



## Dear shareholders:

Some say that running a company is like running a marathon—that success is a matter of stamina, discipline and a steady, unrelenting pace. Although that’s undeniably true, 2009 felt more like a boxing match. We went toe-to-toe with a volatile global economy, rolled with some marketplace punches, moved quickly and battled back. By the close of the year and going into 2010, we feel encouraged by where we’re headed. Here’s why:

- A new culture of quality and compliance is taking root at Stryker.
- We’ve grown leaner by managing costs and standardizing operations.
- Our focus on innovation and growing our R&D pipelines is alive and well.
- Key acquisitions have added to our capabilities and opened up important new markets.
- Strong cash flow underscores the health of our company.
- Adjusted diluted net earnings per share grew in 2009.

We believe our company has the leadership position, financial strength, focus on costs and quality, the broad geographic reach and, most importantly, a special spirit in our people to compete, grow and win over the long term.

### Performance in perspective

We generated net sales of \$6.72 billion, up 0.1% from 2008. While this growth rate is anemic by our usual standards, the sheer fact of generating any growth in 2009 was a notable victory. Importantly, it preserves our long-term track record of growing every year. Our adjusted diluted net earnings per share increased 4% to \$2.95 in 2009. A focus on cash flow was also a major priority in 2009, and we were pleased to deliver operating cash flow of over \$1 billion for the third consecutive year, and up a strong 24% over 2008.

Clearly, this is not the kind of revenue and earnings growth our shareholders have historically expected from us, and we will never be satisfied with delivering results like these. But we are proud of how agile and resilient our company proved to be in 2009. Throughout our history, we have demonstrated the ability to weather economic downturns and uncertainty, emerging a stronger and more capable enterprise. Last year was no exception. Our quarterly performance demonstrated sequential improvement in our key operating and financial measurements, as our people and teams around the world responded with urgency to manage costs in the face of economic headwinds and marketplace turbulence. As our focus on operating costs paid off throughout the year, a broader economic recovery also appeared on the horizon. This has given us further resolve to go back on offense and deliver stronger results in 2010, hopefully closer to our own expectations. Time will tell. But as we combine our sense of urgency and greater operating efficiency with renewed economic growth, we like our prospects.

While our diverse product offering—which generated superior growth for most of the decade—did create some unique challenges for us in 2009, we continue to believe our footprint possesses significant opportunities for strong growth in 2010 and beyond. Our portfolio of businesses spans numerous medical technology markets, helping to drive sales opportunities and generally providing stability. In 2009, our worldwide MedSurg sales took the hardest hit, with revenue decreasing 5% versus 2008, as hospitals

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and clinics grew conservative with capital equipment purchases. Based on the steady uptick in sales that we saw as 2009 progressed, we expect that this business will return to growth in 2010 and continue to be a key driver in the coming decade. Meanwhile, we were pleased that all of our significant orthopaedic implant franchises posted solid worldwide growth.

Last year in this letter, we reported on the status of three Warning Letters from the Food and Drug Administration (FDA) citing deficiencies in our quality systems. We are pleased that one of these letters, regarding our Biotech division, has been lifted. Regrettably, we received an additional Warning Letter in May related to compliance issues for one of our CMF products. We are working diligently to resolve each of these remaining Warning Letters. Foremost among our ongoing efforts is a three-year investment of approximately \$200 million in the redesign and execution of our quality system improvement plan. While we are seeking to exceed the FDA's expectations through this plan, we also believe it will fundamentally make us a stronger company in the years ahead.

### Focusing on quality, innovation and costs

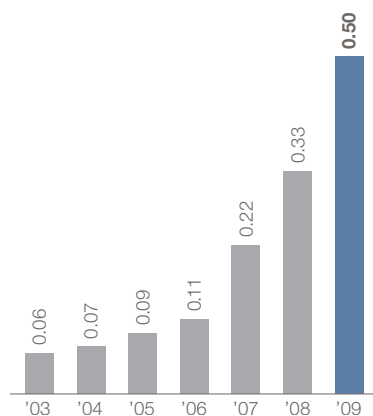
As we have grown in revenue, competitiveness and scale, we've become a leader in a vital industry, facing ever-higher expectations for our products and the performance of our operations. We have mobilized to prepare for a new level of performance in an increasingly complex world, and our evolution continues. In 2009 and going into 2010, what matters most to us—and to our customers—is quality, innovation and costs. These three areas are how we are delivering for today and investing for the future.

### Quality

Quality is not just an objective, it is a discipline. And it cannot simply be the domain of manufacturing in an organization like ours. It includes everything about our products, from design and material sourcing, to the clinical experiences of healthcare providers and the patients they serve. For the last couple of years, we have been executing on an aggressive plan to standardize and dramatically improve our quality systems throughout all our manufacturing divisions. While we have made meaningful progress to date, there is still significant work to do before we reach the higher goals we have established for ourselves.

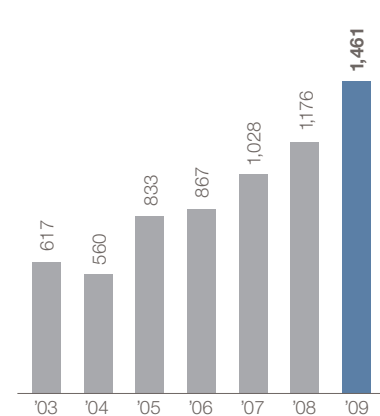
### Dividends Paid

(\$ PER SHARE)



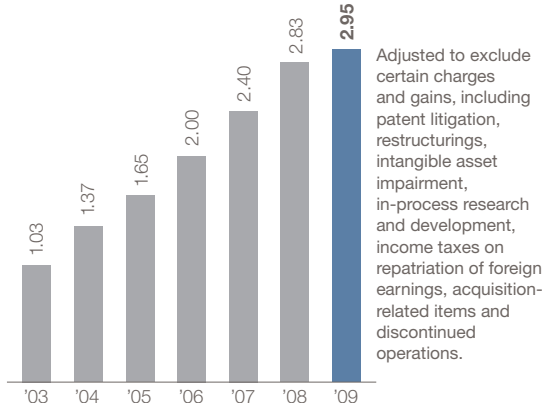
### Cash Flow Provided by Operating Activities

(\$ MILLIONS)



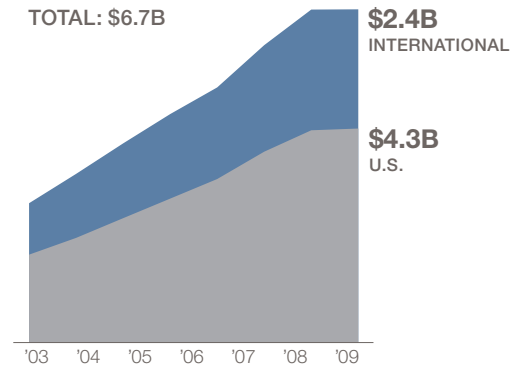
### Leveraged Earnings Growth

(\$ PER SHARE)



### Worldwide Sales Growth

(\$ BILLIONS)



In September, we took the additional step of creating the position of group president, global quality and operations, naming a seasoned Stryker executive, Lonny Carpenter, to the position. In this role, which reports directly to me, Lonny is responsible for establishing and executing company-wide quality, manufacturing, procurement and logistics strategies. His two primary objectives will be to quickly advance our quality systems to the top of our industry, and to drive down our overall operating costs and inventory levels.

#### Innovation

In our quest to improve the lives of patients and caregivers, we continue to develop innovative products and solutions. We are fortunate to have a trusted, intimate role in the professional lives and abilities of caregivers—the healthcare professionals and hospital administrators we serve every day. This close relationship has inspired many of our products

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and put life-changing technologies in the hands of clinicians and hospitals. Our ability to “speak the same language” as surgeons, nurses and hospital administrators has led us to innovations that help healthcare professionals deal with cost pressures and compete in their market through improved efficiency and value-added services. As we evolve, we are becoming smarter and more disciplined in the way we connect our clinical knowledge and caregiver relationships with our R&D efforts and our marketing and sales activities.

#### Costs

We are removing the barriers to organizational efficiency. Our company was built with a spirit of independence and entrepreneurship, in which individual businesses developed their own practices, support systems and functions. In our evolution, we are retaining that entrepreneurial spirit, but asking business leaders to focus on their customers and markets, where they have the greatest insight and can drive the greatest value. In support of this approach, we are deploying resources and systems across the company to standardize and serve the needs of these businesses. Higher-level expertise can bring greater consistency and efficiency to areas such as compliance, quality assurance, information technology and human resources. Standardization and shared services in these areas not only offer bottom-line benefits today; they position us to be much stronger operationally and financially when the economic environment improves.

Delivering for today and investing in the future also calls on us to take a fresh look at how we measure our progress and hold ourselves accountable. For years, we strived—and succeeded—at delivering annual 20% earnings per share (EPS) growth. But as we’ve grown, diversified and matured,

and as our customers continue to experience ongoing cost pressures, that single financial metric has become less sustainable. So we've adopted a new lens for viewing our overall performance and are developing measurements to benchmark ourselves more effectively and relevantly against our industry peers. Importantly, a key tenet of our long-term performance — high growth — remains firmly in our DNA.

**Investing in growth**

Our remarkably strong cash position enabled us to pursue strategic acquisitions in 2009 that complement our existing franchises, while also adding a new growth platform to our portfolio. Our most prominent acquisition was Ascent Healthcare Solutions, the market leader in the reprocessing and remanufacturing of medical devices in the United States. This was a \$525 million all-cash transaction that allows our company to extend our value proposition to hospitals and healthcare providers. In Ascent, we see a key player in a high-growth market riding two major trends: cost containment and environmental responsibility. With Ascent as part of Stryker, we will help divert millions of pounds of medical waste from landfills, while simultaneously helping our hospital customers redirect substantial financial resources to patient care quality initiatives.

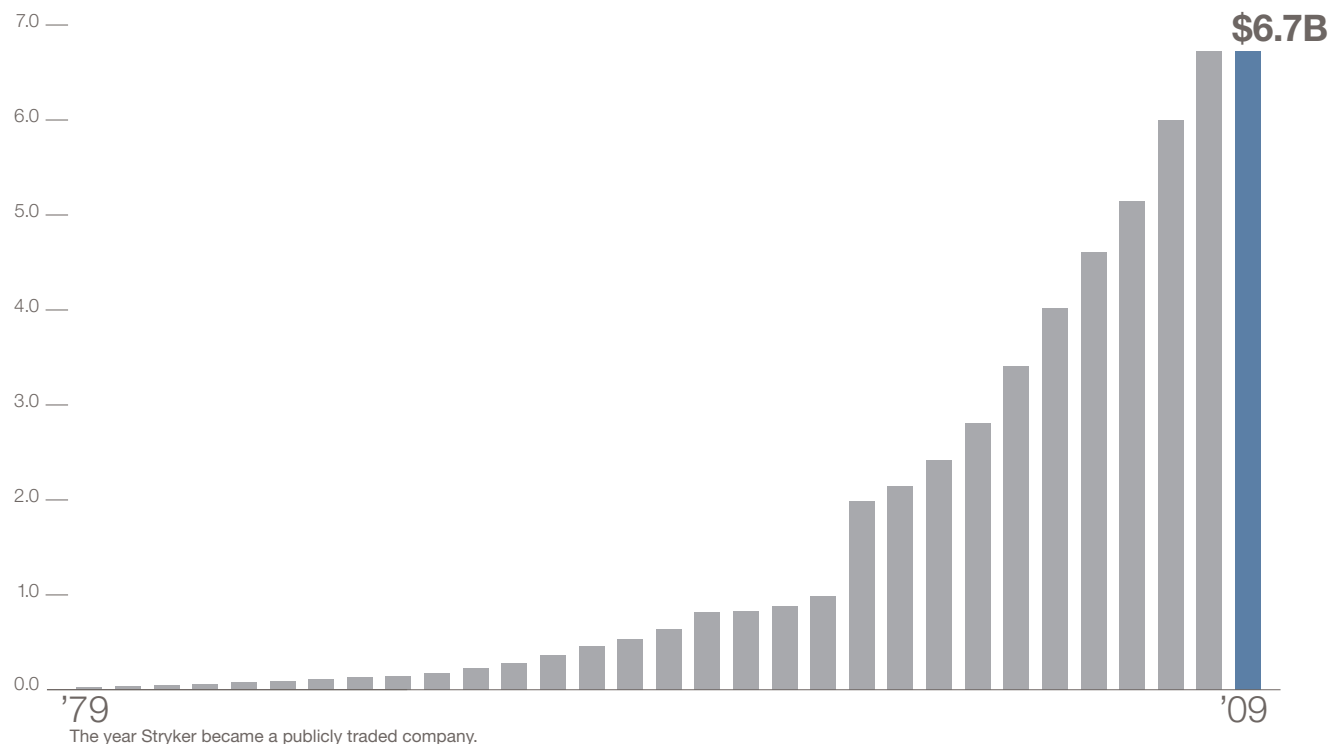
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We also acquired OtisMed Corporation, a privately held software technology firm. OtisMed will focus on customizable instrumentation that has the potential to complement the many benefits that surgeons and patients realize from our Triathlon Knee System, as well as our other implants. Additionally, we entered into agreements to acquire the assets used to manufacture, market and sell the Sonopet Ultrasonic Aspirator technology, which includes precision microsurgical instruments used in neurological and spine procedures. We are excited about the possibilities that these innovative products hold for our future growth.

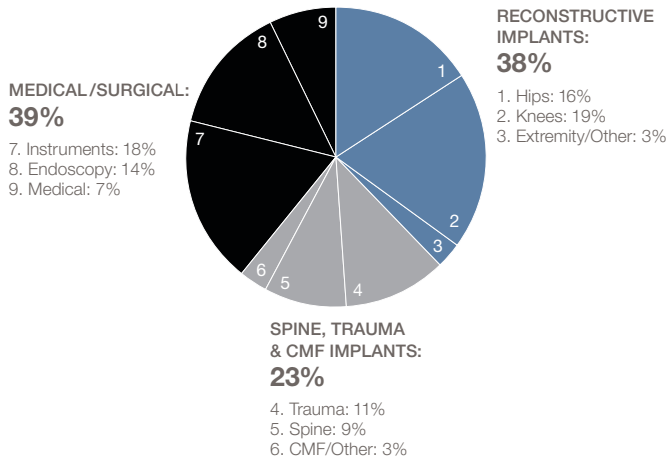
We were pleased to welcome two new members to our Board of Directors during the year: Howard Lance and Srikant Datar. Howard is the chairman, president and CEO of Harris Corporation, a Fortune 500 leader in

**History of Revenue Growth**

(\$ BILLIONS)



## Diversified Sales Base



telecommunications, and he also spent time living in Hong Kong earlier in his career. As a seasoned CEO, Howard's advice and perspective are invaluable. Last summer, we were also fortunate to have Dr. Srikant Datar, a professor at the Harvard Business School, join the Board. Srikant is already bringing exceptionally valuable perspectives to our team, especially related to our approach in emerging markets and to our Biotech business. Both Howard and Srikant have had an immediate impact on our Board discussions, asking penetrating questions that will no doubt make us an even stronger team and company in the years ahead.

## Outlook and opportunities

We have abundant opportunities. The forces that are reshaping the global healthcare landscape today are in our favor: the need for expansion into emerging markets like China and India; the need for cost containment among hospitals; the need for evidence-based medicine among payors; and the ever-present need for innovation and new solutions among healthcare professionals throughout the world. Healthcare reform initiatives in the U.S., while still unresolved, hold opportunities for our business, as they will undoubtedly require us to meet the needs of our customers in new and creative ways.

In every one of our current businesses, we have sufficient scale to compete effectively and room to gain market share. For instance, we are now the world's largest orthopaedic company, yet no single franchise has a leading share. With

39% of sales in the MedSurg market, 38% in reconstructive implants and 23% in spine, trauma and CMF implants, we are balanced across the medical technology space. And we have a broad geographic footprint that allows us to drive sales globally and expand our presence in developing markets. All of these factors allow us to be excited and optimistic—but never overconfident—about the years ahead.

Before I close, I want to thank my colleague and mentor John Brown, who retired this year as chairman of the Board. John began at Stryker in 1977 as president and chief executive officer, and oversaw 32 years of the company's growth. Under John's leadership, we grew from a \$17 million company to become one of the premier medical technology companies in the world. His impact on our company cannot be overstated. The Stryker we know today took shape under his leadership, and I am grateful to have benefited from his wisdom over the past seven years and proud to extend his legacy into the future. Following such a legend is of course a tremendous challenge, but John's support has helped me grow immensely during this time.

After a challenging 2009, I think I speak for all of our employees when I say that it feels good to go on offense again, to make strategic moves that position us to gain ground and to win. We plan to use our talent and resources to transform our competitive abilities for the benefit of the caregivers we serve and their patients, as well as for our shareholders. Our team approaches 2010 mindful of our challenges and enthusiastic about our opportunities. We look forward to reporting to you on our progress.

Sincerely,

Stephen P. MacMillan  
Chairman, President and Chief Executive Officer