

# Supplemental Non-GAAP Disclosures

	Quarter Ended		% Change
	06/30/2017	06/30/2016	
<b>Adjusted EPS</b>			
<b>EPS, reported</b>	<b>0.11</b>	<b>-0.15</b>	<b>N/A</b>
Add: Non GAAP adjustments	0.21	0.42	
<b>Adjusted EPS</b>	<b>0.32</b>	<b>0.27</b>	<b>18%</b>
Less: Impact of foreign currency fluctuations	-0.02	N/A*	
<b>Adjusted EPS, excluding foreign currency fluctuations</b>	<b>0.34</b>	<b>0.27</b>	<b>24%</b>

\* The impact of FX is calculated on an incremental basis

	Quarter Ended		Basis Points Change
	06/30/2017	06/30/2016	
<b>Adjusted Gross Margin</b>			
<b>Gross Margin, reported</b>	<b>72.0%</b>	<b>70.0%</b>	
Less: Non GAAP adjustments	-0.8%	-0.7%	
<b>Adjusted Gross Margin</b>	<b>72.8%</b>	<b>70.7%</b>	<b>210</b>

	Quarter Ended		Basis Points Change
	06/30/2017	06/30/2016	
<b>Adjusted SG&amp;A Margin</b>			
<b>SG&amp;A Margin, reported</b>	<b>36.0%</b>	<b>36.6%</b>	
Less: Non GAAP adjustments	0.5%	0.7%	
<b>Adjusted SG&amp;A Margin</b>	<b>35.5%</b>	<b>35.9%</b>	<b>-40</b>

	Quarter Ended		Basis Points Change
	06/30/2017	06/30/2016	
<b>Adjusted R&amp;D Margin</b>			
<b>R&amp;D Margin, reported</b>	<b>10.8%</b>	<b>10.4%</b>	
Less: Non GAAP adjustments	0.2%	0.0%	
<b>Adjusted R&amp;D Margin</b>	<b>10.6%</b>	<b>10.4%</b>	<b>20</b>

	Quarter Ended		Basis Points Change
	06/30/2017	06/30/2016	
<b>Adjusted Royalty Margin</b>			
<b>Royalty Margin, reported</b>	<b>0.8%</b>	<b>0.9%</b>	
Less: Non GAAP adjustments	0.0%	0.0%	
<b>Adjusted Royalty Margin</b>	<b>0.8%</b>	<b>0.9%</b>	<b>-10</b>

*Numbers presented above may not foot due to rounding.*

*Growth rates are based on actual, non-rounded amounts and may not recalculate precisely.*

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<i>in millions</i>	Quarter Ended 6/30/2017		Quarter Ended 6/30/2016		
Segment Operating Income & Operating Margin	Adjusted Operating Income	Adjusted Operating Margin	Adjusted Operating Income	Adjusted Operating Margin	Basis Points Change
Cardiovascular	\$ 268	30.1%	\$ 249	29.7%	40
Rhythm Management	115	20.9%	73	13.7%	720
MedSurg	270	32.2%	234	31.1%	110
<b>Segment Operating Income</b>	<b>\$ 653</b>		<b>\$ 556</b>		
Corporate expenses and currency	(66)		(58)		
Acquisition-related, restructuring- and restructuring-related, and litigation-related net credits (charges)	(220)		(697)		
Amortization expense	(142)		(135)		
<b>Operating Income (Loss)</b>	<b>\$ 225</b>		<b>\$ (334)</b>		

	Quarter Ended		
Adjusted Operating Margin	06/30/2017	06/30/2016	Basis Points Change
Operating Margin, reported	10.0%	-15.7%	
Less: Non GAAP adjustments	-16.0%	-39.1%	
<b>Adjusted Operating Margin</b>	<b>26.0%</b>	<b>23.4%</b>	<b>260</b>

<i>in millions</i>	Quarter Ended	
Adjusted Free Cash Flow	06/30/2017	06/30/2016
Operating cash flow, reported	\$ 186	\$ 422
Less: Capex	68	79
<b>Free Cash Flow, reported</b>	<b>117</b>	<b>343</b>
Plus: Restructuring Payments	17	16
Plus: Legal Settlements	291	127
Plus: Earnouts	-	-
Plus: Special Tax Refunds/Credits	(35)	(33)
Plus: Other	19	10
<b>Adjusted Free Cash Flow</b>	<b>\$ 409</b>	<b>\$ 464</b>

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	Quarter Ended
Adjusted Tax Rate	6/30/2017
Tax Rate, reported	-60.3%
Less: Non GAAP adjustments	-74.2%
Adjusted Tax Rate	13.9%

	Quarter Ended
Organic Revenue Growth - China	06/30/2017
Revenue growth, reported	14%
Less: Impact of currency fluctuations	-6%
Operational Revenue Growth	20%
Less: Impact of acquisitions	0%
Organic Revenue Growth	20%

	Quarter Ended
Urology & Pelvic Health - Emerging Markets Growth	6/30/2017
Revenue growth, reported	42%
Less: Impact of currency fluctuations	1%
Operational Revenue Growth	41%

	Quarter Ended	
DES Revenue Growth	6/30/2017	6/30/2016
DES revenue growth, reported	1%	8%
Less: Impact of currency fluctuations	0%	-1%
DES Revenue Growth - Constant Currency	1%	9%

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## Forward-Looking Non-GAAP Financial Measures



The following is an explanation of the adjustments that management excluded from GAAP measures to calculate the following forward-looking non-GAAP financial measures for the third quarter and full year 2017:

**Adjusted Gross Margin:** Excludes from GAAP gross margin the impacts of forecasted acquisition-related and restructuring-related charges or credits.

**Adjusted SG&A:** Excludes from GAAP SG&A the impacts of forecasted acquisition-related and restructuring-related charges or credits.

**Adjusted R&D:** Excludes from GAAP R&D the impacts of forecasted acquisition-related and restructuring-related charges or credits.

**Adjusted Operating Margin:** Excludes from GAAP operating margin the impacts of forecasted acquisition-related and restructuring- and restructuring-related charges or credits, and amortization expense.

**Adjusted Tax Rate:** Excludes from GAAP tax rate the tax impacts related to forecasted acquisition-related and restructuring- and restructuring-related charges or credits, and amortization expense.

**Adjusted Free Cash Flow:** Adjusts GAAP operating cash flow to include the impacts of forecasted capital expenditures and excludes the impact of estimated after-tax acquisition-, restructuring- and litigation-related payments.

Please refer to our Cautionary Statement Regarding Forward-Looking Statements within our Q2 2017 Earnings Release, filed in Form 8-K, in conjunction with any forward looking information presented within