

Building Trust

LEADING CEOs SPEAK OUT:
HOW THEY CREATE IT,
STRENGTHEN IT, AND SUSTAIN IT.



Art Collins

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
MEDTRONIC, INC.

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well before they were dictated...”*

– Art Collins

LIVING THE MISSION

We live in a time when many corporations are casting about for new principles and new directions in response to the issues of ethics and corporate governance that received heavy media and public visibility during the past several years.

Medtronic, Inc., the world's largest medical technology company, has found this unnecessary, since its Mission and operating principles, established over 40 years ago, have positioned the company to deliver consistently strong business results while maintaining good corporate citizenship.

It's been nearly half a century since Medtronic Founder Earl Bakken wrote our company's Mission. Since then, our employees have continued to advance the frontiers of medicine by focusing on one common goal: *To apply biomedical engineering to alleviate pain, restore health and extend life.* Our Mission also clearly states that we expect to fulfill our corporate purpose *by directing our growth in the areas where we display maximum strength and ability, and avoiding areas where we cannot make unique and worthy contributions; by striving without reserve for the greatest possible reliability and quality in our products; by recognizing the personal worth of employees; and by maintaining good citizenship as a company.*

The Mission works because it unifies our purpose, guides us with clarity and keeps our priorities straight. The Mission also works because we live it every day.

We recognize that to fully achieve our goals, the company must continue to grow and remain healthy. As a result, our Mission also states that we expect to earn *a fair profit on our operations.* While profit is important, it is not our primary goal. We believe that if we act responsibly and focus on meeting our customers' needs, strong financial performance will follow. This has been our experience in the past and again this year as we announced record financial results, and we expect it will continue to be the case in the future.

However, at Medtronic, the most important statistic we track is not financial in nature. It is that today, every six seconds, someone, somewhere in the world is alive or living a fuller life because of a

Medtronic product or therapy. Maura Lopez, from La Mirada, California, is one of those people. Maura is 11 years old and has diabetes. She is just one of more than five million people around the world who are insulin dependent. It's exciting and rewarding to help people like Maura who, thanks to Medtronic insulin pump therapy, now enjoy a vibrant, active life. What does she appreciate most about her insulin pump? "No more shots! And for the first time, mud pie for my birthday!"

Sometimes we touch the lives of an entire family, like the Sorrells from Little Rock, Arkansas. Their story is about hope born from tragedy. After two of her children died suddenly, Cindy Sorrells was diagnosed with Long QT syndrome, a serious heart arrhythmia condition that can be passed from one generation to another. As a result, Cindy and her children—Missy, Amber, Renee and Jeremy—have all received Medtronic cardioverter defibrillators to treat this potentially life-threatening condition. "For the first time, we have true peace of mind," Cindy told me when we first met. "Now I know my family will be safe."

For my 30,000 co-workers, Maura Lopez's and the Sorrells' story, together with millions of other stories like theirs, provide immense pride and inspiration for what we do on a daily basis.

As our record indicates, Medtronic is not a growth story for one quarter or one year. We work hard to maintain our momentum and prepare for tomorrow. In this regard, we have recently enhanced our infrastructure and expanded technical and sales support to meet rapidly growing demand for our products and to provide even better service to our customers. In order to further extend our industry-leading position, we also have invested heavily in research and development.

These investments have continued to pay off with approximately two-thirds of our current revenues generated from products introduced in the past two years. More importantly, new products are now providing more cost-effective and improved medical outcomes for millions of people around the world.

Today, Medtronic is the industry leader successfully treating some of the world's more challenging and costly medical problems, including: sudden cardiac arrest, which strikes one American every two minutes and is the leading cause of death in the United States; congestive heart failure, the progressive deterioration of the heart's pumping capability that afflicts more than 22 million people worldwide; coronary artery disease, which forces more than two million people each year to seek treatment to restore normal blood flow in the heart; diabetes, which afflicts more than 170 million people worldwide and about 20 million in the United States; and a broad array of spinal and neurological disorders that restrict mobility and result in pain for millions of people worldwide.

In addressing these pressing healthcare challenges, Medtronic's most important resources are not listed on the balance sheet or income statement. Our most precious and productive resources are the nearly 30,000 employees who individually and collectively represent the key to future medical breakthroughs and are the most important ingredient in our ongoing success. Our employees live on every continent. They speak different languages and come from different cultures. While they are diverse in many ways, they have one resolve when they go to work: to serve the people who count on them, and to live our Mission every day. Whether supporting physicians and the patients they treat

on a daily basis, or responding to a crisis like the terrorist attacks on September 11, 2001, Medtronic employees do whatever is required to provide product and service whenever and wherever it is needed.

Just as Medtronic is committed to helping people live healthy and productive lives, we are dedicated to improving the communities in which we live and work. As Medtronic celebrates 25 years of formal philanthropic work, we remain steadfast to our Mission by maintaining good corporate citizenship and sharing our resources. Our employees support numerous civic and charitable efforts with significant donations of time and money. In addition, this past year corporate giving, product donations and Medtronic Foundation grants exceeded \$30 million, focusing on building partnerships and empowering patients with chronic diseases, preparing future generations of scientific innovators and health professionals, and supporting numerous community outreach programs.

During the 2002 Annual Shareholders Meeting, I spoke at some length on the impact of a number of corporate scandals starting with Enron, and the steps we had taken to further enhance previously strong corporate governance and financial control and reporting systems at Medtronic. It is clear that a number of adverse events over the past several years have shaken investor confidence and have resulted in a number of mandated corporate reform measures. With the Medtronic Mission as the basis for much of what we have put in place over the years, we were able to anticipate and incorporate many of the leading edge practices well before they were dictated by the Sarbanes-Oxley Act, the New York Stock Exchange guidelines and

other recent reform measures. We really believe that if we are to serve our various key constituencies well, we must, as Arthur Page pointed out many years ago, manage our business for the long term.

In addition to taking a great deal of care to conform with new reporting requirements when preparing our Annual Report and required periodic financial disclosures, we have attempted to expand communication with our shareholders and other important external constituencies. We have worked hard to write and speak clearly, with the intent of making important information understandable to all those with whom we communicate.

We also are fortunate to have a capable, highly engaged and fiercely independent board of directors. Our directors take their responsibilities very seriously and work hard to enhance and safeguard the company and our shareholders' investments. The quality of our board of directors was recently recognized when *Business Week* magazine selected Medtronic as having one of the 10 best boards in Corporate America. Let me relay a few additional facts about the Medtronic board:

- I am the only member of management on the board. This means that 90 percent are outside, independent directors. I do not serve as a standing member on any board committee, including the Nominating Committee that recommends new board members. Also, I am not affiliated in any way with any of our directors' companies or institutions.
- Routinely at each meeting of the board of directors, including committee meetings, the board meets privately in Executive

Session, without me or any member of management present. The board has access to independent experts—lawyers, accountants and compensation consultants—to turn to for counsel regarding specific Medtronic policies and activities.

- The Audit Committee of the board meets privately with the head of our internal audit group, and then privately with our independent auditors at the end of each committee meeting. Prior to issuance, the head of our Audit Committee also reviews quarterly and year-end financial statements and the associated press releases with our financial management and the independent auditors.
- The Audit Committee also reviews the performance of our external auditors each year and then votes on whether or not they should be retained. Our external auditors now have their assignments limited to audit work and selective tax assignments. As a result, they are not allowed to bid on consulting-related assignments.
- The head of our Corporate Governance Committee serves as a lead director and has private access to any member of management he wants. He also acts as a clearinghouse for board meeting agenda topics or any requests from individual board members.

While we have excellent corporate governance and strong financial control and reporting systems already in place, there is no substitute for effective corporate management and strong board members who understand their duties to safeguard the company and the interests of employees and shareholders. In that regard, I speak for myself and

for Medtronic's senior executive management team and Board of Directors when I say that we make every attempt to stay current on important activities and events that impact the near and longer-term performance of the company. We have and will continue to report Medtronic's business activities and financial performance clearly and accurately. We will continue to discuss good news and bad news in terms that everyone can understand. We will stand behind what we say and do, and be accountable for the consequences. We will live our Mission with passion and integrity, and we will do our best to deliver results that all stakeholders in this great company can take pride in. No ifs, ands or buts.

Even though we all live in a more uncertain, complicated world with no small number of challenges, the opportunity to positively impact the lives and health of so many has never been greater. At Medtronic, we remain dedicated to advancing medical technology and providing better and more cost-effective medical outcomes for an increasing number of people around the world.

Let me conclude, as I have in the past, by thanking all of Medtronic's employees, customers and shareholders for their ongoing support. I remain convinced that by staying true to our Mission, Medtronic's best years are yet to come.

Art Collins

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
MEDTRONIC, INC.

Art Collins assumed the role of chief executive officer of Medtronic, Inc. in April 2001 and became chairman of the board in April 2002. Collins was elected chief operating officer and member of the board of directors in 1994, and president in 1996. Previously he was corporate executive vice president and president of Medtronic International with responsibility for all Medtronic operations outside the United States.

Collins joined Medtronic in 1992 from Abbott Laboratories, where he had been corporate vice president with responsibility for Abbott's worldwide diagnostic business units since 1986. He began his 14-year career with Abbott in 1978 as manager of corporate planning and development and joined the diagnostics division a year later, where he subsequently held a number of general management positions in the United States and Europe. He was elected a corporate officer in 1989.

Before joining Abbott, Collins served as a naval officer from 1969 to 1973 and a consultant with Booz, Allen & Hamilton, Chicago, from 1974 to 1978. With Booz, Allen, he conducted major assignments in the areas of business strategy development, marketing, organization planning, financial analysis and financial systems design.

A 1969 graduate of Miami University of Ohio, Collins also holds a master of business administration degree from the Wharton School of the University of Pennsylvania where he was a member of the undergraduate faculty.

Collins serves on the board of directors of U.S. Bancorp and Cargill, Inc. He is also a member of the board of overseers of the Wharton School at the University of Pennsylvania, chairman of the industry association, AdvaMed, and serves on the boards of numerous civic organizations.

MEDTRONIC, INC.

Medtronic is the world's leading medical technology company, providing lifelong solutions for people with chronic disease. Medtronic does business in more than 120 countries and employs approximately 30,000 employees worldwide.

Medtronic Cardiac Rhythm Management develops products that restore and regulate heart rhythm, as well as improve the heart's pumping function. The business markets implantable pacemakers, defibrillators, cardiac ablation catheters, monitoring and diagnostic devices and cardiac resynchronization devices, including the first implantable device for the treatment of heart failure. In addition, the business markets automated external defibrillators (AEDs)—which are increasingly being placed in public places—and the industry's first Internet-based network to enable physicians to remotely manage patients with cardiac devices.

Medtronic Cardiac Surgery develops products used in cardiopulmonary and beating heart bypass surgery. It markets heart valve products for both replacement and repair, and develops autotransfusion equipment and disposable devices for handling and monitoring blood during major surgery.

Medtronic Vascular's products and therapies treat vascular diseases and conditions. These products include coronary, peripheral and neurovascular stents, stent graft systems for diseases and conditions throughout the aorta, and the industry's first distal protection system. The business is also moving forward with the development of a drug-eluting stent to prevent restenosis. Medtronic Vascular also markets balloon angioplasty catheters, guide catheters, guidewires, diagnostic catheters and accessories.

Medtronic Neurological and Diabetes offers therapies for movement disorders, chronic pain and diabetes, as well as diagnostics and therapeutics for urological and gastrointestinal conditions. Medtronic Spinal, ENT and SNT develops and manufactures products that treat disorders of the cranium and spine.

Medtronic is headquartered in Minneapolis, Minnesota.

For more information, visit: www.medtronic.com.

Stock Symbol: MDT