Investor Relations Commentary
Q4 FY15
June 2, 2015

Jeff Warren
Thank you, Maria. Good morning and welcome to Medtronic's fourth quarter conference call and webcast. During the next hour, Omar Ishrak, Medtronic Chairman and Chief Executive Officer, and Gary Ellis, Medtronic Chief Financial Officer, will provide comments on the results of our fourth quarter and fiscal year 2015, which ended April 24, 2015. After our prepared remarks, we will be happy to take your questions.

First, a few logistical comments: Earlier this morning we issued a press release containing our financial statements and a revenue-by-business summary, which finalizes the preliminary revenue we issued on May 19, 2015. We also updated our Combined Historical Covidien-Medtronic Financial Statement Presentation to include FY15 comparable revenue, as well as a combined P&L for the past eight quarters. You should also note that some of the statements made during this call may be considered forward-looking statements, and that actual results might differ materially from those projected in any forward-looking statement. Additional information concerning factors that could cause actual results to differ is contained in our periodic reports filed with the SEC; therefore, we do not undertake to update any forward-looking statement. In addition, the reconciliations of any non-GAAP financial measures are available on the Investors portion of our website at Medtronic.com. Finally, unless we say otherwise, references to quarterly or annual results increasing or decreasing are in comparison to the fourth quarter and full fiscal year 2014, respectively, and all year-over-year revenue growth rates are given on a comparable, constant currency basis, which includes Covidien plc in the prior year comparison and aligns Covidien's prior year monthly revenue to Medtronic's fiscal quarters. With that, I am now pleased to turn the call over to Medtronic Chairman and Chief Executive Officer, Omar Ishrak.

Omar Ishrak
Good morning and thank you, Jeff, and thank you to everyone for joining us today.

This morning, we reported fourth quarter revenue of $7.3 billion, which represents growth of 7 percent, and Q4 non-GAAP diluted earnings per share of $1.16.

Before providing more detail on our Q4 performance, I would like to recap the fiscal year. FY15 was a transformational year for our company, with the announcement of the Covidien acquisition in Q1 and the subsequent closing of the transaction in Q4. We believe the combination of our two companies meaningfully accelerates our strategies, diversifies our growth profile, and increases our long-term financial flexibility. I will cover the Covidien integration in more detail in a moment. Our FY15 revenue grew 6 percent, which was at the upper end of our mid-single digit baseline goal, and represented a 230 basis point improvement from FY14.

FY15 was a strong year for therapy innovation at Medtronic, with our new therapies growth vector contributing 410 basis points to our full year growth, well above our stated goal of 150 to 350 basis points. All four of our groups launched meaningful innovations in FY15, including those that make advances into new disease areas, innovate on our existing market leading technologies, or enhance our diagnostic, therapy, and monitoring products with key wrap-around programs. Gary will discuss the

technologies that drove our results, as well as our future pipeline, in more detail shortly when he recaps our business results. Revenue in emerging markets, our second growth vector, grew double-digits again in FY15 and contributed 150 basis points to our full year growth. Our third growth vector, services and solutions, nearly doubled in revenue in FY15 and added 30 basis points to our full year growth. While legacy Covidien businesses will no doubt contribute to this vector in the future, we feel for FY15, it is more appropriate to look at this vector using legacy Medtronic revenue as the base given all of the revenue in Q4 came from legacy Medtronic businesses. Under this methodology, the services and solutions growth vector contributed 50 basis points, within our FY15 goal of 40 to 60 basis points. We continue to add additional Service & Solutions offerings. In addition to our existing Cardiocom and Cath Lab Managed Services platforms, we were excited to add Diabeter in Q4, a unique diabetes integrated care solution. We also initiated our first pilot of our Operating Room Managed Services, which combines the capabilities we have developed in the cath lab together with Covidien's breadth of operating room technology and expertise, to provide a full-service OR offering to hospitals. All of these efforts are focused on addressing the evolving needs of our customers regarding delivery system efficiency and more integrated, connected care models for patients around the world. We feel we are well positioned to demonstrate the role medical technology and related services can play in improving system efficiency and care integration in key disease states, and to serve as a key partner and collaborator with healthcare systems, payers and governments who are working to deliver better patient outcomes at lower costs

Looking at the FY15 P&L, non-GAAP diluted EPS was $4.28. While it is difficult to compare EPS to the prior year given the acquisition of Covidien, we are looking at some key operating P&L line items on an approximate, combined, constant currency basis in order to better assess our operating performance. We also feel these will be the appropriate P&L metrics to evaluate our operating performance as we move through FY16. In FY15, our operating margin percentage improved by 60 basis points, including an 80 basis point improvement in SG&A offset by a 50 basis point decline in gross margins, all on a combined, constant currency basis, which corresponds to 200 points of operating leverage and was inline with our baseline expectations While Gary will cover our earnings guidance in a moment, it is clear that FX is a major headwind in FY16. Despite that headwind, I want to emphasize that the management team is focused on driving significant operating leverage this year.

Looking now at free cash flow, we had a very strong year in FY15 and met our commitment to return 50 percent of our free cash flow in the form of dividends and share buybacks.

Our FY15 results ultimately reflect the dedication and passion of over 85,000 employees collaborating with our partners in healthcare to deliver therapies and services to millions of patients around the globe, to fulfill our Mission of alleviating pain, restoring health, and extending life.

Now, moving to our Q4 performance, Q4 was another strong quarter, the first as a combined company with Covidien. Our 7 percent revenue growth was a result of solid performances across all of our groups and geographies. Geographically, we had double-digit growth in Emerging Markets, strong upper-single digit growth in the US, and mid-single digit growth in developed markets outside the US. CVG had another quarter of impressive double-digit growth, Diabetes delivered strong upper-single digit growth, and both MITG and RTG had solid mid-single digit growth. In RTG, we recently reorganized the structure of our sales teams, aligning sales management to disease states. We expect this to further optimize our focus on our Neuroscience, Integrated Pain Solutions, and Surgical Synergy strategies. In particular, we

believe this should help our performance in Spine, as we believe it will allow us to take better advantage of our overall breadth.

Q4 was the first quarter of integration with Covidien. While it has only been one quarter, I am proud that our combined organization is staying focused and delivering on our commitments, avoiding any distractions during this transition period. As I have stated several times before, our first objective with the Covidien integration is to **Preserve** the stated growth objectives of both companies. As we look ahead, we believe that our baseline goal of delivering mid-single digit constant currency revenue growth on a consistent basis is still appropriate and reasonable over the long-term. Although similar to this quarter, there could well be times when we exceed our baseline expectation.

We continue to focus on executing on our three growth strategies: therapy innovation, globalization, and economic value. These strategies are designed to create a competitive advantage for Medtronic by capitalizing on the three long-term trends we see playing out in healthcare: namely, the desire to improve clinical outcomes using technology, the growing demand for expanded access to healthcare in developing countries, and the optimization of cost and efficiency in healthcare systems, including the move to value-based healthcare.

In Therapy Innovation, we continued to deliver above-goal performance in Q4, as the New Therapies growth vector contributed 560 basis points to our total company growth. This is a result of strong execution on product launches, as well as decisions we have made over the past few years to select the right products that solve not only our customers' clinical needs, but meet their economic needs as well. And, as we look ahead, our pipeline remains full, with a number of new therapies and services expected to come to market over the next few years.

In Globalization, Emerging Markets delivered 140 basis points to our Q4 total company growth, just below our stated expectations. We continue to implement changes aimed at improving our EM growth profile, including making progress on our public and private partnerships. On my most recent visit to China, I met with several private hospital CEOs and discussed potential opportunities to work together. In addition to partnerships, all of our emerging markets are focused on our channel optimization strategy, strengthening our customer relationships to better meet our customers' needs, while also recognizing the unique challenges of the local healthcare systems. In countries like India and China, where we have a vast number of distributors, we are consolidating logistics to platform distributors in order to meet more stringent supply chain policies. In the Middle East, we are building strong joint venture partnerships with leading local distributors to accelerate therapy adoption in the local markets.

In Economic Value, our Services & Solutions growth vector contributed 50 basis points to our growth in Q4 on a legacy Medtronic basis, within our goal of 40 to 60 basis points. In Cardiocom, we signed an additional 14 commercial contracts in Q4 and continue to increase patient enrollment in our existing hospital and home care provider accounts. In our CRHF Diagnostics business, we have begun penetrating the Mobile Cardiac Outpatient Telemetry and Event Recorder markets using our unique SEEQ-based diagnostic service. We have now started adding the heart failure diagnostic data provided by our CRHF implantable devices into Cardiocom, creating a comprehensive heart failure management service. We also started offering Cardiocom as part of a broader bundled offering to our CVG customers.

In Cath Lab Managed Services, we are generating rapid growth as we are fast becoming the ideal partner for hospitals that seek to drive operational efficiency. While this business started in Europe, we are now expanding our Cath Lab Managed Services business globally. At the end of Q4, we had 50 long-term agreements with hospital systems representing $1.1 billion in revenue over the life of these contracts, which have an average span of about 5 to 6 years. And we also have a full pipeline of potential contracts at various stages of negotiation with providers around the world.

Turning to the P&L, Q4 non-GAAP diluted EPS was $1.16. Despite the incremental moving parts due to the Covidien transaction and increased headwinds from foreign exchange, our operating results were inline with our expectations, with our organization controlling spending effectively as we ended the fiscal year. Our gross margin continues to reflect ongoing elevated levels of spending to improve our quality systems in Neuromodulation. This quarter, we entered into a consent decree with the FDA, which provides a path to resolution of our issues in this division. We take the responsibility that has been entrusted to us to provide quality products very seriously, and ensuring the highest level of quality and regulatory compliance has – and always will be – a personal priority for me and a central focus of everything that we do at Medtronic.

We delivered $1.7 billion of free cash flow in Q4. We remain disciplined in allocating our capital, with a focus on creating long-term shareholder value. As a result of the Covidien acquisition, we have increased ability to deploy our cash in the US, solidifying our commitment to return 50 percent of our free cash flow to shareholders. With this increased financial flexibility, we are in the process of reevaluating the mix of share buybacks and dividends. As an S&P Dividend Aristocrat, we remain focused on delivering dependable, long-term dividend growth. In addition, we remain disciplined when evaluating potential M&A opportunities. Any investment we make must be aligned with and ultimately strengthen one or more of our three growth strategies, while at the same time offer high return metrics and minimize near-term shareholder dilution.

As we look ahead to FY16, we remain focused on delivering on our baseline financial expectations as we continue to integrate Covidien into Medtronic. We have four clear priorities guiding this process: preserve, optimize, accelerate, and transform. I mentioned **Preserve** earlier, our first and highest priority, and we expect to continue to meet the financial commitments of both companies. Our second priority, **Optimize**, is focused on achieving the detailed cost savings plans that are expected to result in a minimum of $850 million in cost synergies by the end of FY18. Our third priority, **Accelerate**, is related to assessing and prioritizing the numerous revenue synergy opportunities, which today include leveraging Covidien's peripheral vascular salesforce to drive sales of drug-coated balloons, as well leveraging Covidien's Neurovascular division to enhance our Neuroscience strategy in RTG. We are creating the industry's first true, comprehensive Stroke Management business, leveraging our transformative therapy innovations: the Solitaire mechanical thrombectomy product in NeuroVascular and CVG's LINQ insertable cardiac monitor, with its clinically proven role in the management of cryptogenic stroke patients.

Our fourth and final priority is **Transform.** As we observe and interact with health care systems around the world, we continue to see a push for experimentation with new models of delivery system operations, new payment schemes and integrated patient care as a critical mechanism to balance their cost and access challenges. Each of these efforts seek to drive higher levels of patient and system value. The move to these value-based healthcare models around the world presents a unique opportunity for

Medtronic, because we believe medical technology can play an increasingly larger role in delivering higher levels of value in healthcare. The proper application of medical technology and the adept use of the data and information associated with these technologies can be paired to help bend the cost curve in healthcare and produce better clinical outcomes at the same time. This is pushing our organization to develop technology offerings, services and business models that bring new forms of value across a given patient care continuum and within the delivery system itself. This continues to drive our organization to move beyond medical devices to create integrated health solutions that complement and enhance our devices' value through additional wrap around services and solutions. By addressing these trends now, we believe we will also uniquely position Medtronic to participate in the emerging bundled payment and risk sharing models focused on very specific disease states. We are actively partnering and collaborating with hospital systems, payers and governments who are working on these new models and we intend to continue to do so as a leader intent on leveraging our industry-leading products, deep clinical and economic expertise, global footprint, and financial strength. Ultimately, we believe this is what will differentiate Medtronic and uniquely positions us to succeed in the ever changing global healthcare marketplace.

Gary will now take you through a more detailed look at our fourth quarter results. Gary?

Gary Ellis
Thanks, Omar.

Fourth quarter revenue of $7 billion, 304 million increased 60 percent as reported or 7 percent on a comparable, constant currency basis after adjusting for a $483 million unfavorable impact of foreign currency. Legacy acquisitions and divestitures from both Medtronic and Covidien contributed 80 basis points to growth.

Q4 revenue results on a geographic basis were as follows:

- growth in the US was 8 percent and represented 55 percent of our overall sales;
- the Non-US Developed Markets grew 5 percent and represented 32 percent of our overall sales; and
- growth in the Emerging Markets was 11 percent and represented 13 percent of our overall sales.

Q4 diluted earnings per share on a non-GAAP basis were $1.16, a decrease of 2 percent. We were break-even on a Q4 GAAP earnings basis after several significant charges primarily related to the Covidien acquisition. In addition to the $362 million adjustment for amortization expense, the Covidien-related non-GAAP adjustments on an after tax basis included:

- a $455 million charge related to the inventory purchase-price step-up;a $268 million charge for acquisition-related items; and

a $157 million net restructuring charge.
We also had:

- a $349 million charge related to certain tax adjustments, the majority of which related to a proposed agreement reached with the IRS resolving all proposed adjustments associated with the Kyphon acquisition;
- a $61 million CVG product technology upgrade commitment charge; and
- a $27 million net litigation charge primarily related to provision for additional InFuse claims.

In our Cardiac and Vascular Group, revenue of $2 billion, 596 million grew 10 percent. This was a result of a strong performance in all three divisions: Cardiac Rhythm & Heart Failure, Coronary & Structural Heart, and Aortic & Peripheral Vascular.

In Cardiac Rhythm & Heart Failure, or CRHF, revenue of $1 billion, 398 million grew 11 percent. This performance was driven by low-teens growth in Low Power, mid-single digit growth in High Power, strong growth of over 30 percent in AF Solutions, as well as nearly doubling our revenue in Services & Solutions, which includes Cardiocom and Cath Lab Managed Service revenue. We estimate that the global CRHF market is growing in the low to mid-single digits, and the strength of our new product introductions is resulting in share gains and generally improved pricing dynamics. Low Power growth continues to be driven by the global adoption of Reveal LINQ®, which resulted in Diagnostic revenue growth of over twenty percent sequentially, as well as solid pacemaker implant growth in the US. LINQ is resulting in not only increased Diagnostic sales, but also pacemaker pull through as LINQ is resulting in more bradycardia diagnoses in syncope patients. Looking ahead, we look forward to the launch of the Micra® Transcatheter Pacing System in international markets this summer, followed by a US launch in FY17. In High Power, we continue to see strong market adoption of our Attain® Performa® CRT-D system, with its differentiated next-generation quadripolar technology, AdaptivCRT® algorithm, and time-saving VectorExpress® programming. High Power also had a strong quarter in Japan, where we have now gained over 20 points of ICD share since the launch of our Evera MRI® SureScan® ICD in Q3. We expect to launch the Evera MRI® ICD in the US this fiscal year. Our AF Solutions business continues to take share in the AF market on the continued strong growth of our Arctic Front Advance® CryoAblation System, which is growing at more than double the overall market growth rate.

Turning to Coronary & Structural Heart, or CSH, revenue of $792 million grew 9 percent. Our Coronary business grew in the low-single digits, driven by solid, mid-single digit growth in drug-eluting stents. In Europe, our launch of the Resolute Onyx™ resulted in 400 basis points of DES share gains sequentially and a sequential slowing of pricing declines. Resolute Onyx™ features enhanced visibility and thinner struts to improve deliverability. We began the US pivotal trial for Resolute Onyx™ in March and are currently forecasting an FY18 FDA approval. In our broader Coronary product offering, we are also seeing increased strength, particularly in balloons, where we gained 400 basis points of share on the successful rollout of our differentiated Euphora® PTCA balloon family.

In Renal Denervation, we announced in April the initiation of the SPYRAL HTN global clinical trial program, which includes two global, prospective, randomized, sham-controlled trials studying uncontrolled hypertension patients both on and off medication. Based on the outcome of these two initial studies, we will then evaluate next steps for a pivotal study.

Our Structural Heart business grew in the upper-teens, driven by another strong quarter in transcatheter valves, which grew nearly 50 percent. In the US, our continued rollout of CoreValve® is driving growth and resulting in both sequential and year-over-year share gains. We added approximately 40 additional new centers in the quarter, and now have more than 275 US centers trained since launch. In late March, we received FDA approval for the use of CoreValve® in a failed bioprosthesis, also known as valve-in-valve implantation, and this further contributed to our US growth. As CoreValve® is the only TAVR product approved for this indication, it makes CoreValve® an indispensable offering for every practicing TAVR center. In international markets, our business took share sequentially due to the strong adoption of our CoreValve® Evolut® R. We are seeing strong

customer enthusiasm for this next-generation self-expanding platform, with its option to recapture and reposition the valve during the procedure, its differentiated 14-French equivalent delivery catheter allowing access to smaller anatomies, and its redesigned inflow and skirt to help promote annular sealing. Evolut® R is receiving tremendous feedback on its clinical outcomes, overall ease of use, and procedural efficiencies. The FDA submission of Evolut® R is complete, and we are targeting a first half-FY16 approval and US launch. The FDA also recently allowed us to begin implanting Evolut® R in our SURTAVI trial, and to reduce the enrollment requirement for the trial to 1400 patients, which we believe brings in the timeline for US intermediate risk approval by at least a year. We have already enrolled approximately 1,250 patients in SURTAVI, and we expect to complete enrollment over the next several months. In Japan, we received PMDA approval for CoreValve® in March and plans are underway for a full launch this fall following anticipated reimbursement approval in October.

In our Aortic & Peripheral Vascular division, or APV, revenue of $406 million grew 9 percent. The Aortic business grew in the low-single digits and the Peripheral Vascular business grew in the mid-teens, driven by the successful US launch of our IN.PACT® Admiral® drug-coated balloon. We estimate that the IN.PACT® Admiral® is the leading DCB in the US market in just its first quarter of launch. This leadership position was attained without the benefit of having a full quarter of a combined Medtronic and legacy Covidien peripheral salesforce. We expect this DCB to drive growth in our APV division over the coming quarters through both its individual revenue contribution, as well as its ability to drive share across our broader Peripheral Vascular product line through the use of multi-line contracting. Looking at our DCB pipeline, we expect to obtain FDA approval for our 150 millimeter IN.PACT® Admiral® balloon in Q4 FY16 or early Q1 FY17. In addition, we expect to file for expanded indications for IN.PACT® Admiral®, with a PMA-S US filing in the second half of FY16 for an in-stent restenosis indication, as well as a CE Mark filing by the end of FY16 for an AV Fistula indication. We are also finalizing bench testing now on our redesigned DCB for use below-the-knee, which we expect to submit for CE Mark in FY16.

Now, turning to our Minimally Invasive Therapies Group, which consists of the majority of legacy Covidien businesses, revenue of $2 billion, 387 million grew 6 percent, which included a net 140 basis point contribution from acquisitions and divestitures. MITG's revenue performance was driven by double-digit growth in Surgical Solutions and low-single digit growth in Patient Monitoring & Recovery.

Surgical Solutions revenue of $1 billion, 293 million grew 10 percent, with high-single digit growth in Advanced Surgical, low-single digit growth in General Surgical, and growth of over 40 percent in Early Technologies. Advanced Surgical had a strong quarter, with balanced low-double digit growth in both Stapling and Energy. Stapling results benefitted from the continued rollout of new products, including the Endo GIA™ Reinforced Reload. In Energy, we are seeing strong procedural growth, particularly in Vessel Sealing. Our Early Technologies business also had solid growth across all 3 product lines: GI Solutions, Advanced Ablation, and Interventional Lung Solutions. Geographically in Surgical Solutions, both the US and China had strong quarters, delivering double-digit growth. Surgical Solutions continues to focus on driving minimally invasive surgery adoption globally.

Patient Monitoring and Recovery revenue of $1 billion, 94 million grew 2 percent. The division was led by strength in the Patient Monitoring business, which grew in the mid-single digits, as well as both Nursing Care and Airway & Ventilation, which grew in the low-single digits. This offset low-single digit declines in Patient Care. Growth in the Patient Monitoring business resulted from a strong US flu season, which drove pulse oximetry sales.

Now, moving to our Restorative Therapies Group, revenue of $1 billion, 854 million grew 5 percent. Results were driven by growth in Surgical Technologies, Neuromodulation, and Neurovascular, partially offset by modest declines in Spine.

Spine revenue of $743 million declined 2 percent. Low-single digit growth in BMP was offset by low-single digit declines in Core Spine and Interventional. Both the global and US Core Spine markets grew in the low-single digits, consistent with last quarter. In our Core Spine business, both TL and Cervical declined, but both of these businesses are expected to improve as we continue to launch innovative technologies into the market, and these new products become a larger part of our sales mix. In TL, we are expecting FY16 rollouts of new technologies for our OLIF 2-5™ and 5-1 procedures, our new Elevate™ expandable cage, and Solera® Voyager®, our new minimally invasive lumbar pedicle screw system. In Cervical, we continue to see adoption of our new Prestige LP™ cervical disc and innovative Anatomic PEEK PTC interbody spacer. We also are now beginning the launch of our Divergence® standalone interbody cage and Zevo® anterior cervical plate system. Our Spine division also continues to develop and deploy our differentiated Surgical Synergy™ program, which integrates our enabling technologies, surgical tools, spinal implants, and expertise to improve surgical outcomes and efficiencies. This includes utilizing O-arm® imaging and StealthStation® navigation in Spine procedures, and the strong growth from these two enabling technologies is recognized in our Surgical Technologies division.

In Neuromodulation, revenue of $518 million increased 6 percent, driven by double-digit growth in DBS and mid-teens growth in Gastro/Uro. In DBS, our global focus on neurologist referral programs, and the strength of the EARLYSTIM data in international markets, continues to drive solid growth. In Gastro/Uro, we continue to see strong growth in sales of the InterStim® system. Our Pain Stim business was flat this quarter, reflecting a continued decline in the US market resulting from a negative reimbursement change that affected trialing activity and new implant growth. However, we grew our global pain stim share sequentially on the strength of our RestoreSensor® SureScan® MRI spinal cord stimulation system, with its proprietary AdaptiveStim® automatic stimulation adjustment feature and access to MRI scans anywhere in the body.

Turning to our Surgical Technologies division, revenue of $461 million grew 9 percent, driven by solid, balanced growth across all three businesses. Neurosurgery grew in the mid-single digits reflecting record worldwide O-arm® surgical imaging unit sales, continued strength in StealthStation® navigation service revenue, and the contribution of Visualase® MRI-guided laser ablation. ENT low-double digit growth was a result of continued strong customer adoption of our StraightShot® M5 Microdebrider and NuVent™ sinus balloon, partially offset by the MicroFrance divestiture, which occurred in Q3. In Advanced Energy, strong adoption of our proprietary Aquamantys® tissue sealing and PEAK PlasmaBlade® technologies drove upper-teens growth.

In Neurovascular, revenue of $132 million grew 23 percent. The division, formerly part of legacy Covidien, had strong double digit growth across Coils, Stents, Flow Diversion, and Access. In Stents, we saw strong adoption of our Solitaire™ FR revascularization device following the presentation of four meaningful clinical trials at the International Stroke Conference in February, and subsequent publication of three of these studies in the New England Journal of Medicine. These studies provided evidence that the standard of care for the treatment of stroke should be changed to include stent thrombectomy as a

primary treatment in addition to IV tPA. In our Flow Diversion portfolio, we also saw strong growth as a result of the continued US launch of the Pipeline™ Flex embolization device.

In our Diabetes Group, revenue of $467 million grew 8 percent, with solid upper-single digit growth from the continued adoption of our CGM sensor-augmented insulin pump systems in both the US and non-US developed markets. In the US, we continue to see strong adoption of our MiniMed® 530G System with the Enlite® CGM sensor. In non-US developed markets, growth was driven by the launch of our next-generation MiniMed® 640G System with the Enhanced Enlite® CGM sensor in Australia and Europe. In addition to incorporating a brand new insulin pump design and user interface, the MiniMed® 640G System features SmartGuard™ technology, which can automatically suspend insulin delivery when sensor glucose levels are predicted to approach a low limit and then resume insulin delivery once levels recover. We continue to make progress in bringing this technology to the US and plan to submit the PMA for this system later this calendar year. In Q4, we continued to advance the development of artificial pancreas technology through a minority investment in DreaMed Diabetes, which included licensing their MD-Logic artificial pancreas algorithm. We also continued to make progress in our Diabetes Service & Solutions division with three business development announcements in Q4. First, we made a minority investment in Glooko, a developer of a unified platform for diabetes management. Second, we announced a partnership with IBM Watson Health to develop a new generation of personalized diabetes management solutions. And third, we acquired Diabeter, a Netherlands-based diabetes clinic and research center, which has developed a truly unique integrated care model for people with diabetes that we intend to expand globally over time. Taken together, these announcements signify that we are focused on transforming our Diabetes Group from a market-leading pump and sensor company into a holistic diabetes management company focused on making a real difference in outcomes and cost.

Turning to the rest of the income statement, after adjusting for certain non-GAAP items mentioned earlier, as well as the 10 basis point negative impact from foreign exchange, the Q4 operating margin was 29.6 percent, which included non-GAAP operational gross margin, SG&A, and R&D of 70.8 percent, 32.6 percent, and 6.9 percent, respectively, demonstrating the leverage we normally see in the fourth quarter in SG&A and R&D.

Also included in the operating margin was Net Other Income of $20 million, including net gains from our hedging program of $139 million. We hedge the majority of our operating results in developed market currencies to reduce volatility in our earnings from foreign exchange. In addition, a growing portion of our profits are unhedged, especially emerging market currencies, which can create some modest volatility in our earnings. Based on current exchange rates, we expect FY16 Net Other Expense to be in the range of $215 to $275 million, which includes an expected impact from the US Medical Device tax of approximately $205 million. For Q1 FY16, we expect Net Other Expense to be in the range of $65 to $75 million based on current exchange rates. It is worth noting that in Q4, we hedged the majority of the expected FY16 legacy Covidien operating results in developed market currencies, consistent with Medtronic's practice, at recent market rates.

Overall, we expect FY16 operating margins to be in the range of 28 to 29 percent on an as reported basis, which includes over 100 basis points of improvement, or approximately 400 basis points of operating leverage related to cost synergies, offset by an expected FX impact of approximately 70 basis points. The majority of the operating margin improvement will come in SG&A as a result of the

realization of cost synergies from our Covidien acquisition, as well as continued execution on the legacy leverage initiatives of both Covidien and Medtronic. We would expect operating margins in the first half of the year to be below this range, improving in the back half of the year as the foreign exchange headwinds lessen and cost synergies accelerate.

Below the Operating Profit line, Q4 Net Interest Expense was $186 million, a significant increase from prior quarters as we are now including the incremental interest expense from our December 2014 $17 billion bond offering used to fund the Covidien acquisition. At the end of Q4, we had approximately $19.5 billion in cash and investments and $36.2 billion in debt. In Q1, we expect to retire $1 billion of maturing debt using existing cash. Based on current rates, we would expect FY16 Net Interest Expense to be approximately $750 million, including approximately $210 million in Q1.

Our non-GAAP nominal tax rate on a cash basis in Q4 was 15.4 percent. This was lower than expected due primarily to the finalization of profit mix by jurisdiction, which resulted in a favorable catch-up as we reduced our annual tax rate. We would expect our FY16 non-GAAP nominal tax rate on a cash basis to be in the range of 16 to 18 percent, and we expect to be at the higher end of this range until the presently expired US R&D tax credit is reinstated.

In Q4, we generated $1.7 billion in free cash flow. We remain committed to returning 50 percent of our free cash flow, excluding one-time items, to shareholders. In Q4, we repurchased $300 million of our common stock and paid $435 million in dividends. While a portion of our dividend paid in April was treated for US tax purposes as a return of capital, our expectation is that we will increasingly accumulate profits at the Medtronic plc level and move over time toward a dividend that is treated completely as a return of earnings. As of the end of Q4, we had remaining authorization to repurchase approximately 30 million shares. Fourth quarter average daily shares outstanding, on a diluted basis, were 1 billion, 441 million shares. It is important to note that the cash we receive from stock option redemptions, which was $172 million in Q4, will also continue to be used to repurchase shares on the open market to partially offset the dilutive impact. These share repurchases are incremental to our commitment to return 50 percent of our free cash flow to shareholders. For FY16, we would expect diluted weighted average shares outstanding to be in the range of approximately 1 billion, 433 million to 1 billion, 437 million shares, including approximately 1 billion 439 million shares in Q1.

Let me conclude by commenting on our initial fiscal year 2016 revenue outlook and earnings per share guidance. We believe that underlying operational revenue growth in the range of 4 to 6 percent, plus the incremental expected revenue from our Q1 extra selling week of 100 to 150 basis points, all on a comparable, constant currency basis, is reasonable for FY16. This operational revenue growth expectation is consistent with our stated baseline financial goal of consistently delivering mid-single digit revenue growth. Our revenue outlook assumes that CVG, MITG, and RTG grow in the mid-single digits, and Diabetes grows in the upper-single to low-double digit range, all on a comparable, constant currency basis and including the expected benefit of the extra week.

While we cannot predict the impact of currency movements, to give you a sense of the FX impact if exchange rates were to remain similar to yesterday for the remainder of the fiscal year, then our FY16 revenue would be negatively affected by approximately $1.3 to $1.5 billion, including a negative $540 to $600 million impact in Q1.

Turning to guidance on the bottom line, we believe it is reasonable to model cash earnings per share in the range of $4.30 to $4.40, which includes an expected 40 to 50 cent negative foreign currency impact based on current exchange rates and approximately $300 to $350 million of targeted value capture synergies from the Covidien acquisition. As you think about your FY16 models and quarterly gating, it is worth noting that this FX impact to EPS is 10 cents more negative than the estimate given on our Q3 earnings call, as well as the fact that a higher percentage of the negative FX impact is in the first half of the year, while more of the value capture synergies occur later in the fiscal year.

As in the past, my comments on guidance do not include any unusual charges or gains that might occur during the fiscal year.

I will now turn it back over to Omar.

Omar Ishrak
Thanks, Gary.

Before opening the lines for Q&A, let me briefly conclude by stating that Q4 was another strong quarter, a good finish to a successful and transformative year. As we look ahead, while we are facing increased headwinds from foreign exchange, we must remain focused on the operations of the company, striving to reliably deliver on our baseline financial model: mid-single digit constant currency revenue growth; EPS growth 200 to 400 basis points faster than revenue on an operational basis; and returning 50 percent of our free cash flow to shareholders. To achieve these goals, we continue to execute on our three primary strategies – therapy innovation, globalization, and economic value. We expect our efforts to deliver consistent and reliable performance, combined with disciplined capital allocation, will enable us to create long-term, dependable value in healthcare.

With that, we will now open the phone lines for Q&A. In addition to Gary, I have asked Mike Coyle, President of our Cardiac and Vascular Group, Bryan Hanson, President of our Minimally Invasive Therapies Group, Chris O'Connell, President of our Restorative Therapies Group, and Hooman Hakami, President of our Diabetes Group, to join us. We are rarely able to get to everyone's questions, so please limit yourself to only one question and only one follow-up. If you have additional questions, please contact our Investor Relations team after the call. Operator, first question please.

Following Q&A:

Omar Ishrak
OK. Thanks for your questions. With that, on behalf of our entire management team, I would like to thank you again for your continued support and interest in Medtronic. We look forward to updating you on our progress on our Q1 call, which we anticipate holding on September 3rd. Thank you, and have a great day.

The Anatomic PEEK PTC interbody spacer, Divergence standalone interbody cage, and Zevo anterior cervical plate system incorporate technology developed by Gary K. Michelson, M.D.