured Credit Facilities that were established in 1998 in conjunction with the acquisition of Howmedica. A total of $730.5 was initially drawn under the new Credit Facilities, of which $642.7 prepaid the debt outstanding under the 1998 Facilities and $87.8 was used to terminate the Company's synthetic lease and purchase its Mahwah, New Jersey, manufacturing and distribution facility.

The Unsecured Credit Facilities represent a $750.0 five-year, nonamortizing, revolving credit agreement at December 31, 2003, with a $250.0 multicurrency sublimit, under which yen and euro can be borrowed. The five-year facility also has a $50.0 swing line sublimit and a $100.0 letter of credit sublimit. The five-year facility bears interest at a base rate, as defined, plus an applicable

margin ranging from 0.235% to 0.775%, depending on the Company's debt rating. The Unsecured Credit Facilities require a commitment fee ranging from 0.065% to 0.225% on the aggregate commitment of the facilities, depending on the Company's debt rating. In addition, a utilization fee of 0.125% is required when the sum of the outstanding amounts exceeds 50% of the aggregate commitments. During 2003, the weighted average interest rate for all borrowings under the Unsecured Credit Facilities, after considering the effects of the Company's interest rate swaps (see Note 2), was 5.17%. The Facilities require the Company to comply with certain financial and other covenants.

The Unsecured Credit Facilities previously included a $250.0 364-day revolving credit agreement which expired in December 2003. The Company did not renew this revolving credit agreement as it believes its cash on hand, as well as anticipated cash flows from operations, will be sufficient to fund future operating and investing activities. Should additional funds be required, the Company had $802.1 million of additional borrowing capacity available under its remaining credit facilities at December 31, 2003.

During 2003, the Company had borrowed yen 4,820.5 under the multicurrency sublimit available under the five-year revolving credit agreement. This borrowing was repaid in full during the third quarter of 2003. The yen borrowing acted as a hedge of the Company's net investment in Japan. As a result, adjustments made to the loan balance to reflect applicable currency exchange rates during 2003 were included within accumulated other comprehensive gain (loss) in stockholders' equity.

The $1,650.0 Senior Secured Credit Facilities that were prepaid in December 2001 consisted of $1,150.0 in term loans, a six-year $250.0 revolving credit facility and a six-year $250.0 reducing multicurrency facility. The prepayment of the remaining amounts outstanding under the Senior Secured Credit Facilities in December 2001 resulted in the write-off of related unamortized deferred loan costs of $7.1, which was reflected as an extraordinary loss of $4.8 (net of income taxes of $2.3; $.02 per basic and diluted share) in the consolidated statements of earnings.

Substantially all outstanding debt at December 31, 2003 matures in 2006 upon expiration of the Unsecured Credit Facilities.

The carrying amounts of the Company's long-term debt approximate their fair values, based on the quoted interest rates for similar types and amounts of borrowing agreements.

Interest paid on debt was $22.9 in 2003, $37.1 in 2002 and $66.9 in 2001 which approximates interest expense.

NOTE 8
CAPITAL STOCK

The Company has key employee and director stock option plans under which options are granted at a price not less than fair market value at the date of grant. The options are granted for periods of up to 10 years and become exercisable in varying installments. A summary of stock option activity follows:

	Shares	Weighted-Average Exercise Price
Options outstanding at January 1, 2001	11.2	$20.19
Granted	2.0	46.86
Canceled	(0.2)	26.78
Exercised	(0.8)	13.06
Options outstanding at December 31, 2001	12.2	24.87
Granted	2.0	52.90
Canceled	(0.3)	36.00
Exercised	(1.5)	13.19
Options outstanding at December 31, 2002	12.4	30.43
Granted	1.9	77.65
Canceled	(0.2)	42.31
Exercised	(1.8)	15.55
Options outstanding at December 31, 2003	12.3	$39.57
Price range $11.00 - $20.00	2.5	$14.87
Price range $20.01 - $30.00	2.0	24.25
Price range $30.01 - $40.00	2.3	32.41
Price range $40.01 - $50.00	1.7	46.58
Price range $50.01 - $60.00	1.9	52.89
Price range $60.01 - $77.65	1.9	77.65
Options outstanding at December 31, 2003	12.3	$39.57

Shares reserved for future grants were 7.9 and 9.5 at December 31, 2003 and 2002, respectively.

Exercise prices for options outstanding as of December 31, 2003 ranged from $11.00 to $77.65. A summary of shares exercisable follows:

	Shares	Weighted-Average Exercise Price
Price range $11.00 - $20.00	2.5	$14.87
Price range $20.01 - $30.00	1.5	24.24
Price range $30.01 - $40.00	1.3	32.41
Price range $40.01 - $50.00	0.7	46.58
Price range $50.01 - $57.05	0.4	52.86
Shares exercisable at December 31, 2003	6.4	$26.32

The Company has 0.5 authorized shares of $1 par value preferred stock, none of which are outstanding.

During the second quarter of 2003, the Company issued 0.05 shares of restricted stock to its newly appointed President and Chief Operating Officer. The stock vests ratably on the first five anniversary dates of the grant, provided that the recipient is still employed by the Company. The aggregate market value of the restricted stock at the date of issuance of $3.4, as measured at the quoted price of the Company's common stock, has been recorded as deferred stock-based compensation, a separate component of stockholders' equity, and is being amortized over the five-year vesting period.

NOTE 9
EARNINGS PER SHARE

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

	2003	*2002*	*2001*
Earnings before extraordinary item	$453.5	$345.6	$271.8
Extraordinary loss, net of income taxes	–	–	(4.8)
Net earnings	$453.5	$345.6	$267.0
Weighted-average shares outstanding for basic earnings per share	198.9	197.5	196.3
Effect of dilutive employee stock options	4.5	6.3	6.7
Adjusted weighted-average shares outstanding for diluted earnings per share	203.4	203.8	203.0
Basic earnings per share of common stock:			
Before extraordinary item	$2.28	$1.75	$1.38
Extraordinary loss	–	–	($.02)
Net earnings	$2.28	$1.75	$1.36
Diluted earnings per share of common stock:			
Before extraordinary item	$2.23	$1.70	$1.34
Extraordinary loss	–	–	($.02)
Net earnings	$2.23	$1.70	$1.32

NOTE 10
RETIREMENT PLANS

Certain of the Company's subsidiaries have both funded and unfunded defined benefit plans covering some or all of their employees. All of the defined benefit plans have projected benefit obligations in excess of plan assets. The Company uses a December 31 measurement date for the determination of plan obligations and funded status of its plans. A summary of the information related to all of the Company's defined benefit plans is as follows:

	December 31	
	2003	*2002*
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year	$86.9	$68.5
Service cost	5.7	4.5
Interest cost	4.9	4.2
Foreign exchange impact	11.6	6.0
Employee contributions	0.3	0.3
Plan amendments	–	0.7
Actuarial and curtailment losses	3.3	6.6
Benefits paid	(4.0)	(3.9)
Projected benefit obligations at end of year	108.7	86.9
Change in plan assets:		
Fair value of plan assets at beginning of year	46.7	48.0
Actual return	6.3	(4.5)
Employer contributions	5.4	3.3
Employee contributions	0.3	0.3
Foreign exchange impact	5.7	3.2
Benefits paid	(3.7)	(3.6)
Fair value of plan assets at end of year	60.7	46.7
Amount underfunded	(48.0)	(40.2)
Unrecognized net actuarial loss	18.5	17.2
Unrecognized transition amount	0.7	0.6
Unrecognized prior service cost	0.8	2.8
Net amount recognized in consolidated balance sheets	($28.0)	($19.6)
Weighted-average assumptions as of December 31:		
Discount rate	5.4%	5.5%
Expected return on plan assets	5.3%	5.2%
Rate of compensation increase	3.1%	3.1%

The components of the amounts recognized in the consolidated balance sheets are as follows:

	December 31	
	2003	*2002*
Prepaid benefit cost	$1.1	$0.8
Accrued benefit liability	(29.1)	(20.4)
Additional minimum liability	(11.0)	(12.6)
Intangible asset	0.3	2.8
Accumulated other comprehensive loss	10.7	9.8
Net amount recognized	($28.0)	($19.6)

The accumulated benefit obligation for all of the defined benefit plans was $96.2 as of December 31, 2003. Pension plans with an accumulated benefit obligation in excess of plan assets had projected benefit obligations, accumulated benefit obligations and fair value of plan assets of $95.6, $85.4 and $49.6, respectively, as of December 31, 2003.

The components of net periodic benefit cost are as follows:

	2003	*2002*	*2001*
Service cost	$5.7	$4.5	$3.9
Interest cost	4.9	4.2	4.1
Expected return on plan assets	(3.0)	(3.4)	(3.8)
Amortization of transition amounts and prior service cost	0.3	0.2	0.3
Recognized actuarial loss (gain)	0.6	–	(0.2)
Plan termination loss	–	–	0.5
Net periodic benefit cost	$8.5	$5.5	$4.8

The Company has assumed an average long-term expected return on defined benefit plan assets of 5.3% as of December 31, 2003. The expected return is determined by applying the target allocation in each asset category of plan investments to the anticipated return for each asset category based on historical and projected returns.

The weighted-average allocation of plan assets by asset category are as follows:

	December 31	
	2003	*2002*
Equity securities	67%	61%
Debt securities	25	32
Other	8	7
	100%	100%

The investment strategy for the Company's defined benefit plans is to both meet the liabilities of the plans as they fall due and to maximize the return on invested assets within appropriate risk tolerances. Reflected below are target investment allocation ranges for the plans at December 31, 2003:

	Low	High
Equity securities	55%	76%
Debt securities	22	38
Other	2	7

The Company anticipates contributing approximately $4.8 to its defined benefit plans in 2004 to meet minimum funding requirements.

A subsidiary of the Company terminated its defined benefit plan in 2001 and transferred the plan assets and related benefit obligations to a defined contribution retirement plan. The loss on plan termination was $0.5.

Retirement plan expense under the Company's profit sharing and defined contribution retirement plans totaled $55.5 in 2003, $45.2 in 2002 and $36.5 in 2001. A portion of the Company's retirement plan expenses was funded with Stryker common stock totaling $4.8 in 2003, $4.1 in 2002 and $3.4 in 2001. The use of Stryker common stock represents a noncash investing activity that is not reflected in the consolidated statements of cash flows. The amount of Stryker common stock held by the Company's defined contribution retirement plans totaled $68.6 (approximately 0.8 shares) and $51.5 (approximately 0.8 shares) as of December 31, 2003 and 2002, respectively. The value of Stryker common stock as a percentage of total defined contribution retirement plan assets was 18.6% as of December 31, 2003 and 20.2% as of December 31, 2002.

NOTE 11
INCOME TAXES

Earnings before income taxes and extraordinary item consist of the following:

	2003	*2002*	*2001*
United States operations	$258.4	$246.1	$241.2
Foreign operations	394.1	260.6	164.5
	$652.5	$506.7	$405.7

In 2003 and 2002, earnings from the Company's Puerto Rico-based manufacturing operations are reported as foreign operations due to a change in legal status. Prior to 2002, these earnings were reported as United States operations under an Internal Revenue Code Section 936 election.

The components of the provision for income taxes follow:

	2003	*2002*	*2001*
Current income tax expense:			
Federal	$99.8	$80.0	$51.4
State	20.5	6.9	14.2
Foreign	111.6	76.0	39.2
	231.9	162.9	104.8
Deferred income tax expense (credit)	(32.9)	(1.8)	29.1
	$199.0	$161.1	$133.9

A reconciliation of the United States statutory income tax rate to the Company's effective income tax rate follows:

	2003	*2002*	*2001*
United States statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal deduction	1.4	0.8	1.5
Tax benefit relating to operations in Ireland and Puerto Rico	(8.8)	(7.8)	(7.1)
Tax benefit relating to United States export sales	(1.3)	(1.4)	(0.9)
Nondeductible (deductible) permanent differences	1.7	1.2	(1.3)
Tax benefit relating to foreign tax credit	–	(0.5)	(0.1)
Foreign income taxes at rates different from the United States statutory rate	2.1	3.6	6.7
Other	0.4	0.9	(0.8)
	30.5%	31.8%	33.0%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect of significant temporary differences, which comprise the Company's deferred income tax assets and liabilities, is as follows:

	December 31	
	2003	*2002*
Deferred income tax assets:		
Inventories	$202.7	$137.9
Accounts receivable and other assets	13.3	16.1
Other accrued expenses	51.4	49.1
Depreciation and amortization	22.8	41.8
State taxes	12.7	7.8
Net operating loss carryforwards	10.9	22.4
Other	19.5	14.2
Total deferred tax assets	333.3	289.3
Deferred tax liabilities:		
Depreciation and amortization	(73.3)	(55.0)
Other accrued expenses	(7.0)	(7.3)
Interest rate swaps	–	(1.1)
Other	(12.1)	(11.8)
Total deferred tax liabilities	(92.4)	(75.2)
Total net deferred tax assets	$240.9	$214.1

Net operating loss carryforwards totaling approximately $31.5 at December 31, 2003 are available to reduce future taxable earnings of certain foreign subsidiaries. A significant portion of these carryforwards may be carried forward indefinitely.

Deferred tax assets and liabilities are included in the consolidated balance sheets as follows:

	December 31	
	2003	*2002*
Current assets—Deferred income taxes	$307.2	$227.5
Noncurrent assets—Deferred income taxes	26.1	61.8
Current liabilities—Accrued expenses and other liabilities	(37.6)	(28.7)
Noncurrent liabilities—Other liabilities	(54.8)	(46.5)
Total net deferred tax assets	$240.9	$214.1

No provision has been made for United States federal and state income taxes or foreign taxes that may result from future remittances of the undistributed earnings ($988.8 at December 31, 2003) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

Total income taxes paid, net of refunds received, were $189.5 in 2003, $112.1 in 2002 and $63.0 in 2001.

NOTE 12
SEGMENT AND GEOGRAPHIC DATA

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive (hip, knee and shoulder),trauma and spinal implants and OP-1. The MedSurg Equipment segment sells powered surgical instruments, endoscopic products, medical video imaging equipment, hospital beds and stretchers and micro implant and surgical navigation systems. Other includes Physical Therapy Services and corporate administration, interest expense and interest income.

The Company's reportable segments are business units that offer different products and services and are managed separately because each business requires different manufacturing, technology and marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company measures the financial results of its reportable segments using an internal performance measure that excludes restructuring and acquisition-related items and extraordinary items. Identifiable assets are those assets used exclusively in the operations of each business segment or are allocated when used jointly. Corporate assets are principally cash and cash equivalents, investments and property, plant and equipment.

Sales and other financial information by business segment follows:

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Year ended December 31, 2003				
Net sales	$2,093.0	$1,309.3	$223.0	$3,625.3
Interest income	–	–	3.1	3.1
Interest expense	–	–	22.6	22.6
Depreciation and amortization expense	182.7	39.8	7.2	229.7
Income taxes (credit)	139.5	72.4	(12.9)	199.0
Segment net earnings (loss)	287.9	188.6	(23.0)	453.5
Total assets	2,299.6	726.2	133.3	3,159.1
Capital expenditures	105.3	34.6	4.6	144.5
Year ended December 31, 2002				
Net sales	1,704.8	1,105.3	201.5	3,011.6
Interest income	–	–	2.4	2.4
Interest expense	–	–	40.3	40.3
Depreciation and amortization expense	146.4	32.8	6.9	186.1
Income taxes (credit)	111.7	56.4	(12.7)	155.4
Segment net earnings (loss)	248.8	135.4	(27.1)	357.1
Less restructuring and acquisition-related charges (credit)				11.5
Net earnings				345.6
Total assets	2,062.3	625.3	127.9	2,815.5
Capital expenditures	90.7	29.4	18.9	139.0
Year ended December 31, 2001				
Net sales	1,447.2	974.2	180.9	2,602.3
Interest income	–	–	2.2	2.2
Interest expense	–	–	67.9	67.9
Depreciation and amortization expense	129.6	34.6	7.8	172.0
Income taxes (credit)	110.9	54.5	(31.7)	133.7
Segment net earnings (loss)	198.3	115.3	(41.4)	272.2
Less restructuring and acquisition-related charges (credits)				0.4
Earnings before extraordinary item				271.8
Extraordinary loss, net of income taxes				(4.8)
Net earnings				267.0
Total assets	1,737.6	574.6	111.4	2,423.6
Capital expenditures	133.5	21.6	6.8	161.9

The Company's principal areas of operation outside of the United States are Japan and Europe. The Company also has operations in the Pacific, Canada, Latin America and the Middle East. Geographic information follows:

	Net Sales	Long-Lived Assets
Year ended December 31, 2003		
United States	$2,333.4	$942.9
Europe	658.1	639.8
Japan	318.5	106.5
Other foreign countries	315.3	46.2
	$3,625.3	$1,735.4
Year ended December 31, 2002		
United States	$1,973.7	$930.2
Europe	497.1	531.2
Japan	275.3	102.4
Other foreign countries	265.5	38.6
	$3,011.6	$1,602.4
Year ended December 31, 2001		
United States	$1,688.4	$780.7
Europe	414.5	455.6
Japan	266.5	94.1
Other foreign countries	232.9	39.7
	$2,602.3	$1,370.1

NOTE 13
LEASES

The Company leases various manufacturing and office facilities and equipment under operating leases. Future minimum lease commitments under these leases are as follows:

2004	$43.7
2005	34.8
2006	26.4
2007	20.5
2008	16.9
Thereafter	49.3
	$191.6

Rent expense totaled $72.0 in 2003, $61.3 in 2002 and $51.6 in 2001.

NOTE 14
CONTINGENCIES

The Company is involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. The Company records amounts for losses that are deemed to be probable and subject to reasonable estimate. However, the Company does not anticipate material losses as a result of these proceedings beyond amounts already provided in the accompanying financial statements.

In December 2003, the Company announced that its subsidiary, Physiotherapy Associates, Inc., and Stryker received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a Department of Justice investigation of Physiotherapy Associates' billing and coding practices. Physiotherapy Associates provides physical, occupational and speech therapy services to patients through 374 outpatient centers in the United States and represented 6% and 7% of Stryker's net sales for the years ended December 31, 2003 and 2002, respectively. Revenues derived from billings to U.S. Federal health-care programs approximated 14% of Physiotherapy Associates revenues during these periods. The Company is fully cooperating with the Department of Justice regarding this matter.

Pursuant to certain of the Company's credit and lease agreements, the Company has provided financial guarantees to third parties in the form of indemnification provisions. These provisions indemnify the third parties for costs, including but not limited to adverse judgments in lawsuits and the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law. The term of the guarantee is equal to the term of the related credit or lease agreement. The Company is not able to calculate the maximum potential amount of future payments it could be required to make under these guarantees, as the potential payment is dependent on the occurrence of future unknown events (e.g., changes in United States or foreign tax laws).

(in millions, except per share data)

	2003 Quarter Ended				2002 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Net sales	$846.9	$891.7	$885.4	$1,001.3	$702.9	$733.9	$745.6	$829.2
Gross profit	546.1	564.8	556.6	645.4	448.0	466.8	465.7	519.9
Earnings before income taxes	150.9	155.8	152.9	192.9	121.0	128.2	108.2	149.3
Net earnings	104.1	107.5	107.8[a]	134.1	81.1	85.9	72.5	106.1[b]
Net earnings per share of common stock:								
Basic	.52	.54	.54	.67	.41	.44	.37	.54
Diluted	.51	.53	.53	.66	.40	.42	.36	.52
Market price of common stock:								
High	70.50	73.44	79.25	85.36	63.00	60.65	60.50	67.47
Low	59.65	62.95	67.76	74.67	53.25	50.90	43.85	56.76

The price quotations reported above were supplied by the New York Stock Exchange.

(a) In the third quarter of 2003, the Company reduced the effective tax rate for the year to 30.5% from 31.0%, thereby decreasing income tax expense by $2.3
(b) In the fourth quarter of 2002, the Company reduced the effective tax rate for the year to 31.8% from 33.0%, thereby decreasing income tax expense by $6.1.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Stryker Corporation:

We have audited the accompanying consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stryker Corporation and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002.

Grand Rapids, Michigan
January 27, 2004

BOARD OF DIRECTORS

John W. Brown
Chairman and Chief Executive Officer,
Stryker Corporation

Howard E. Cox, Jr. * † ‡*
Partner, Greylock

Donald M. Engelman, Ph.D. ‡*
Eugene Higgins Professor of Molecular Biophysics and Biochemistry, Yale University, and Chair of the Science and Technology Steering Committee for the Brookhaven National Laboratory

*Jerome H. Grossman, M.D.** ‡*
Director of the Harvard/Kennedy School Health Care Delivery Policy Program at Harvard University and Chairman and Chief Executive Officer, Lion Gate Management Corporation

*John S. Lillard** ‡*
Chairman, Wintrust Financial Corporation

*William U. Parfet** † ‡*
Chairman and Chief Executive Officer,
MPI Research, Inc.

Ronda E. Stryker † ‡*
Granddaughter of the founder of the Company and daughter of the former President of the Company, Vice Chairman and Director of Greenleaf Trust, Vice Chairman and Trustee of Kalamazoo College, and Trustee of the Kalamazoo Institute of Arts, the Kalamazoo Foundation and Spelman College

* Audit Committee
† Compensation Committee
‡ Governance and Nominating Committee

CORPORATE OFFICERS

John W. Brown
Chairman and Chief Executive Officer

Stephen P. MacMillan
President and Chief Operating Officer

J. Patrick Anderson
Vice President of Business Development and Assistant to the Chairman

Dean H. Bergy
Vice President, Chief Financial Officer and Secretary

Curtis E. Hall, Esq.
General Counsel

Jud Hoff
Vice President, Regulatory Affairs/Quality Assurance

Christopher F. Homrich
Vice President and Treasurer

Stephen Si Johnson
Vice President; Group President, MedSurg

James E. Kemler
Vice President; Group President,
Biotech, Spine, Trauma

James R. Lawson
Vice President; Group President,
Orthopaedics and International

Edward B. Lipes
Executive Vice President

Eric Lum
Vice President, Tax

James B. Praeger
Controller

Michael W. Rude
Vice President of Human Resources

David J. Simpson
Executive Vice President

Thomas R. Winkel
Vice President of Administration

Jeffrey R. Winter
Vice President, Internal Audit

ORTHOPAEDICS AND INTERNATIONAL
James R. Lawson – Group President

Orthopaedics
Jeffrey B. Paulsen – President
Bradford J. Williams – Senior Vice President, Marketing and R&D

Europe, Middle East, Africa
Luciano Cattani – President

Japan
Yoshiaki Nakazawa – President

Pacific
Andrew Fox-Smith – Vice President, General Manager

MEDSURG
Stephen Si Johnson – Group President
Douglas K. Smith – Group Vice President and Chief Financial Officer

Instruments
Curt R. Hartman – President

Endoscopy
William R. Enquist – President
Brady R. Shirley – Senior Vice President

Medical
James L. Cunniff – Vice President, General Manager

Leibinger Micro Implants
Eric L. Teutsch – Vice President, General Manager

Canada
Robert E. Bentley – Vice President, General Manager

Latin America
Lee D. Lovely – Vice President, General Manager

BIOTECH, SPINE, TRAUMA
James E. Kemler – Group President

Biotech
James E. Kemler – Acting President

Spine
Timothy J. Scannell – Vice President, General Manager

Trauma
Vivian Masson – President

PHYSIOTHERAPY ASSOCIATES
Jason T. Blackwood – President

General Counsel
Winston & Strawn LLP, New York, New York

Auditors
Ernst & Young LLP, Grand Rapids, Michigan

Transfer Agent and Registrar
National City Bank, Cleveland, Ohio

Shareholders needing information regarding their certificates or dividends should contact:
National City Bank
Corporate Trust Operations
P.O. Box 92301
Cleveland, Ohio 44193-0900
(1-800-622-6757)
shareholder.inquiries@nationalcity.com

Investor Contact
Dean H. Bergy, Vice President,
Chief Financial Officer and Secretary

Annual Meeting
The Annual Meeting of Stockholders of Stryker Corporation will be held at the Radisson Plaza Hotel at The Kalamazoo Center, Kalamazoo, Michigan, on Tuesday, April 20, 2004, at 2:00 p.m.

Form 10-K
The Company files Form 10-K with the Securities and Exchange Commission. Shareholders wishing a copy of the 2003 report may obtain it free of charge at www.stryker.com or request it by writing to:
Secretary
Stryker Corporation
2725 Fairfield Road
Kalamazoo, MI 49002

Registered Trademarks
Stryker Corporation or its subsidiaries own the registered trademarks: Accolade, Big Wheel, Crossfire, DEKOMPRESSOR, EIUS, Exeter, GMRS, Go Bed, Howmedica, Leibinger, Neptune, OP-1, Osteonics, PainPump, PureFix, Rugged, Scorpio, Stair-Pro, Steri-Shield, Stryker, Surgical Simplex, TMZF, Trident, Xia, Zoom; and the trademarks: 3-Chip, CardioSuite, EndoSuite, Gamma, i-Suite, NavSuite, Oasys, OrthoSuite, S2, ScorpioFlex, SDC Pro 2, Secur-Fit, Simplex, Stair-Tread, and T2. The service mark Physiotherapy Associates is also used in this report.

Not all products referenced within this report are approved or cleared for sale, distribution or use in the United States.

Stock Listing
The Company's common stock is traded on the New York Stock Exchange under the symbol SYK.

Board of Directors

John W. Brown

Howard E. Cox, Jr.

Donald M. Engelman, Ph.D.

Jerome H. Grossman, M.D.

John S. Lillard

William U. Parfet

Ronda E. Stryker

Stryker's Equal Employment Opportunity Policy Statement
Stryker is committed to providing Equal Employment Opportunity to all employees and applicants for employment on the basis of skills and ability and without regard to race, color, creed, religion, sex, age, disability, national origin, ancestry, citizenship, armed forces service, marital or veteran status, sexual orientation, or any other impermissible factor. Our policy of Equal Opportunity and Affirmative Action applies to all phases of the employment process including, but not limited to, recruitment, selection, promotion, transfer, demotion, layoff, termination, compensation, benefits, and other terms and conditions of employment, and further requires maintaining a work atmosphere free of bias, including the prevention of harassment. Harassment includes, but is not limited to, disparaging remarks, innuendoes, slurs, demeaning written or graphic material, or demeaning physical or verbal confrontations based on race, color, creed, religion, sex, age, disability, national origin, ancestry, citizenship, armed forces service, marital or veteran status, sexual orientation, or any other impermissible factor. Harassment of any nature is expressly prohibited at Stryker.

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