

MEDTRONIC INC  
Form 11-K  
October 27, 2003

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 11-K

(mark one)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended April 30, 2003**

Or

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File No.: 1-7707**

A.

Full title of the plan and the address of the plan, if different from that of the issuer named below:

**MEDTRONIC, INC. EMPLOYEE STOCK OWNERSHIP AND  
SUPPLEMENTAL RETIREMENT PLAN**

B.

Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Medtronic, Inc.  
710 Medtronic Parkway  
Minneapolis, MN 55432**

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**SIGNATURES**

*The Plan.* Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**Medtronic, Inc. Employee Stock Ownership and Supplemental Retirement Plan**

Dated: October 27, 2003

By:

/s/ Janet S. Fiola

Janet S. Fiola

*Senior Vice President, Human Resources*

Medtronic, Inc.

Employee Stock Ownership

and Supplemental

Retirement Plan

Financial Statements and Supplemental Schedules

April 30, 2003 and 2002

**Medtronic, Inc.**

**Employee Stock Ownership and Supplemental Retirement Plan**

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Note: Other schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted as the schedules are not applicable.

**Report of Independent Auditors**

To the Participants and Administrator of the  
Medtronic, Inc. Employee Stock Ownership and  
Supplemental Retirement Plan:

In our opinion, the accompanying statement of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Medtronic, Inc. Employee Stock Ownership and Supplemental Retirement Plan (the Plan ) at April 30, 2003 and 2002, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Assets Held for Investment Purposes at April 30, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

October 17, 2003

## Medtronic, Inc.

## Employee Stock Ownership and Supplemental Retirement Plan

## Statement of Net Assets Available for Benefits

(in 000 s)

|   |      | April 30, |              |
|---|------|-----------|--------------|
|   |      | 2003      | 2002         |
| <i>ESOP Assets, net</i>                           |      |           |              |
| Investments, at fair value:                       |      |           |              |
| Plan's Interest in the Master Trust Fund          | * \$ | 130,697   | \$ 186,510   |
| Medtronic ESOP Fund                               | *    | 608,978   | 529,345      |
| Medtronic Dividend Stock Fund                     |      | 2,777     | 2,363        |
| Total ESOP assets, net                            |      | 742,452   | 718,218      |
| <i>SRP Assets Participant Directed</i>            |      |           |              |
| Investments, at fair value:                       |      |           |              |
| Medtronic Common Stock Fund                       | *    | 468,708   | 458,603      |
| Vanguard 500 Index Fund                           |      | 89,514    | 92,137       |
| Vanguard PRIMECAP Fund                            |      | 74,070    | 78,157       |
| Vanguard Wellington Fund                          |      | 75,676    | 74,854       |
| Vanguard Windsor II Fund                          |      | 42,345    | 44,454       |
| Vanguard Explorer Fund                            |      | 28,240    | 32,170       |
| Vanguard International Growth Fund                |      | 20,902    | 21,185       |
| Vanguard U.S. Growth Fund                         |      | 22,641    | 19,019       |
| Vanguard Total Bond Market Index Fund             |      | 37,502    | 19,387       |
| Vanguard Extended Market Index Fund               |      | 10,003    | 9,062        |
| Participant loans receivable                      |      | 15,042    | 13,847       |
|   |      | 884,643   | 862,875      |
| Medtronic Interest Income Fund, at contract value | *    | 165,763   | 105,696      |
| Total SRP assets                                  |      | 1,050,406 | 968,571      |
| Net assets available for benefits                 | \$   | 1,792,858 | \$ 1,686,789 |

\* Represents 5% or more of the net asset available for benefits.

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

**Medtronic, Inc.**

**Employee Stock Ownership and Supplemental Retirement Plan**

**Statement of Changes in Net Assets Available for Benefits**

(in 000 s)

|   | Year Ended April 30, |              |
|---|----------------------|--------------|
|   | 2003                 | 2002         |
| <b>Additions:</b>   |                      |              |
| Investment income (loss):   |                      |              |
| Interest and dividend income  | \$ 19,821            | \$ 20,820    |
| Increase in Plan's Interest in the Master Trust Fund                        | 14,589               | 5,908        |
| Net appreciation (depreciation) in fair value of separate trust investments | 12,521               | (25,535)     |
| Total investment income   | 46,931               | 1,193        |
| Employer cash contributions   | 1,483                | 983          |
| Employee contributions  | 95,153               | 77,920       |
| Assets transferred from other plan (Note 1)                                 | 23,887               | 936,750      |
| Total additions   | 167,454              | 1,016,846    |
| <b>Deductions:</b>  |                      |              |
| Benefits paid to participants   | (60,820)             | (68,760)     |
| Administrative expenses   | (565)                | (42)         |
| Total deductions  | (61,385)             | (68,802)     |
| Increase in net assets available for benefits                               | 106,069              | 948,044      |
| <b>Net assets available for benefits:</b>                                   |                      |              |
| Beginning of year   | 1,686,789            | 738,745      |
| End of year   | \$ 1,792,858         | \$ 1,686,789 |

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

**Medtronic, Inc.**

**Employee Stock Ownership and Supplemental**

**Notes to Financial Statements**

**1. Description of the Plan**

The following description of the Medtronic, Inc. Employee Stock Ownership (ESOP) and Supplemental Retirement (SRP) Plan (the Plan) provides only general information. Participants should refer to the Plan document for a complete description of the Plan's provisions.

**General**

The Plan is a contributory defined contribution plan created by Medtronic, Inc. (the Company). The Plan provides stock ownership benefits and assists employees to increase retirement savings and provide financial security upon retirement. The Plan is available to all eligible regular full-time and part-time employees immediately upon hire. The Plan qualifies under Section 401(a) of the Internal Revenue Code of 1986, as amended, and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Trustees of the Plan are Vanguard Fiduciary Trust Company (Vanguard Trust) and US Bank Institutional Financial Services (US Bank) (hereinafter collectively referred to as the Trustees). Allocated ESOP assets and contributed SRP assets are held by Vanguard Trust and unallocated ESOP assets are held by US Bank. Transactions are executed by the Trustees of the Plan as directed by Medtronic, Inc. (the Company) in its capacity as Plan Administrator.

**Plan Merger and Transfer of Plan Assets**

The Compensation Committee of the Board of Directors of the Company approved the merger of the Medtronic, Inc. and Participating Employers Supplemental Retirement Plan into the Plan on March 8, 2001. Effective May 31, 2001 assets of \$936,750,000 related to all active employees in the Medtronic, Inc. and Participating Employers Supplemental Retirement Plan were transferred into the Plan. The Plan was amended effective April 30, 2001 to allow employees elective deferrals under Code Section 401(k). The Plan now has two components: a SRP component which governs the elective deferrals and the ESOP component that governs matching contributions related to the SRP and non-matching allocations of employer stock.

During fiscal year 2003, \$23,887,000 of assets were transferred from other qualified plans into the Plan. Effective May 31, 2003, all remaining assets of the Medtronic, Inc. and Participating Employers Supplemental Retirement Plan were transferred into the Plan.

**Administration**

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The Qualified Plan Committee oversees the administration of the Plan. The committee appointed Vanguard Trust and US Bank as Trustees of the plan assets and Recordkeepers of the Plan. Vanguard has been appointed to provide participant services, education, and communication services. Vanguard maintains a separate account in the name of each participant in the Plan to record the assets allocated to the participant and the earnings and (losses) thereon, and expenses credited thereto.

### Contributions

Participant contributions are made to the Plan through payroll deductions. Participants direct the investments of their contributions into eleven various investment options offered by the Plan. The participants may change the investment decisions at any time by contacting the Trustee. However, any funds exchanged out of the Medtronic Interest Income Fund must remain invested in another investment alternative for a period of at least three months before being moved to the Vanguard Total Bond Market Index Fund. Participants are also limited to two transfers a month in or out of the Medtronic Common Stock Fund.

Participating employees may contribute 2% to 25% of eligible earnings on a pre-tax basis to the Plan. Participants receive matching allocations of Medtronic common stock to their ESOP matching accounts in the Plan. The matching allocation is based on each participant's contributions up to 6% of eligible compensation, and ranges from 50% to 150% of these contributions. Matching allocations totaled approximately \$47,957,000 and \$41,915,000 for fiscal years 2003 and 2002, respectively, which is included in the allocation of Medtronic, Inc. common stock from the unallocated shares at US Bank to the Vanguard Trust (See Note 4). Participants are allowed immediately to transfer matching allocated amounts to any of the SRP investment choices.

In addition to the matching allocation, participants can receive annual allocations to their ESOP Regular accounts in the form of Medtronic, Inc. common stock. These annual allocations range from 2.5% to 4.0% of qualified compensation, depending upon the achievement of certain performance goals. Active participants may begin to diversify their ESOP Regular allocations at age 55 if the participant has been in the Plan for ten years. Company ESOP contributions, net of forfeitures, were \$29,728,000 and \$28,090,000 for fiscal years 2003 and 2002, respectively.

### **Vesting and Forfeitures**

Participants are 100% vested in their contributions, including earnings and losses thereon, at all times. Active participants vest in the Company contributions, including earnings and losses thereon, at a rate of 20% per year and become fully vested in all Company contributions after five years. Participant forfeiture of nonvested amounts reduce Company contributions. Employer contributions of \$3,324,000 and \$3,992,000 during fiscal years 2003 and 2002, respectively, were forfeited by terminating employees before those amounts became vested.

### **Distributions**

An active participant who has attained age 59½ may request a cash withdrawal for all or a part of the value of the SRP assets. Active participants are not allowed to take withdrawals from their ESOP Regular or Matching Accounts, however, they are allowed to diversify the ESOP Match at any time, and to diversify a portion of their ESOP Regular account at age 55 if the participant has been in the Plan for at least ten years.

Upon termination of employment, the participant must take a complete distribution if the value of the participant's account is \$5,000 or less. If the value of the participant's account is greater than \$5,000, the participant may elect to defer distribution until a later date, take a cash withdrawal or request a direct rollover. Participant funds invested in Medtronic stock may be taken in-kind or as cash. Upon retirement from the Company, participants also have the option to take monthly installments from the Plan.

Active participants may take hardship withdrawals from the SRP Account but not from their ESOP Regular or ESOP Matching Accounts if they incur immediate and severe financial needs that cannot be met through other available sources in the Plan including the available loan provisions. The amount of the hardship withdrawal cannot exceed the amount of the financial need and will be taxed upon distribution with a 10% penalty tax imposed.

Upon the death of a participant, the participant's account becomes fully vested and will be paid to the designated beneficiary, or if no beneficiary has been designated, the balance will be paid according to the terms and conditions of the Plan. The beneficiary has the option to take the Medtronic stock in-kind or as cash.

### **Participant Loans**

Participants are limited to one loan outstanding at a time and can borrow up to 50% of their total vested SRP balance not to exceed the maximum loan amount of \$50,000. The minimum loan amount is \$1,000. Loans are repaid through payroll deductions in equal amounts, typically over one to five years. The interest rate is calculated as one percentage point over the prime rate in effect at US Bank, N.A., on the first workday of the month in which the loan is made and remains fixed for the duration of the loan. At April 30, 2003, loans receivable were due at various dates through 2022, with interest rates ranging from 4.75% to 10.50%.

**Plan Termination**

Termination or retirement benefits are paid by the Trustee in accordance with the provisions of the Plan and the instructions of Medtronic, Inc., acting as plan administrator. In the event the Plan is terminated and there is not a successor plan, participants would become fully vested in the Company contributions. Benefits would be distributed at that time in the manner provided in the documents, which terminated the Plan.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Use of Estimates**

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Investment Valuation**

The Plan's investments are stated at fair value, except for its investment contracts, which are valued at contract value. Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end. The Medtronic Common Stock Fund and the Plan's Interest in the Master Trust Fund are valued at their year-end unit closing price (comprised of year-end market price plus the uninvested cash position). The common shares of the Company are valued at the quoted market price. Participant loans receivable are valued at estimated fair value, consisting of outstanding principal and related unpaid interest.

### **Investment Transactions and Related Investment Income**

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is accrued on the ex-dividend date. Capital gain distributions are included in dividend income. The Plan presents in the Statement of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments, which consists of realized gains and losses and the unrealized appreciation (depreciation) on those investments.

### **Administrative Expenses**

Administrative expenses are paid by the Plan. Such expenses consist of recordkeeping fees, trustee fees and account maintenance. The Plan pays for the fees associated with transactions in the Medtronic ESOP Fund. Participants pay for the fees associated with transactions in the Medtronic Common Stock Fund from their respective Plan accounts. In addition, participants with loans pay an origination and annual loan fee for loan administration and maintenance from their respective Plan accounts.

### **Payment of Benefits**

Benefit payments are recorded upon distribution.

### **Risks and Uncertainties**

The Plan provides for investment in the Company's common stock and various participant investment options in funds, which can invest in any combination of stocks, bonds, fixed income securities, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk and uncertainty, it is reasonably possible that changes in risks could materially affect participants' account balances and the amounts reported in the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

**Concentration of Market Risk**

As of April 30, 2003 and 2002, approximately 68% and 70% of the Plan's net assets were invested in the common stock of Medtronic, Inc., respectively. A significant portion of this concentration results from the allocated and unallocated investments in the ESOP, which was designed to provide stock ownership benefits to eligible employees. The underlying value of the Medtronic Common Stock Fund is entirely dependent on the performance of Medtronic, Inc. and the market's evaluation of such performance. It is reasonably possible that changes in the fair value of Medtronic, Inc. common stock could materially affect participants' account balances and the amounts reported in the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

### 3. Investments

The net appreciation (depreciation) in the fair value of investments during 2003 and 2002, other than those held in the Master Trust, including investments purchased and sold as well as those held during the year was as follows (in 000 \$):

|  | Year Ended April 30, |             |
|--|----------------------|-------------|
|  | 2003                 | 2002        |
| Medtronic Common Stock Fund                                  | \$ 31,764            | \$ 19,603   |
| Vanguard 500 Index Fund                                      | (13,581)             | (14,654)    |
| Vanguard PRIMECAP Fund                                       | (11,607)             | (12,617)    |
| Vanguard Wellington Fund                                     | (6,746)              | (4,818)     |
| Vanguard Windsor II Fund                                     | (7,488)              | (4,266)     |
| Vanguard Explorer Fund                                       | (6,981)              | 169         |
| Vanguard International Growth Fund                           | (4,055)              | (2,104)     |
| Vanguard U.S. Growth Fund                                    | (3,438)              | (6,401)     |
| Vanguard Total Bond Market Index Fund                        | 875                  | 3           |
| Vanguard Extended Market Index Fund                          | (1,414)              | (351)       |
| Medtronic ESOP Fund  | 35,192               | (99)        |
| Net appreciation (depreciation) in fair value of investments | \$ 12,521            | \$ (25,535) |

The investments in the Medtronic Interest Income Fund consist of investment contracts issued by financial institutions and of contracts backed by investment-grade, fixed-income securities and bond mutual funds. These investment contracts are valued at their contract values, which approximate fair value, as these investments have fully benefit-responsive features. There are no reserves against contract values for credit risk of contract issuers or otherwise.

The average yield of the Medtronic Interest Income Fund was 4.78% and 6.15% for 2003 and 2002, respectively. The crediting interest rate of the Medtronic Interest Income Fund was 4.83% and 6.03% for 2003 and 2002, respectively. The crediting interest rate is based on a formula agreed upon with the issuer, which cannot be less than zero. Such interest rates are reviewed on a quarterly basis for resetting.

### 4. Plan's Interest in the Master Trust Fund

Unallocated assets of the Plan are invested in a Master Trust Fund with certain assets of the Medtronic, Inc. and Participating Employers Retirement Plan and the Medtronic, Inc. Retirement Plan 401(h) Medical Account. US Bank is the Trustee for the unallocated assets attributable to the Plan held in the Master Trust Fund. Medtronic, Inc. and US Bank act as Recordkeepers for these assets. US Bank maintains a separate account for the unallocated Plan assets and liabilities held within the Master Trust Fund. The Plan assets within the Master Trust Fund consist of Medtronic, Inc. common stock. The liabilities consist of a loan from Medtronic, Inc. The unallocated assets consist of shares of the Company's common stock with fair values of approximately \$138,519,000 and \$198,653,000 at April 30, 2003 and 2002, respectively. At April 30, 2003 and 2002, the Plan's interest in the net assets of the Master Trust was 21% and 31%, respectively.



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The Plan's interest in the total assets held in the Master Trust Fund and changes in assets during the periods are as follows (in 000 \$):

|  | Years Ended April 30, |            |
|--|-----------------------|------------|
|  | 2003                  | 2002       |
| Plan's Interest in the Master Trust, beginning of year | \$ 186,510            | \$ 307,251 |
| Employer cash contributions                            | 1,483                 | 983        |
| Interest and dividend income                           | 1,138                 | 1,392      |
| Realized/unrealized gain                               | 11,751                | 3,600      |
| Dividend on allocated shares                           | 2,775                 | 2,341      |
| Interest expense                                       | (1,056)               | (1,389)    |
| Other expenses   | (19)                  | (36)       |
| Net assets transferred to separate trust               | (71,885)              | (127,632)  |
| Plan's Interest in the Master Trust, end of year       | \$ 130,697            | \$ 186,510 |

The financial data of the Master Trust Fund on an accrual basis, is as follows:

**Medtronic, Inc. and Participating Employers Master Trust Fund**

**Statement of Net Assets Available for Benefits**

(unaudited, in 000 \$)

|  | Years Ended April 30, |            |
|--|-----------------------|------------|
|  | 2003                  | 2002       |
| <b>Assets</b>                                      |                       |            |
| Investments at fair value:                         |                       |            |
| Short-term investment fund                         | \$ * 119,319          | \$ 113,241 |
| U.S. government securities                         | * 64,094              | 45,055     |
| Corporate debt securities                          | * 52,394              | 56,260     |
| Medtronic, Inc. common stock                       | * 276,863             | 325,860    |
| Other common stock                                 | * 128,579             | 106,748    |
| Partnership and derivative contracts               | * 71,278              | 43,115     |
| Total investments                                  | 712,527               | 690,279    |
| Receivables:                                       |                       |            |
| Interest and dividends receivable                  | 995                   | 1,295      |
| Total assets                                       | 713,522               | 691,574    |
| <b>Liabilities</b>                                 |                       |            |
| Accrued allocation of Medtronic, Inc. common stock | 77,685                | 70,005     |

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|                                   |            |            |
|-----------------------------------|------------|------------|
| Accrued 401(h) benefits           | 2,604      | 2,705      |
| Accrued expenses                  | 508        | 46         |
| Loan from Medtronic, Inc.         | 7,823      | 12,169     |
| Total liabilities                 | 88,620     | 84,925     |
| Net assets available for benefits | \$ 624,902 | \$ 606,649 |

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\* Represents 5% or more of the net assets available for benefits.

The financial data of the Master Trust Fund on an accrual basis, is as follows:

**Medtronic, Inc. and Participating Employers Master Trust Fund**

**Statement of Changes in Net Assets Available for Benefits**

(unaudited, in 000 s)

|  | Years Ended April 30, |            |
|--|-----------------------|------------|
|  | 2003                  | 2002       |
| <b>Additions:</b>  |                       |            |
| Investment income (loss):                                |                       |            |
| Interest income  | \$ 7,630              | \$ 7,912   |
| Dividend income  | 1,132                 | 1,382      |
| Other income   | 2,775                 | 2,341      |
| Net depreciation in fair value of investments            | (4,958)               | (14,916)   |
| Total investment income (loss)                           | 6,579                 | (3,281)    |
| Employer contributions                                   | 97,634                | 83,236     |
| Total additions  | 104,213               | 79,955     |
| <b>Deductions:</b>                                       |                       |            |
| Interest expense   | (1,056)               | (1,389)    |
| Benefits paid to participants                            | (10,958)              | (14,726)   |
| Other expenses   | (2,061)               | (1,073)    |
| Net assets transferred to other trustees                 | (71,885)              | (127,632)  |
| Total deductions   | (85,967)              | (144,820)  |
| Increase (decrease) in net assets available for benefits | 18,253                | (64,865)   |
| <b>Net assets available for benefits:</b>                |                       |            |
| Beginning of year  | 606,649               | 671,514    |
| End of year  | \$ 624,902            | \$ 606,649 |

The Master Trust Fund investments (including gains and losses on investments bought and sold during the year as well as unrealized appreciation (depreciation) changed in value as follows (in 000 \$):

|   | Years Ended April 30, |             |
|---|-----------------------|-------------|
|   | 2003                  | 2002        |
| Net change in fair value of investments:      |                       |             |
| Short-Term Investment Fund                    | \$ 358                | \$ (352)    |
| U.S. government securities                    | 2,647                 | 513         |
| Corporate debt securities                     | 1,770                 | 265         |
| Medtronic, Inc. common stock                  | 15,638                | 3,715       |
| Other common stocks                           | (18,025)              | (15,422)    |
| Partnership and derivative contracts          | (7,346)               | (3,635)     |
| Net depreciation in fair value of investments | \$ (4,958)            | \$ (14,916) |

## 5. Funding Policy

In December 1989, the Master Trust borrowed \$40.0 million from the Company on behalf of the Plan and used the proceeds to purchase 18,932,938 shares (adjusted for stock splits) of the Company's common stock. The loan from the Company is payable over a period not to exceed 20 years, ending on April 30, 2010. Interest is payable annually at a rate of 9.0%. The Company makes contributions to the Plan, which are used, in part, by the Plan to make principal and interest payments. Contributions are based on debt service requirements less any dividends received by the Plan on the unallocated shares of stock. Contributions are further adjusted to meet the annual targeted benefit level as determined by the Company.

During fiscal years 2003 and 2002, allocations of 2.50% and 2.57%, respectively, of qualified compensation were allocated to participants' ESOP regular accounts. In addition, allocations of 3.65% and 3.85% of qualified compensation were made to Plan participants' ESOP matching accounts in fiscal years 2003 and 2002, respectively. Forfeitures of allocated shares funded a portion of the allocation requirements for fiscal years 2003 and 2002.

**6. Allocation Summary of Net ESOP Assets**

Statement of Net ESOP Assets Available for Benefits

|  | April 30, 2003 |             |            | April 30, 2002 |             |            |
|--|----------------|-------------|------------|----------------|-------------|------------|
|  | Allocated      | Unallocated | Total      | Allocated      | Unallocated | Total      |
| <b>Assets:</b>                             |                |             |            |                |             |            |
| Investments at fair value:                 |                |             |            |                |             |            |
| Medtronic Dividend Stock Fund              | \$ 2,777       | \$          | \$ 2,777   | \$ 2,363       | \$ 26       | \$ 2,389   |
| Investment in Medtronic, Inc. common stock | 608,977        | 138,519     | 747,496    | 529,345        | 198,653     | 727,998    |
| Total investments                          | 611,754        | 138,519     | 750,273    | 531,708        | 198,679     | 730,387    |
| Employer contribution receivable           |                |             |            |                |             |            |
| Accrued income                             |                | 1           | 1          |                |             |            |
| Total assets                               | 611,754        | 138,520     | 750,274    | 531,708        | 198,679     | 730,387    |
| <b>Liabilities:</b>                        |                |             |            |                |             |            |
| Loan payable                               |                | 7,823       | 7,823      |                | 12,169      | 12,169     |
| Net assets available for benefits          | \$ 611,754     | \$ 130,697  | \$ 742,451 | \$ 531,708     | \$ 186,510  | \$ 718,218 |

Statement of Changes in Net Assets

|   | Year Ended April 30, 2003 |             |          | Year Ended April 30, 2002 |             |           |
|---|---------------------------|-------------|----------|---------------------------|-------------|-----------|
|   | Allocated                 | Unallocated | Total    | Allocated                 | Unallocated | Total     |
| <b>Investment income (loss):</b>                                    |                           |             |          |                           |             |           |
| Interest and dividend income  | \$ 2,846                  | \$ 3,913    | \$ 6,759 | \$ 2,428                  | \$ 3,733    | \$ 6,161  |
| Unrealized appreciation (depreciation) in fair value of investments | 35,192                    | 11,751      | 46,943   | (99)                      | 3,600       | 3,501     |
| Total investment income   | 38,038                    | 15,664      | 53,702   | 2,329                     | 7,333       | 9,662     |
| Interfund transfers   | (4,329)                   |             | (4,329)  | (2,447)                   |             | (2,447)   |
| Employer contributions  |                           | 1,483       | 1,483    |                           | 983         | 983       |
| Allocation of Medtronic, Inc. common stock*                         | 71,885                    |             | 71,885   | 127,632                   |             | 127,632   |
| Interest expense  |                           | (1,056)     | (1,056)  |                           | (1,389)     | (1,389)   |
| Administrative expenses   | (523)                     | (19)        | (542)    |                           | (36)        | (36)      |
| Benefit payments  | (25,025)                  |             | (25,025) | (27,300)                  |             | (27,300)  |
|   |                           | (71,885)    | (71,885) |                           | (127,632)   | (127,632) |

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Allocation of Medtronic,  
Inc. common stock\*

Increase (decrease) in net  
assets available for

|                   |            |            |            |            |            |            |
|-------------------|------------|------------|------------|------------|------------|------------|
| benefits          | 80,046     | (55,813)   | 24,233     | 100,214    | (120,741)  | (20,527)   |
| Beginning of year | 531,708    | 186,510    | 718,218    | 431,494    | 307,251    | 738,745    |
| End of year       | \$ 611,754 | \$ 130,697 | \$ 742,451 | \$ 531,708 | \$ 186,510 | \$ 718,218 |

\* Allocated shares were 1,482,783 and 1,223,508 in the years ended April 30, 2003 and 2002, respectively.

In July of 2003, 1,628,895 shares of Medtronic Common Stock were allocated into Participants' ESOP matching accounts in the Plan, reflected in the tables above.

**7. Related Party Transactions**

During the years ended April 30, 2003 and 2002, the Plan had transactions with Vanguard Trust and US Bank, the Plan's Trustees, which are allowed by the Plan and the Internal Revenue Code. These transactions qualify as party-in-interest transactions, which are exempt from the prohibited transaction rules.

Total purchases and proceeds from sales with Vanguard Trust for the years ended April 30, 2003 and 2002 were \$314,358,000 and \$249,015,000, \$363,432,000 and \$361,443,000, respectively. Total purchases and proceeds from sales with US Bank for the years ended April 30, 2003 and 2002 were \$1,145,000 and \$ 3,188,000, and \$2,467,000 and \$1,001,000, respectively.

**8. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 (in 000 \$):

|  | April 30,    |              |
|--|--------------|--------------|
|  | 2003         | 2002         |
| Net assets available for benefits per the financial statements | \$ 1,792,858 | \$ 1,686,789 |
| Amounts allocated to withdrawing participants                  | (14,967)     | (6,693)      |
| Net assets available for benefits per the Form 5500            | \$ 1,777,891 | \$ 1,680,096 |

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 (in 000 \$):

|  | Year Ended April 30, |           |
|--|----------------------|-----------|
|  | 2003                 | 2002      |
| Benefits paid to participants per the financial statements               | \$ 60,820            | \$ 68,760 |
| Add: Amounts allocated to withdrawing participants at end of year        | 14,967               | 6,693     |
| Less: Amounts allocated to withdrawing participants at beginning of year | (6,693)              | (1,555)   |
| Benefits paid to participants per the Form 5500                          | \$ 69,094            | \$ 73,898 |

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to April 30, but not yet paid as of that date.

**9. Tax Status**

The Plan received a favorable determination letter from the Internal Revenue Service on September 7, 1995. Although the Plan has been amended since receiving the determination letter, the Plan administrator continues to believe the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

SUPPLEMENTAL SCHEDULE

## Medtronic, Inc. Employee Stock Ownership and Supplemental Retirement Plan

## Schedule of Assets Held for Investment Purposes

April 30, 2003

(in 000 s except share information)

| (a)  | (b)                                   | (c)   | (d)                                   | (e)       |               |
|--|---------------------------------------|---|---------------------------------------|-----------|---------------|
|  | Fund                                  | Investment Type   | Number of<br>Shares or<br>Face Amount | Cost      | Fair<br>Value |
| <i>ESOP Assets</i>   |                                       |   |                                       |           |               |
| *  | Medtronic ESOP Fund                   | Company Stock   | 11,050,175                            | \$ 34,037 | \$ 608,978    |
| *  | Medtronic Dividend Stock Fund         | Company Stock   |                                       | 2,777     | 2,777         |
| <i>Total ESOP Assets, excluding the Plan's Interest in the Master Trust Fund</i>         |                                       |   |                                       | \$ 36,814 | \$ 611,755    |
| <i>SRP Assets</i>  |                                       |   |                                       |           |               |
| *  | Medtronic Common Stock Fund           | Company Stock Fund  |                                       | ** \$     | 468,708       |
| *  | Vanguard 500 Index Fund               | Registered Investment Company                                   |                                       | **        | 89,514        |
| *  | Vanguard PRIMECAP Fund                | Registered Investment Company                                   |                                       | **        | 74,070        |
| *  | Vanguard Wellington Fund              | Registered Investment Company                                   |                                       | **        | 75,676        |
| *  | Vanguard Windsor II Fund              | Registered Investment Company                                   |                                       | **        | 42,345        |
| *  | Vanguard Explorer Fund                | Registered Investment Company                                   |                                       | **        | 28,240        |
| *  | Vanguard International Growth Fund    | Registered Investment Company                                   |                                       | **        | 20,902        |
| *  | Vanguard U.S. Growth Fund             | Registered Investment Company                                   |                                       | **        | 22,641        |
| *  | Vanguard Total Bond Market Index Fund | Registered Investment Company                                   |                                       | **        | 37,502        |
| *  | Vanguard Extended Market Index Fund   | Registered Investment Company                                   |                                       | **        | 10,003        |
| *  | Participant loans receivable          | Interest at 4.75% to 10.50% (Due at various dates through 2022) |                                       | **        | 15,042        |
| *  | Medtronic Interest Income Fund        | Unallocated Insurance Contracts                                 |                                       | **        | 165,763       |
| <i>Total SRP Assets</i>  |                                       |   |                                       | **        | 1,050,406     |
| <i>Total ESOP and SRP Assets, excluding the Plan's Interest in the Master Trust Fund</i> |                                       |   |                                       | ** \$     | 1,662,161     |

\* Denotes party-in-interest

\*\* Cost information is excluded as it is no longer required for participant-directed investments



**Consent of Independent Accountants**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-37529, 33-44230, and 333-106566) of Medtronic, Inc. of our report dated October 17, 2003 relating to the financial statements and supplemental schedule of the Medtronic, Inc. Employee Stock Ownership and Supplemental Retirement Plan which appears in this Form 11-K.

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP  
Minneapolis, Minnesota  
October 27, 2003