Medtronic

Dear Shareholder,

Fiscal year 2016 marked my fifth full year at Medtronic, and I am pleased with the progress we have made to take healthcare **Further, Together.** We remain committed to and are incredibly inspired by our Mission: to alleviate pain, restore health and extend life for people around the world. To achieve this, we have had a steady, relentless focus on three core growth strategies:

- **Therapy Innovation:** Creating meaningful product and service innovations that improve people's lives;
- **Globalization:** Expanding our offerings and presence to serve more people, in more places around the world; and,
- **Economic Value:** Developing new solutions and value-based business models to improve outcomes for patients while lowering costs.

We are convinced now, more than ever, that our talented, global team is well-positioned to help transform the healthcare outcomes for millions of people through our continued innovation, as well as our size and scale.

As has been the case throughout our history, we expect that our focus on our Mission will translate into business growth and strong returns for our shareholders.

AN ENDURING COMMITMENT TO MEANINGFUL INNOVATION

We continued to deliver market-leading innovations over the past year, driving business growth and improving people's lives.

Our Cardiac & Vascular Group (CVG) introduced the Micra® Transcatheter Pacing System (TPS), the world's smallest pacemaker, to several markets around the world. At one-tenth the size of traditional pacemakers, Micra's size, ease of implant, and design that doesn't require cardiac leads, marks a new standard in pacemaker technology. In addition, we are establishing a strong leadership position in the fast-growing drug-coated balloon market through our product's ease of deployment and its differentiated clinical data. The IN.PACT® Admiral® Drug-Coated balloon (DCB) is a novel innovation to treat peripheral vascular disease. The drug-coated balloon not only increases blood flow in an upper leg artery, but it also prevents the re-narrowing of the artery from plaque build-up by releasing medication over time.

Our Minimally Invasive Therapies Group (MITG) portfolio spans the entire patient care continuum-from diagnosis to recovery. We are driving the adoption of minimally invasive technologies to improve procedural performance and reduce complications for patients. Examples include product introductions in our Advanced Stapling and Advanced Energy portfolio, including the only surgical stapler with preloaded buttress material that provides improved ease of use and reduced waste in the operating room; a new efficient, versatile and multifunctional option for one-step vessel sealing; and our next-generation energy platform, which spans across all specialties that use energy-based devices, including gynecology, colorectal, bariatric, general, urological and ENT. Innovations like these contributed to above-market performance in Surgical Solutions.

Our Diabetes Group's ongoing commitment to the creation of a closed-loop system continued with several innovations in glucose sensing and monitoring, and pump technologies. In FY16, our MiniMed® 640G System continued to gain acceptance in markets outside the U.S. We also advanced our commitment to ongoing innovation with sensors and data systems with our MiniMed® Connect system. We also announced several new partnerships to advance our capabilities. Most notably, we announced a partnership with IBM's Watson Health unit to pair Watson's cognitive and predictive analytics capabilities with our sensors, pumps and care support models. In early FY17, we received the exciting news that the FDA approved the MiniMed® 670G system, the world's first hybrid closed loop system. This important advancement enables personalized and automated basal insulin delivery with reduced patient input, allowing patients to achieve greater glucose control while enjoying improved quality of life.

The Restorative Therapies Group (RTG) introduced a number of new Spine technologies and also grew our leadership position in the interventional stroke market through the broad adoption of our Solitaire™ System – a neurovascular therapy that is defining an entirely new way of treating ischemic stroke patients and literally saving the lives of thousands of people around the world.

We continued to add to our offerings with inorganic growth as well. In FY16, we completed 14 acquisitions totaling $1.5 billion, adding a wealth of capability to our portfolio. For example, we acquired Bellco, an Italy-based pioneer in hemodialysis treatment solutions for patients with end-stage renal disease. We also acquired Diabeter, based in the Netherlands, which offers a combination of leading technology and care management services for patients with diabetes. These are just a couple of examples of how we are expanding access and growing our expertise in comprehensive, value-based care models.

EXPANDING GLOBAL REACH AND GROWTH

Our commitment to globalization continues to drive growth and expand access to care. All of our four regions – Americas; Asia Pacific; Europe, Middle East, & Africa (EMEA); and China – produced solid growth in FY16. Our regions continued to deliver balanced growth across our major products and therapies, and each region identified novel approaches for expanding our offerings through services, partnerships and market expansion.

In China, we have developed comprehensive partnerships with provincial bodies, like the Chengdu municipal government in the province of Sichuan. We broadened our partnership with Chengdu, agreeing to manufacture our next-generation diabetes pump technology in Chinese-language for the local market in Sichuan, while working with authorities to expand access for this product. China continues to represent a tremendous growth opportunity. Over the long-term, we believe China will become our largest healthcare market, serving more patients and doctors than any other country.

Further, we expanded our Integrated Health Solutions offering in Latin America when we acquired a majority stake in Cardiored, a privately-held Chilean company and specialized cath lab managed services provider. Cardiored has long-term agreements to operate 10 cardiovascular suites at nine private clinics throughout Chile. The addition of Cardiored assets further expands and accelerates the adoption of our Integrated Health Solutions (IHS) model around the world. Our operational efficiency services and solutions, including full operational management of cath labs and operating rooms, continues to garner acceptance by our customers around the world and contribute to our overall growth.

FY16 FINANCIAL PERFORMANCE

Medtronic achieved total revenue of $28.8 billion in FY16, an all-time high. Our FY16 non-GAAP diluted earnings per share (EPS) of $4.37, represented growth of 15 percent on a comparable, constant currency basis. We improved our operating margin by 100 basis points, including 120 basis points of improvement in SG&A, both on a comparable constant currency basis. We met or exceeded virtually every financial performance measure.

We increased our dividend substantially, by 25 percent, early in the fiscal year, our 38th consecutive year of growing our dividend. We returned $4.5 billion to shareholders in the form of dividends and share repurchases, well above our minimum commitment of 50 percent of free cash flow generated during the fiscal year. Also in FY16, through reorganization as part of our Covidien integration efforts, we freed approximately $10 billion of cash on our balance sheet to deploy in the United States. This cash increased our financial flexibility, allowing us to provide additional returns for our shareholders and pay down debt.

FY16 continued our track record of delivering consistent mid-single digit constant currency revenue growth and meeting or exceeding our commitment to deliver EPS growth 2 to 4 percentage points faster than revenue growth, all on a comparable constant currency basis. With every quarter, we are increasingly confident about the sustainability of this performance. While we recognize that we still have a lot of work ahead of us, we are confident we can deliver on our revenue growth, integration synergy, free cash flow generation and return, and EPS growth commitments.

Finally, in FY16, we communicated Gary Ellis' decision to retire from Medtronic after 27 years of service to the company. Gary has been our Chief Financial Officer for the past 11 years, and our growth and expansion over Gary's tenure has been tremendous. Gary has been a confidante and advisor to me and countless other leaders and employees across Medtronic.

To succeed Gary, I am pleased that we named Karen Parkhill as our new Executive Vice President and Chief Financial Officer on June 20, 2016. Karen joined us from Comerica, Incorporated, where she was Vice Chairman and CFO. Karen is also a member of the Board of Directors of Methodist Health system in Dallas. I am excited to have Karen join Medtronic, and know she will bring tremendous leadership and experience to our team.

STRATEGY FOR LONG-TERM GROWTH & VALUE CREATION

As indicated above, we have focused intently over the past five years on therapy innovation, globalization and economic value. We undertook the Covidien acquisition because we knew that it could enhance and accelerate all three of these growth strategies.

To fully realize the potential of the Covidien acquisition, however, we also know that we must pay particular attention to operating leverage and cash management. In the coming year, you will see us sharpen our focus on operational efficiency and excellence. We have a number of ongoing efforts underway to streamline systems and operations, and we are confident they will continue to help us deliver strong EPS growth over the coming years.

We are committed to consistently delivering mid-single digit constant currency revenue growth and double-digit constant currency EPS growth, excluding the impact of any non-GAAP adjustments. This will result in substantial free cash flow generation, of which we plan to return a minimum of 50 percent to shareholders.

We believe our meaningful innovation, unmatched breadth and scale, and margin expansion opportunities, as well as our cash accessibility and disciplined capital deployment, result in a company of differentiated financial sustainability. Our diversified revenue base, broad strategies for operating leverage and increased access to cash give us confidence that we can reliably execute on our commitments to you, our shareholders.

Our Board of Directors has reviewed and approved our long-term strategies and commitments, and regularly reviews our progress. In fact, our Board spends more than 50 percent of each board meeting discussing strategic topics. In addition to ensuring that we benefit from a robust approach to corporate governance, our Board reviews the long-term strategic plans of each of our business groups and regions, as well as corporate strategy themes such as capital allocation and value-based healthcare.

GOING FURTHER, TOGETHER TO TRANSFORM HEALTHCARE

In the end, it is the impact on patients that drives our more than 88,000 employees around the world to come to work every day. Currently, two people somewhere in the world benefit from a Medtronic therapy every second. By 2020, we estimate that number could reach four patients every second – or more than 100 million new patients each year.

I continue to be pleased with the way Medtronic is growing and evolving, and leading the industry in many areas. Our collective teamwork was instrumental in successfully navigating through another complex year. Our strong results would not have been possible without the dedication, teamwork, and passion of our employees around the world.

We have undertaken a strategy to transform healthcare. We don’t take lightly the challenges this goal places on our organization, and it has been amazing to see what our team has accomplished. We play as a team and are collaborating with our partners in healthcare to serve millions of patients around the world, fulfilling the Medtronic Mission of alleviating pain, restoring health, and extending life. We truly believe that our focus on partnership and collaboration will help take healthcare Further, Together.

I remain grateful to our dedicated and passionate employees who have given me encouragement and unflinching support throughout my time with the company. I couldn’t be more excited about the future and what we can achieve together.

Omar Ishrak
Chairman and Chief Executive Officer

Reconciliation of Non-GAAP Financial Measures

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

MEDTRONIC PLC
FISCAL YEAR 2016 RECONCILIATION OF WORLD WIDE REPORTED REVENUE GROWTH TO
WORLD WIDE COMPARABLE CONSTANT CURRENCY REVENUE GROWTH
(Unaudited)
(in millions)

	A	B	C	D=B+C	E	F=D+E	G=(A-B)/B	H	I=(A-F-H)/F
	Medtronic As Reported Twelve Months Ended April 29, 2016	**Medtronic As Reported Twelve Months Ended April 24, 2015**	**Covidien As Reported Nine Months Ended December 26, 2014**	**FY15 Pro Forma Historical Revenue**	**Adjustment[3]**	**FY15 Comparable Historical Revenue**	**FY16 Reported Growth**	**Currency Impact on Growth**	**Comparable Constant Currency Growth[1][2]**
TOTAL	$ 28,833	$ 20,261	$ 8,108	$ 28,369	$ (127)	$ 28,242	42%	$ (1,502)	7%

(1) Fiscal year 2016 was a 53-week year, with the extra week included in the first quarter results. While it is difficult to calculate the exact impact of the extra week, the Company estimates that it benefited fiscal year 2016 comparable, constant currency growth by approximately 1.5 percentage points.

(2) Management believes that referring to comparable, constant currency growth rates is a useful way to evaluate the underlying performance of Medtronic's sales. Constant currency growth, a non-GAAP financial measure, measures the change in revenue between current and prior year periods using average exchange rates in effect during the applicable prior year period.

(3) Represents the decrease in Covidien revenue for the nine months ended January 23, 2015 as compared to Covidien revenue for the nine months ended December 26, 2014.

MEDTRONIC PLC
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE (SG&A), RESEARCH AND DEVELOPMENT EXPENSE (R&D), AND OTHER (INCOME) EXPENSE FOR NINE MONTHS ENDED JANUARY 23, 2015
(Unaudited)

(in millions)	Historical Medtronic(1)	Historical Covidien(2)	Reclassification Adjustments(4)	Footnote Reference	Adjustment to Align Fiscal Months(3)	Combined
Net sales	$ 12,957	$ 8,108	$ —		$ (127)	$ 20,938
Selling, general, and administrative expense	4,644	2,870	(48)	A	123	7,460
			(66)	B		
			1	C		
			(9)	D		
			126	E		
			(181)	F		
Research and development expense	1,112	419	3	D	2	1,536
Operating Profit	3,393	1,427	—		(98)	4,722

(1) For the nine months ended January 23, 2015

(2) For the nine months ended December 26, 2014

(3) Represents increase (decrease) in Covidien results for the nine months ended January 23, 2015 as compared to Covidien results for the nine months ended December 26, 2014.

(4) Certain reclassifications have been made to Covidien's historical financial statements to conform to Medtronic's presentation, as follows:

A. To reclassify Covidien's medical device excise tax from selling, general, and administrative expense to other expense (income), net.

B. To reclassify Covidien's amortization of definite-lived intangible assets from cost of products sold and selling, general, and administrative expense to amortization of intangible assets.

C. To reclassify Covidien's net gains and losses on foreign exchange transactions and related gains and losses on associated hedge transactions from cost of products sold and selling, general, and administrative expense to other expense (income), net.

D. To reclassify certain of Covidien's stock-based compensation expense from selling, general, and administrative expense to cost of products sold and research and development expense.

E. To reclassify certain of Covidien's shipping and handling costs from cost of products sold to selling, general, and administrative expense.

F. To reclassify Covidien's litigation and environmental charges from selling, general, and administrative expense to certain litigation charges, net.

MEDTRONIC PLC
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE (SG&A), RESEARCH AND DEVELOPMENT EXPENSE (R&D), AND OTHER (INCOME) EXPENSE FOR THE FISCAL YEAR ENDED APRIL 24, 2015
(Unaudited)

(in millions, except per share data)	Combined(1)	Medtronic plc(2)	Comparable
Net sales	$ 20,938	$ 7,304	$ 28,242
Selling, general, and administrative expense	7,460	2,772	10,232
Research and development expense	1,536	528	2,064
Operating Profit	4,722	373	5,095
Income from continuing operations per share			
Diluted	$ 2.58	$ —	$ 2.57
Weighted average shares outstanding(3)			
Diluted	1,438.2	1,440.6	1,438.4

(1) Combined Medtronic, Inc. and Covidien plc results for the nine months ended January 23, 2015
(2) Medtronic plc results for the three months ended April 24, 2015
(3) Combined weighted average shares outstanding have been calculated as if the shares issued in conjunction with the Covidien transaction had been issued and outstanding at April 26, 2014, the beginning of fiscal year 2015.

MEDTRONIC PLC
COMBINED NON-GAAP RECONCILIATION FOR THE FISCAL YEAR ENDED APRIL 24, 2015
(Unaudited)

(in millions, except per share data)	Net Sales	Gross Margin Percent	Selling, general, and administrative expense (SG&A)	SG&A expense as a percent of net sales	Operating Profit	Operating profit percent	Diluted EPS(4)
Combined	$ 28,242	67.8%	$ 10,232	36.2%	5,095	18.0%	2.57
Medtronic reported non-GAAP adjustments(1)					—		
Impact of inventory step-up(a)	—		—		623		0.32
Impact of product technology upgrade commitment(b)	—		—		74		0.04
Special (gains) charges(c)	—		38		(38)		(0.02)
Restructuring charges, net(d)	—		—		252		0.13
Certain litigation charges, net(e)	—		—		42		0.02
Acquisition-related items(f)	—		(550)		550		0.30
Certain tax adjustments(g)	—		—		—		0.24
Covidien reported non-GAAP adjustments(2)							
Restructuring charges, net(h)	—		—		72		0.04
Acquisition-related costs(i)	—		(1)		13		0.01
Legal charge(j)	—		—		181		0.09
Impairment of in-process research and development(k)	—		(94)		94		0.05
Transaction costs(l)	—		(45)		45		0.03
Adjustment to gain on divestiture(m)	—		—		4		—
Impact of tax sharing agreement(n)	—		—		96		0.07
Tax matters(o)	—		—		—		(0.16)
As adjusted	$ 28,242	70.3%	$ 9,580	33.9%	7,103	25.2%	3.73
Combined amortization of intangible assets(5)	—				925		0.47
As adjusted, excluding combined amortization of intangible assets (Combined Diluted EPS)(3)	28,242				8,028	28.4%	4.20

(1) For the fiscal year ended April 24, 2015

(a) To exclude the step-up in fair value of inventory acquired in connection with the Covidien acquisition.

(b) To exclude the probable and reasonably estimable commitment related to a CRHF global comprehensive program for home based monitors due to industry conversion from analog to digital technology.

(c) To exclude the impact of a charitable cash donation made to the Medtronic Foundation, a gain on divestiture recognized in connection with the sale of a product line in the Surgical Technologies division, and a net gain recognized in connection with the sale of a certain equity method investment.

(d) To exclude the impact of restructuring charges, net.

(e) To exclude the impact of certain litigation charges, net.

(f) To exclude the impact of acquisition-related items.

(g) To exclude tax expense primarily related to the anticipated resolution of the Kyphon acquisition-related issues with the IRS.

(2) For the nine months ended December 26, 2014

(h) To exclude the impact of restructuring charges, net.

(i) To exclude the impact of acquisition-related items.

(j) To exclude a legal charge resulting from an increase to Covidien's estimated indemnification obligation for certain products liability cases.

(k) To exclude the impairment of in-process research and development related to Covidien's drug coated balloon platform, which was sold in connection with Medtronic's acquisition of Covidien.

(l) To exclude transaction costs incurred by Covidien resulting from Medtronic's acquisition of Covidien.

(m) To exclude an adjustment to the gain on the sale of Covidien's Confluent biosurgery product line.

(n) To exclude the non-interest portion of the impact of Covidien's tax sharing agreement with Tyco International plc and TE Connectivity Ltd.

(o) Primarily to exclude Covidien's favorable audit settlement reached with certain non-U.S. taxing authorities, the effective settlement of all Covidien tax matters relating to the 2005 through 2007 U.S. audit cycle, and $20 million from the effective settlement of all Covidien tax matters related to a 2004 U.S. audit and $8 million from the retroactive re-enactment of the U.S. research and development tax credit.

(3) Combined Diluted EPS is calculated as diluted EPS excluding Medtronic and Covidien reported non-GAAP adjustments and combined amortization of intangible assets.

(4) Combined diluted EPS does not include an adjustment to exclude the incremental interest expense incurred to hold $17 billion of debt from December 10, 2014 through the end of the third quarter of fiscal year 2015 of $77 million.

(5) To exclude combined amortization of intangible assets.