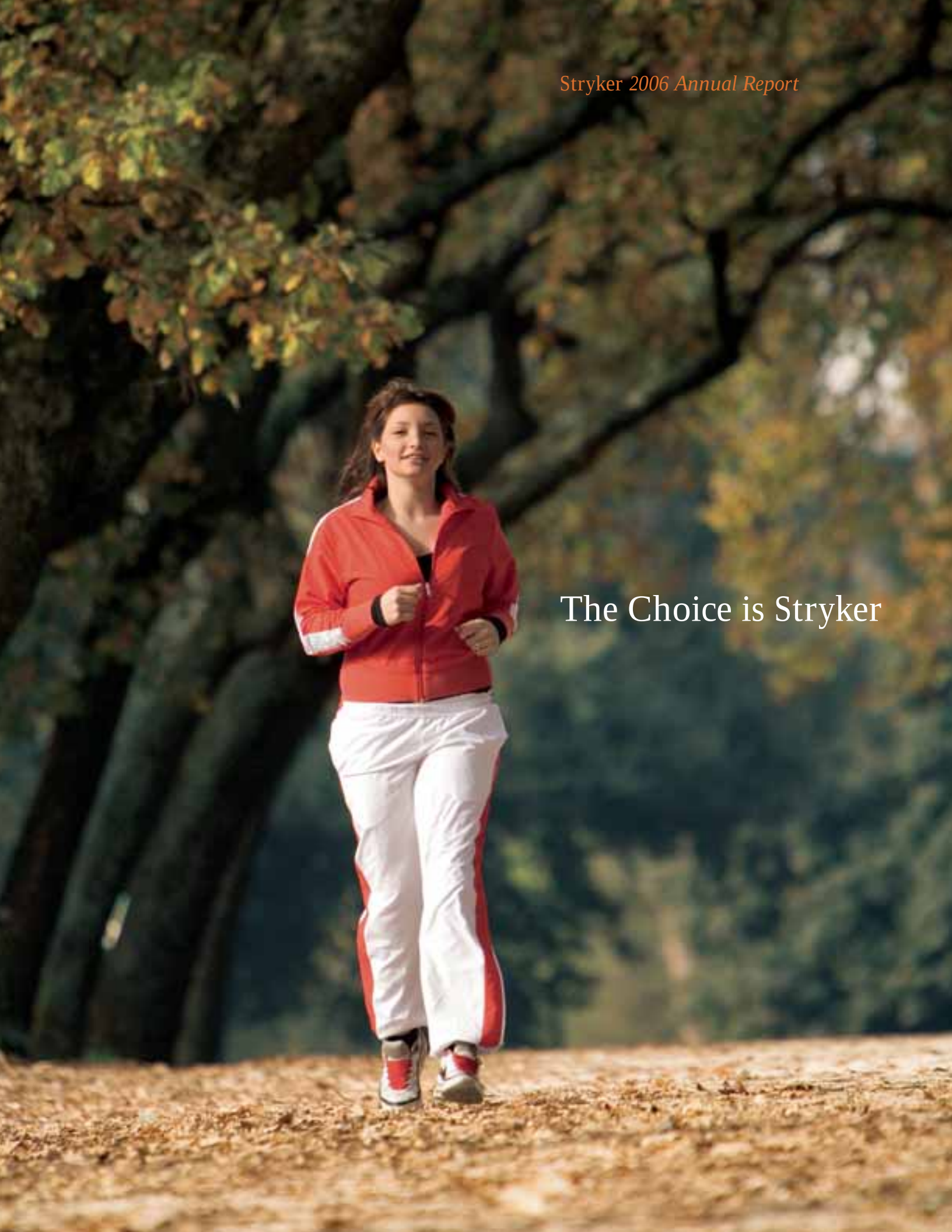


The Choice is Stryker

Financial Highlights

(in millions, except per share amounts)

	2005	2006	% Change
Net sales	$4,871.5	$5,405.6	11.0
Earnings before income taxes	954.6	1,103.8	15.6
Income taxes	311.0	326.1	4.9
Net earnings	643.6	777.7	20.8
Adjusted net earnings [1]	686.9	830.4	20.9
Diluted net earnings per share of common stock:			
Reported	$ 1.57	$ 1.89	20.4
Adjusted [1]	$ 1.67	$ 2.02	21.0
Dividends declared	.11	.22	100.0
Cash and marketable securities	1,056.5	1,414.8	33.9

[1] Adjusted to exclude the purchased in-process research and development charges recorded in 2006 and 2005 and income taxes on the repatriation of foreign earnings in 2005.

Contents

The choice is Stryker for medical professionals, patients and shareholders.

Stryker is the choice because

We manage for long-term growth.
We deliver on our commitments.
We leverage our broad base of products and services.
We invest for the future.

To Our Shareholders:

In 2006, Stryker once again delivered results that were well ahead of the norm for our industry, including a double-digit sales increase for the sixth year in a row, adjusted net earnings of $830 million and operating cash flow of $867 million, which drove our net cash position to $1.4 billion. With these strong results, we were able to make an unprecedented move to double our year-end dividend while remaining committed to redeploying our growing cash balance to strengthen our capabilities and identify new growth platforms.

These financial accomplishments occurred in the context of challenges the medical technology industry is facing due to changes in the health-care environment. Simply put, health-care systems around the world are experiencing growing cost pressures due to aging populations and more patients who demand access to high-quality care. These factors could have a negative impact on companies that produce medical devices, but at Stryker we are committed to helping find solutions to these challenges.

Our goal is to help hospitals and medical professionals around the world improve patient care through meaningful innovations that result in better products, simplified surgical techniques and improved hospital efficiencies. Together, these three advancements can reduce costs throughout health-care systems and help patients regain their active lives.

> We help hospitals and medical professionals improve patient care through meaningful innovations in products, surgical techniques and hospital efficiencies.

We believe that the medical technology industry will face challenges in the coming years, but we also see tremendous opportunities. We believe there are solid reasons why Stryker will continue to excel in such an environment.

Reason 1

We manage for long-term growth, no matter what the external conditions. We set high expectations in good times, and we don't compromise when the going gets tough. Challenging times demand the character to keep doing the right thing.

Reason 2

We say what we will do, and then we deliver. We can make commitments to shareholders, customers, patients and the investment community because we know we will persevere and reach our goals. For example, in 2006, Stryker continued to expand and reinvest in our business. Yet we never wavered from our initial guidance for the year and delivered 21 percent adjusted net earnings growth.

Reason 3

We have the size and scope to stand strong when turbulence hits. Not long ago, Stryker was viewed as an orthopaedics company; today we are a more broadly based medical technology company. We invent, manufacture and sell market-leading products that transform hospital efficiencies and surgical procedures as well as the lives of individuals, and we do this on a global basis. If one sector of our business hits a soft spot, another carries the day. The 19 percent growth of our international MedSurg business and the upswing in our U.S. orthopaedic implant business were just two of our success stories in 2006.

Reason 4

We continually plan for tomorrow. With the goal of long-term growth, we never stop investing for the future. In 2006, we stepped up our investments in R&D, facility expansions and acquisitions. Because we live by the four imperatives that we have laid out for long-term growth, we are confident that when tomorrow arrives, our growth engine will be ready.

Stryker's Four Imperatives for Growth

Innovation	Globalization	People Development	Leveraging Across Divisions
Pursue breakthrough ideas to meet evolving needs.	Drive global franchises to serve more people.	Engage talented people to deliver exceptional results.	Work together to provide comprehensive solutions for our customers.

Delivering on Our Commitments Today

While looking to the future, we remain firmly committed to delivering results in the here-and-now. Stryker's performance during the dynamic climate of 2006 demonstrates how seriously we take our commitments—and how our broad-based, global business model enables us to meet them.

- *Orthopaedics.* We promised a turnaround in our orthopaedic implant business, and it is well underway, with five consecutive quarters of improved performance while the orthopaedic industry as a whole was slowing down. We have far outpaced our competitors in knees, posting double-digit growth for a remarkable 25 quarters in a row, due in part to the introduction of Triathlon into the global marketplace. With the recent launch of our new LFIT Anatomic Femoral Heads, featuring new, more anatomically sized heads and our high-performing X3 polyethylene liners, we expect to further strengthen our hip replacement business.

> Stryker's global knee business has posted an exceptional run of 25 consecutive quarters of double-digit growth—and has outpaced the industry in the United States for the last four.

- *MedSurg.* We developed a game plan to expand our MedSurg business internationally, and this effort produced very positive results in these highly competitive markets. By building out the international sales forces, we have taken advantage of underdeveloped markets outside the United States. Additionally, releases of next-generation Instruments and Endoscopy products during the second half of the year have reinvigorated domestic growth. These favorable trends in the United States point out fundamental strengths, especially because they occurred at the same time that we were creating several new, highly focused sales forces to better serve our customers. We work tirelessly to be in tune with the needs of our customers. As one example, our investment in surgical navigation—one of the most sought-after medical technologies—has made our Navigation business unit the fastest growing in the Company.

- *Biotech, Spine, Osteosynthesis.* We said that these businesses would exceed $1 billion in combined revenue in 2006, and they delivered.

Our Spine business, which became a separate division with a dedicated U.S. sales organization in 2004, has delivered exceptional growth and has almost quadrupled in sales since 2001. Spine turned in another excellent performance in 2006, and we opened a new spine manufacturing facility in Neuchâtel, Switzerland. We also successfully completed our first interim analysis of the data from the FlexiCore lumbar disc clinical trial, which will allow an earlier filing of our premarket approval (PMA) application to the U.S. Food and Drug Administration (FDA).

We successfully integrated our former Trauma and CMF franchises into our new Osteosynthesis division, created in mid-2005 and devoted to repairing fractures and correcting deformities. In establishing the division, we developed more focused sales forces, a process that involves short-term disruption and long-term benefit. Even this early in the integration, we are seeing strong growth in both product lines, with a particularly stellar performance by the CMF franchise in the United States.

In June, we submitted a PMA application to the FDA for the use of OP-1 Putty in spine fusion surgeries. We also completed the first phase of a major expansion at our Biotech production facility in West Lebanon, New Hampshire, that will enable us to meet growing demand for our OP-1 products.

Spine, Trauma and CMF exceeded 20% growth in the United States during 2006.

- *R&D investment.* We have lived up to our promise to increase our R&D investment. With a 14 percent increase in R&D spending in 2006, we have buoyed our prospects for the future.

Stryker increased our investment in R&D by 14 percent in 2006.

- *Growth.* Stryker has a long-standing reputation as a growth company. In 2006, we honored our commitment to deliver our sixth consecutive year of double-digit sales growth along with 21 percent adjusted net earnings growth.

Stryker delivered 21 percent adjusted net earnings growth in 2006, along with double-digit revenue growth.

Focused on Tomorrow

Our decentralized structure enables us to anticipate and adapt to change. In 2006, we took decisive steps to sustain long-term growth. These actions will contribute to our top and bottom lines in the years ahead. Here are some key examples.

Strategic acquisitions and investments. While we remain intensely focused on generating strong organic growth through internal R&D, the promise of enhancing lives through medical technology continues to create new opportunities. We are also committed to finding the most promising of these technologies to complement and bolster our opportunities for growth. Through both acquisition and investment, we are using our expertise to ensure that these technologies follow a successful path through development, regulatory approval and commercialization.

In early 2006, we acquired Sightline Technologies Ltd., a developer of advanced flexible endoscopes for gastrointestinal (GI) and other markets. As a leader in rigid endoscopy, we are now applying our expertise and experience to the flexible scope portion of the market and extending our reach into the GI specialty. Because of our financial strength, we were able to absorb all of Sightline's operating costs for 2006 and still reaffirm our guidance to the financial community—demonstrating both the underlying strength and forward momentum of our Company.

The acquisition of PlasmaSol Corp. in late 2005 was another strategic move. PlasmaSol's technology provides sterilization for certain types of MedSurg equipment, which we believe will provide significant time and cost savings for customers. An additional example is the acquisition of Silverglide, whose technology minimizes bleeding during neurosurgery. We also acquired rights to innovative technologies in a number of our businesses.

New global technology center in India. We are very excited about this new facility, which will enable us to incorporate local talent as we invest in an emerging market and develop products that cut across Stryker's divisions. This foothold in Asia will help us create global product platforms to better serve our customers; develop manufacturing resources suited to an increasingly price-sensitive health-care environment; and identify and bring to market technologies that originate outside the United States. Additionally, the global technology center illustrates how we are tapping into the skills of people from around the world—efforts that have been accelerated by initiatives like the Stryker Advanced Leadership Academy at Harvard Business School.

Simplifying surgical procedures. We can save customers money and time by reducing the number of steps in a surgical procedure. Through this vitally important focus, we are leveraging the breadth and depth of our product lines. It also helps us address an area where, quite frankly, our decentralized structure has at times challenged us—working together across the Company's internal divisions to deliver fully integrated solutions. The Stryker Precision Saw with a unique oscillating tip, launched in 2006, is the first fruit of this innovative approach. We look forward to reporting much more progress on procedural simplification in future years.

Maintaining High Standards

Throughout the Company, management and employees earnestly strive to maintain the highest ethical standards, and our Board of Directors shares this aim. At Stryker we are determined optimists who combine our high expectations with a healthy dose of reality. While we do not lay claim to perfection, we collectively get up each morning determined to do business with integrity and transparency.

Stryker's Commitment

All of us at Stryker will do our best for you—our shareholders—and for our customers and the patients we serve, while maintaining an unrelenting focus on long-term growth. We have the size, scope and passion to grow faster than our competitors in franchise after franchise, territory after territory. We are determined to win and deliver on our commitments in earnings growth and all aspects of our business.

We thank you for your ongoing investment and support.

Sincerely,

Stephen P. MacMillan
President and Chief Executive Officer

A Message from Stryker Chairman John W. Brown

During the past three decades, the medical technology industry has experienced several cyclical ups and downs. In 2006, the industry returned to more traditional sales levels after an unusually robust last few years. Consequently, the investment community has been less enthusiastic about stocks in this sector. Nevertheless, I am confident that our industry is on solid ground and that Stryker is well positioned to continue to play a leadership role in the future.

As we look ahead, we see highly favorable long-term prospects. Demographic trends and the desire for active lifestyles will drive market demand. Stryker has both the size and the scope to compete effectively in the worldwide marketplace regardless of external conditions. In addition, we continue to grow more global in composition and outlook. Our management team is focused on growth, innovation and delivering on our commitments. Day after day, our employees show their dedication to the Company and to our customers, and year after year, our customers choose Stryker. The Board of Directors extends our thanks to Stryker's management team and employees. Through their ongoing efforts, we are confident that the Company will continue to deliver double-digit sales growth and net earnings growth of at least 20 percent.

I would like to take this opportunity to extend a warm welcome to Louise Francesconi, who joined Stryker's Board of Directors in July 2006. As a vice president of Raytheon Corporation and president of its Missile Systems business, Louise brings invaluable experience in high-technology operations in the fluctuation-prone defense industry. Her election also increases our board's size and diversity.

Stryker's board and its committees are committed to ensuring corporate integrity and compliance with all the laws and regulations that govern our business, including Sarbanes-Oxley. The Company has a passion for winning, and we are committed to winning fair and square. This tradition has served us well in the past, and it will continue to guide our success in the future.

$5.4b
in net sales

6th
year in a row of
double-digit sales growth

25
consecutive quarters of
double-digit sales growth
in knee implants

14%
growth
in r&d investment

21%
adjusted
net earnings growth

The Year in Review

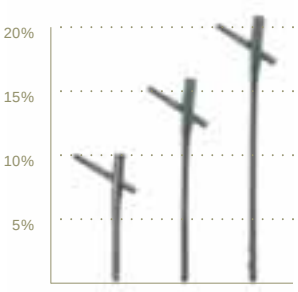
In 2006, Stryker made a number of commitments about our business for the year. Across the Company and within individual franchises, we delivered on those commitments. We grew sales by double digits, and our adjusted net earnings were up 21 percent. We invite you to review some of the major highlights of the year.

MedSurg: Acceleration Around the World

We are confident that our MedSurg businesses will continue to be key global growth drivers for the future, and this year's performance saw them gain significant traction in international markets while continuing their winning tradition in the United States. Endoscopy led the charge, with robust growth across all geographies and product categories, particularly surgical video. Our operating room equipment and medical beds and stretchers businesses also delivered strong results for the year.

Navigation: A Leap Forward

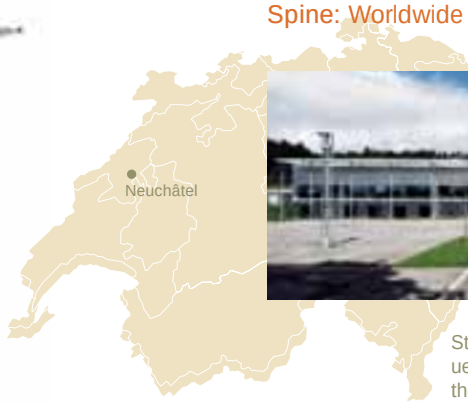
Our surgical navigation systems achieved exceptional growth around the world because of their innovative technology, which we continually improve, and their broad presence across surgical specialties. These computer-aided surgical systems help surgeons perform more precise procedures and enhance both operating room processes and patient outcomes. Because they have application in multiple specialties, our navigation systems have been integrated into a number of our businesses. We are one of the leaders in orthopaedic navigation and are strong in neurosurgery and other areas. We have also included navigation systems in our i-Suite operating rooms, which has further spurred their adoption.



U.S. Implants: Strong Growth

Our domestic implant businesses met or exceeded the goals we set for them in 2006, driven by both product quality and sales focus. Knees continued their market-leading performance with another year featuring four straight quarters of double-digit growth. Spine delivered its seventh consecutive year of 20 percent or greater sales increases. Our U.S. Trauma and CMF franchises each exceeded 20 percent annual growth and demonstrated the benefits of creating dedicated business units in both of these areas.

Spine: Worldwide Momentum



Stryker's Spine franchise has continued to be a growth leader not only in the United States, but around the world as well. Over the last six years, our global spine business has increased sixfold due to the strength of our products, notably thoracolumbar and interbody devices, and our sales organizations. To prepare for the growth we anticipate in coming years, we recently opened a Spine manufacturing facility in Neuchâtel, Switzerland.

Medical: Reaching New Heights

Stryker beds, stretchers and emergency medical systems (EMS) cots and chairs are known throughout the health-care industry for the safety and comfort they provide to patients and the features that help protect medical personnel from injury. This reputation is reflected in the 13 consecutive quarters of double-digit growth in Medical sales both in the United States and beyond. EMS sales once again delivered record-breaking results in 2006.

Barbara Bussetti
Age 20
Student

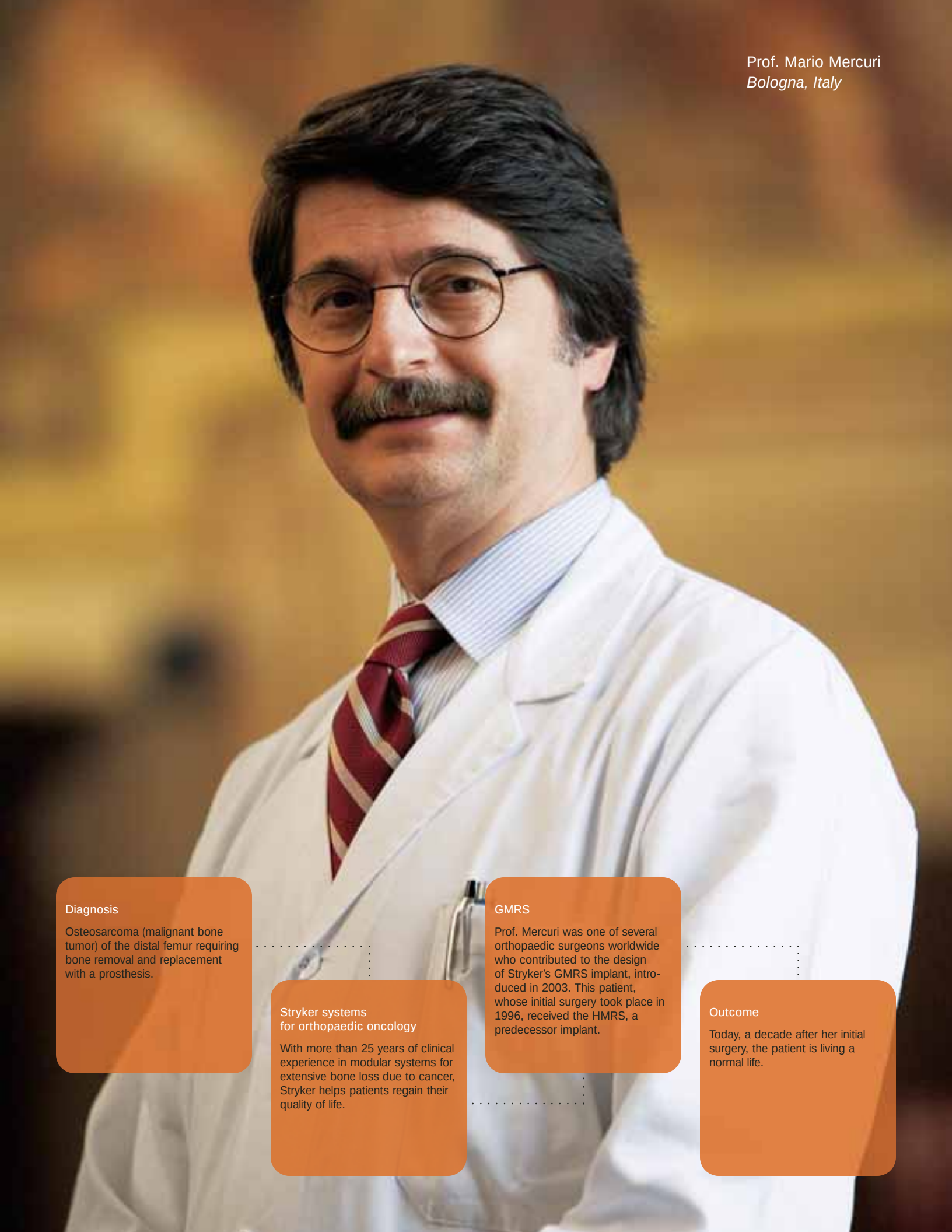
First seen at age 9 for pain in the left knee following a volleyball injury

Growing Up with Stryker's Modular Replacement System

As director of the Orthopaedic Clinic at Italy's renowned Istituti Ortopedici Rizzoli (I.O.R.) in Bologna and a specialist in orthopaedic oncology, Prof. Mario Mercuri treats many young patients with osteosarcoma, or bone cancer. When Barbara Bussetti arrived at I.O.R. in 1996 at age 9, she was diagnosed with this condition and treated with chemotherapy. Prof. Mercuri surgically removed the cancerous bone and implanted a modular prosthesis called HMRS, which was the state of the art at that time.

As Barbara grew, Prof. Mercuri performed two revision surgeries so that her left leg would be the same length as her right. Today, she is an active 20-year-old student. "It is always a challenge to treat a young girl with such a serious condition," observes Prof. Mercuri. "The first goal is survival, but we also want to maximize the functional outcome. Now I see Barbara walk with a functioning prosthetic knee and legs of equal length. It is very satisfying to know she is living a normal life."

In 2003, Stryker introduced the GMRS, the next generation of the European HMRS and U.S. MRS systems in consultation with many leading orthopaedic oncologists from around the world. Prof. Mercuri was one of the key GMRS developers, together with Dr. Rainer Kotz of Austria and U.S. surgeons Dr. Jeffrey Eckardt and Dr. Martin Malawer.



Prof. Mario Mercuri
Bologna, Italy

Diagnosis

Osteosarcoma (malignant bone tumor) of the distal femur requiring bone removal and replacement with a prosthesis.

Stryker systems for orthopaedic oncology

With more than 25 years of clinical experience in modular systems for extensive bone loss due to cancer, Stryker helps patients regain their quality of life.

GMRS

Prof. Mercuri was one of several orthopaedic surgeons worldwide who contributed to the design of Stryker's GMRS implant, introduced in 2003. This patient, whose initial surgery took place in 1996, received the HMRS, a predecessor implant.

Outcome

Today, a decade after her initial surgery, the patient is living a normal life.

“With my prosthesis, I can do anything I want, like going to the gym or the disco or cross country skiing. It’s part of me, it grew with me and it saved my leg and my life. I’m very proud of it, even when it sets off the metal detectors at the bank or the airport!”

—Barbara Bussetti

Joyce Grace
Age 64
Retail employee and avid gardener

Pain in both knees limiting daily activity

Right-Sized Knee Implants For All Patients

When Joyce Grace needed a total replacement in both knees, Dr. Laura Torres-Barré decided that Stryker's Triathlon Knee System was the natural choice. The Triathlon knee implant is the first system designed with a wide range of options to meet the needs of patients of all sizes. For women, the implants are not only smaller, but they have a more compact silhouette, helping to improve fit and function for the female bone structure.[1] (See inside back cover for reference.)

"Triathlon's design and size allow me to make smaller, more specific incisions and take as little bone as possible, while the instrumentation is ergonomic and easy to use," explains Dr. Torres-Barré. "All of these factors benefit patients. The Triathlon implant fits better and permits more natural movement. Rehabilitation can be quicker because there is less trauma to the soft tissue, and the wider range of motion helps patients gain strength sooner."

In addition to its other benefits, the Triathlon knee offers 150 degrees of flexion, which helps patients perform life's enjoyable activities, such as gardening or lifting a grandchild. Depending on the particular case, surgeons may select Stryker's new patented X3 polyethylene bearing surface, which offers superior wear resistance.[2] (See inside back cover for reference.)

Laura Torres-Barré, M.D.
Pearland, Texas, U.S.

Diagnosis

Osteoarthritis in both knees requiring bilateral total knee replacement. The patient chose to have the replacements done sequentially, with the more painful knee first.

Stryker knee systems

Dr. Torres-Barré uses various Stryker implants in her practice, so she can choose the one that best suits each patient.

Triathlon

Based on the patient's gender and her active lifestyle, Dr. Torres-Barré determined that the Triathlon knee system would be the optimal choice.

Outcome

With both knees successfully replaced, the patient is back to her full schedule of activities and reports that she is free of knee pain.

“It’s great to be able to walk without pain and to be back at work and in my garden. I don’t even think about my surgery very much because my artificial knees feel like real, healthy knees. I just wonder why I waited so long.”

—Joyce Grace

He Peng
Age 30
Sound engineer and amateur football player*

Sports injury suffered during football match

*Known as soccer in the United States

Back in the Game

A sound engineer for state-owned China Central Television (CCTV), He Peng is also a skilled amateur football player. He is a member of CCTV's football team, which is well known throughout the country because many of the players are media celebrities. After Peng's right anterior cruciate ligament (ACL) was injured during a match, he was referred to Dr. Zhang Lei, who practices at Wangjing Hospital, China Academy of Traditional Chinese Medicine, in Beijing. Dr. Zhang is one of China's pre-eminent sports medicine surgeons, advancing a specialty that is relatively new to the health-care system.

Dr. Zhang repaired the injury with a minimally invasive ACL repair technique, using Stryker endoscopic equipment and sports medicine screws together with a graft ligament from Peng's left leg. The surgeon also used traditional Chinese medicine. "We always combine traditional Chinese and Western approaches," explains Dr. Zhang. "Chinese herbs help relieve pain, improve circulation and build muscle strength. I also manipulate the leg to aid recovery. Stryker's advanced products and these traditional techniques work well together for patients. Mr. He's case is a good example. That's important because more and more people in China are participating in sports."

Zhang Lei, M.D., Ph.D.
Beijing, China

Diagnosis

Torn anterior cruciate ligament (ACL) due to sports injury.

Stryker sports medicine products

Stryker produces screws, anchors, cannulas and instrumentation for arthroscopic and sports medicine surgery, together with the operating room equipment that makes such treatment possible.

Universal Wedge Screw for ACL repair

Dr. Zhang chose Stryker's titanium Universal Wedge Screw to repair the injury, using a Stryker endoscope in the minimally invasive procedure.

Outcome

The patient was back at work within 4 days of surgery, resumed normal daily activities at 4 weeks and was playing football at 3 months.

“I started playing football when I was young, and it’s always been important to me. My injury was very painful, but now my knee feels very good, just like normal. I had to practice to catch up, but now I’m back playing defense.”

—He Peng

Into the Future

Stryker looks to the future with confidence. This outlook reflects our capabilities, our history of success and our framework for growth. We are committed to meeting customer needs with innovative, high-quality products that truly make a difference for their patients and the efficiency of their businesses.

Our optimism about the future is also based on our people. Stryker employees around the world have the know-how and the work ethic to ensure that we deliver on our commitments. The employee groups shown here stand behind the surgeons and patients in this annual report. They represent the more than 18,000 people worldwide who invent, manufacture and sell the products and services that set Stryker apart.

Invent It

To create a knee implant that would serve the needs of all patients, the Triathlon Knee System R&D team took on assignments that had never been attempted in the industry. These included an anthropometric bone study to analyze measurements from men and women of many ethnic groups and upgrades of standard computer and biomechanical simulators for more rigorous testing and validation.

Manufacture It

Stryker practices team-based manufacturing utilizing Lean concepts, where employee units are responsible for all aspects of the process, leading to outstanding results in productivity and quality. The GMRS team in our Limerick, Ireland, plant is skilled in producing this highly sophisticated modular system, which is used for extensive bone replacement and requires much hand finishing.

Sell It

We have recruited knowledgeable Chinese professionals in sales, marketing, customer service and distribution to help us grow successfully in China. In 2006, Stryker was granted Wholly Foreign Owned Entity (WFOE) status, which allows us to sell our products directly. Having our own sales representatives gives us better accountability to customers and helps us build a more efficient distribution model to meet the health-care needs of this market.

For a key to team members pictured, please see inside back cover.

FINANCIAL REVIEW

TEN-YEAR REVIEW

(dollars in millions, except per share amounts)

SUMMARY OF OPERATIONS	*2006*	*2005*	*2004*
Net sales	$5,405.6	$4,871.5	$4,262.3
Cost of sales:			
Before inventory step-up	1,848.7	1,718.5	1,513.8
Inventory step-up	–	–	–
Total cost of sales	1,848.7	1,718.5	1,513.8
Gross profit	3,556.9	3,153.0	2,748.5
Research, development and engineering expenses	324.6	284.7	214.9
Selling, general and administrative expenses	2,061.7	1,853.5	1,683.5
Intangibles amortization	43.6	48.8	47.8
Purchased in-process research and development	52.7	15.9	120.8
Restructuring, acquisition-related and special charges (credits)	–	–	–
	2,482.6	2,202.9	2,067.0
Operating income	1,074.3	950.1	681.5
Other income (expense)	29.5	4.5	(3.4)
Earnings before income taxes and extraordinary item	1,103.8	954.6	678.1
Income taxes	326.1	311.0	238.1
Earnings before extraordinary item	777.7	643.6	440.0
Extraordinary loss, net of income taxes	–	–	–
Net earnings	$ 777.7	$ 643.6	$ 440.0
Net earnings per share of common stock[a]:			
Basic	$ 1.91	$ 1.59	$ 1.10
Diluted	$ 1.89	$ 1.57	$ 1.08
Dividend per share of common stock[a]	$ .22	$ .11	$ .09
Average number of shares outstanding – in millions[a]:			
Basic	406.5	403.7	401.2
Diluted	411.8	410.8	409.3

(a) Adjusted for the two-for-one stock splits effective May 12, 2000 and May 14, 2004.
(b) Excludes net extraordinary loss per share of $.01 basic and $.01 diluted.

FINANCIAL AND STATISTICAL DATA	*2006*	*2005*	*2004*
Cash and marketable securities	1,414.8	1,056.5	349.4
Working capital	2,182.8	1,621.3	1,029.1
Current ratio	2.6	2.3	1.9
Property, plant and equipment – net	951.7	831.0	700.5
Capital expenditures	217.5	271.7	187.8
Depreciation and amortization	331.8	289.9	250.9
Total assets	5,873.8	4,992.5	4,120.0
Long-term debt, including current maturities	14.8	231.6	10.0
Shareholders' equity	4,191.0	3,300.2	2,788.2
Return on average equity	20.8%	21.1%	17.7%
Net cash provided by operating activities	867.3	833.4	559.5
Number of shareholders of record	4,091	3,979	3,784
Number of employees	18,806	17,265	15,891

2003	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*
$3,625.3	$3,011.6	$2,602.3	$2,289.4	$2,103.7	$1,103.2	$ 980.1
1,315.2	1,113.7	965.5	816.7	792.4	464.7	398.0
–	–	–	–	198.2	7.8	–
1,315.2	1,113.7	965.5	816.7	990.6	472.5	398.0
2,310.1	1,897.9	1,636.8	1,472.7	1,113.1	630.7	582.1
183.0	143.9	143.8	123.7	105.6	61.4	57.2
1,439.9	1,186.8	1,000.3	898.0	816.1	376.7	336.4
45.4	28.9	38.4	34.7	33.9	7.6	7.2
–	–	–	–	–	83.3	–
–	17.2	0.6	(1.0)	18.9	19.0	–
1,668.3	1,376.8	1,183.1	1,055.4	974.5	548.0	400.8
641.8	521.1	453.7	417.3	138.6	82.7	181.3
(18.8)	(40.8)	(66.3)	(97.8)	(117.8)	4.3	11.3
623.0	480.3	387.4	319.5	20.8	87.0	192.6
188.6	151.8	127.4	108.4	7.1	29.5	69.0
434.4	328.5	260.0	211.1	13.7	57.5	123.6
–	–	(4.8)	–	–	–	–
$ 434.4	$ 328.5	$ 255.2	$ 211.1	$ 13.7	$ 57.5	$ 123.6
$ 1.09	$ 0.83	$ .66[b]	$ 0.54	$ 0.04	$ 0.15	$ 0.32
$ 1.07	$ 0.81	$ .64[b]	$ 0.52	$ 0.03	$ 0.15	$ 0.31
$ .07	$ .06	$ .05	$ .04	$ .033	$ .03	$ .028
397.8	395.1	392.5	390.3	387.6	385.2	385.0
406.2	407.7	406.1	402.3	397.2	392.5	392.5

2003	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*
65.9	37.8	50.1	54.0	83.5	138.6	351.1
563.2	443.8	459.7	379.6	440.8	666.2	433.7
1.7	1.6	1.9	1.6	1.7	2.0	2.4
604.7	519.2	444.0	378.1	391.5	429.5	163.9
144.5	139.0	161.9	80.7	76.4	51.3	35.2
229.7	186.1	172.0	168.6	162.8	53.2	49.5
3,188.1	2,838.0	2,439.4	2,441.4	2,586.3	2,878.1	986.4
26.1	501.7	722.6	1,012.5	1,287.4	1,503.0	78.1
2,183.9	1,520.7	1,072.0	865.5	677.3	675.3	614.1
23.5%	25.3%	26.3%	27.4%	2.0%	8.9%	21.6%
616.7	496.2	464.1	318.7	280.4	153.4	88.1
3,084	2,983	2,886	2,904	2,929	3,061	3,127
14,762	14,045	12,839	12,084	10,925	10,974	5,691

Throughout this discussion, references are made to the following financial measures: "constant currency," "adjusted net earnings," "adjusted basic net earnings per share" and "adjusted diluted net earnings per share." These financial measures do not replace the presentation of Stryker Corporation's (the Company or Stryker) reported financial results under generally accepted accounting principles (GAAP). The Company has provided these supplemental non-GAAP financial measures because they provide meaningful information regarding the Company's results on a consistent and comparable basis for the periods presented. Management uses these non-GAAP financial measures for reviewing the operating results of its business segments, for analyzing potential future business trends in connection with its budget process and bases certain annual bonus plans on these non-GAAP financial measures. In order to measure the Company's sales performance on a constant currency basis, it is necessary to remove the impact of changes in foreign currency exchange rates which affects the comparability and trend of sales. In order to measure the Company's earnings performance on a consistent and comparable basis, it is necessary to exclude certain items that affect the comparability of operating results and the trend of earnings. These items include purchased in-process research and development charges recorded in 2006, 2005 and 2004 and the additional income taxes associated with the repatriation of foreign earnings recorded in 2005. Additional details regarding the nature, determination and financial statement impact of these items are included in *Results of Operations.* Given the nature of these items, management believes that excluding them from certain financial metrics is more representative of the Company's past and potential future operational performance. In addition, the Company believes investors will utilize this information to evaluate period-to-period results on a comparable basis and to better understand potential future operating results. The Company encourages investors and other users of these financial statements to review its Consolidated Financial Statements and other publicly filed reports in their entirety and not to rely solely on any single financial measure.

Executive Level Overview

Stryker is one of the world's leading medical technology companies with the most broadly based range of products in orthopaedics and a significant presence in other medical specialties. Stryker works with respected medical professionals to help people lead more active and more satisfying lives. The Company's products include implants used in joint replacement, trauma, craniomaxillofacial and spinal surgeries; biologics; surgical, neurologic, ear, nose & throat and interventional pain equipment; endoscopic, surgical navigation, communications and digital imaging systems; as well as patient handling and emergency medical equipment. Stryker also provides outpatient physical therapy services in the United States.

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive (hip, knee and shoulder), trauma, spinal and craniomaxillofacial implant systems, bone cement and the bone growth factor OP-1. The MedSurg Equipment segment sells surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. The Other category includes Physical Therapy Services and corporate administration, interest expense and interest and marketable securities income.

Domestic sales accounted for 66% of total revenues in 2006. Most of the Company's products are marketed directly to doctors, hospitals and other health-care facilities by approximately 3,200 sales and marketing personnel in the United States. Stryker primarily maintains separate and dedicated sales forces for each of its principal product lines to provide focus and a high level of expertise to each medical specialty served.

International sales accounted for 34% of total revenues in 2006. The Company's products are sold in more than 100 countries through both Company-owned sales subsidiaries and branches as well as third-party dealers and distributors.

The Company's business is generally not seasonal in nature; however, the number of orthopaedic implant surgeries is lower during the summer months.

In the first quarter of 2006, the Company acquired all of the outstanding stock of Sightline Technologies Ltd. (Sightline), a private, development-stage company, for an upfront payment of $50.0 million in cash plus certain transaction costs and the assumption of certain liabilities. Sightline is a developer of flexible endoscopes that should improve insertion and sterilization during colonoscopy procedures. This acquisition is expected to enhance the Company's presence in the gastrointestinal and other markets within its MedSurg Equipment segment.

In the fourth quarter of 2005, the Company acquired, by merger, all of the outstanding stock of PlasmaSol Corp. (PlasmaSol). PlasmaSol has developed a technology that should allow Stryker to provide sterilization equipment for use with certain of its MedSurg Equipment products. The cost of the transaction totaled $17.5 million including an upfront cash payment plus the assumption of certain liabilities.

In the first quarter of 2005, the Company acquired, by merger, all of the outstanding stock of eTrauma.com Corp. (eTrauma) for $50.0 million in cash plus certain transaction costs. The acquisition expanded the Company's digital imaging equipment product offerings within its MedSurg Equipment segment by adding eTrauma's proprietary Picture Archive and Communications Systems (PACS) image management and viewing software.

In the third quarter of 2004, the Company acquired, by merger, all of the outstanding stock of SpineCore, Inc. (SpineCore), for an upfront payment of $120.0 million in cash plus certain transaction costs. SpineCore is a developer of artificial lumbar and cervical discs. This acquisition is expected to enhance the Company's presence in the spinal implant market, an important growth area within its Orthopaedic Implants segment.

Additional details, including the financial statement impacts resulting from these acquisitions, are included in *Results of Operations.*

On December 31, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R).* The Statement requires an entity to recognize, on its balance sheet, an asset or liability reflecting the funded status of defined benefit postretirement plans as the difference between the projected benefit obligation and fair value of plan assets with changes continuing to be reflected in the accumulated other comprehensive gain (loss) component of shareholders' equity net of related income taxes. This Statement does not change the calculation of the amount of net periodic benefit cost included in net earnings. As a result of the adoption of the Statement, the funded status of the Company's defined benefit pension plans resulted in the recognition, in the Company's December 31, 2006 consolidated balance sheet, of an additional $22.8 million liability with corresponding changes in accumulated other comprehensive gain (loss) and deferred income taxes. The adoption of the Statement did not require a restatement of prior periods.

Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (revised), *Share-Based Payment.* The revised Statement requires companies to measure the cost of employee stock options based on the grant-date fair value and recognize that cost over the period during which a recipient is required to provide services in exchange for the options, typically the vesting period. The Company adopted the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company restated all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed. Additional details, including the financial statement impact resulting from this adoption, are included in *Results of Operations.*

In the fourth quarter of 2005, the Company completed the repatriation of $722 million of foreign earnings under the provisions of the American Jobs Creation Act (the Act). The Act provided a temporary incentive for United States companies to repatriate accumulated income earned in foreign jurisdictions at a reduced income tax cost. Additional details, including the financial statement impact resulting from the repatriation of funds, are included in *Results of Operations.*

Outlook for 2007

The Company's outlook for 2007 continues to be optimistic regarding underlying growth rates in orthopaedic procedures and the Company's broadly based range of products in orthopaedics and other medical specialties, despite the potential for increased pricing pressure in certain markets. The Company projects that diluted net earnings per share for 2007 will approximate $2.42, representing a 28% increase over diluted net earnings per share of $1.89 for the year ended December 31, 2006. Excluding the impact of the charge to write off purchased in-process research and development associated with the acquisition of Sightline in 2006, as more fully described in *Results of Operations,* the Company projects that diluted net earnings per share for 2007 will increase 20% over adjusted diluted net earnings per share of $2.02 for the year ended December 31, 2006.

The financial forecast for 2007 includes a constant currency net sales increase in the range of 11% to 13% as a result of growth in shipments of Orthopaedic Implants and MedSurg Equipment which is comparable to the 11% constant currency net sales increase reported for the full year of 2006. If foreign currency exchange rates hold near current levels, the Company anticipates a favorable impact on net sales of approximately 1% to 2% in the first quarter of 2007 and a favorable impact on net sales of approximately 0% to 1% for the full year of 2007.

Results of Operations

The table below outlines the components of the consolidated statements of earnings as a percentage of net sales and the year-to-year percentage change in dollar amounts:

	Percentage of Net Sales			Percentage Change	
	2006	*2005*	*2004*	*2006/05*	*2005/04*
Net sales	100.0%	100.0%	100.0%	11%	14%
Cost of sales	34.2	35.3	35.5	8	14
Gross profit	65.8	64.7	64.5	13	15
Research, development and engineering expenses	6.0	5.8	5.0	14	32
Selling, general and administrative expenses	38.1	38.0	39.5	11	10
Intangibles amortization	0.8	1.0	1.1	(11)	2
Purchased in-process research and development	1.0	0.3	2.8	231	(87)
Operating income	19.9	19.5	16.0	13	39
Other income (expense)	0.5	0.1	(0.1)	556	–
Earnings before income taxes	20.4	19.6	15.9	16	41
Income taxes	6.0	6.4	5.6	5	31
Net earnings	14.4%	13.2%	10.3%	21	46

The table below sets forth domestic/international and product line sales information:

	Net Sales (in millions)			Percentage Change	
	2006	*2005*	*2004*	*2006/05*	*2005/04*
Domestic/international sales:					
Domestic	$3,556.8	$3,165.6	$2,753.0	12%	15%
International	1,848.8	1,705.9	1,509.3	8	13
Total net sales	$5,405.6	$4,871.5	$4,262.3	11	14
Product line sales:					
Orthopaedic Implants	$3,110.1	$2,849.5	$2,556.2	9	11
MedSurg Equipment	2,037.1	1,759.4	1,461.2	16	20
Physical Therapy Services	258.4	262.6	244.9	(2)	7
Total net sales	$5,405.6	$4,871.5	$4,262.3	11	14

The table below sets forth additional sales growth information for significant products within the Company's Orthopaedic Implants and MedSurg Equipment product lines on both a reported basis and a constant currency basis:

	Percentage Change			
	2006/05		*2005/04*	
	Reported	Constant Currency	Reported	Constant Currency
Worldwide Orthopaedic Implants sales:				
Hips	2%	2%	4%	4%
Knees	12	12	14	14
Trauma	13	14	17	17
Spine	18	18	17	17
Craniomaxillofacial	16	16	8	7
Worldwide MedSurg Equipment sales:				
Surgical equipment and surgical navigation systems	12	12	16	16
Endoscopic, communications and digital imaging systems	19	19	24	24
Patient handling and emergency medical equipment	18	17	23	22

2006 Compared with 2005

Stryker Corporation's net sales increased 11% in 2006 to $5,405.6 million from $4,871.5 million in 2005. Net sales grew by 10% as a result of increased unit volume and changes in product mix and 1% as a result of higher selling prices.

Domestic sales were $3,556.8 million for 2006, representing an increase of 12% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. International sales were $1,848.8 million for 2006, representing an increase of 8% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The impact of foreign currency comparisons to the dollar value of international sales was unfavorable by $5.2 million for 2006. On a constant currency basis, international sales increased 9% in 2006.

Worldwide sales of Orthopaedic Implants were $3,110.1 million for 2006, representing an increase of 9%, on both a reported and constant currency basis, as a result of higher shipments of reconstructive, trauma, spinal and craniomaxillofacial implant systems; bone cement; and the bone growth factor OP-1.

Hip Implant Systems: Sales of hip implant systems increased 2% during the year on both a reported and constant currency basis. In the United States, sales growth was driven by sales of the recently launched X3 polyethylene and increased sales in Accolade cementless hip products and Restoration Modular Hip System revision hip products, partially offset by declines in sales of other hip systems. Solid growth in the Trident Hip System, Accolade cementless hip products and Restoration Modular Hip System revision hip products in Europe as well as solid growth in Accolade cementless hip products and the Trident Hip System in the Pacific region also contributed to the sales growth in hip implant systems.

Knee Implant Systems: Sales of knee implant systems increased 12% during the year, on both a reported and constant currency basis, due to strong growth in the Triathlon Knee System in the United States, Europe and the Pacific region and solid growth in the Scorpio Knee System in most international markets, partially offset by slower growth in Japan as a result of government imposed price cuts.

Trauma Implant Systems: Sales of trauma implant systems increased 13% during the year, 14% on a constant currency basis, as a result of strong worldwide sales growth in the Gamma3 Hip Fracture System and strong sales growth in the T2 Nailing System in the United States and Europe, partially offset by slower growth in Japan as a result of the price cuts.

Spinal Implant Systems: Sales of spinal implant systems increased 18% during the year, on both a reported and constant currency basis, primarily due to strong worldwide sales growth of interbody devices led by sales of the AVS vertebral spacer system as well as solid worldwide sales growth in thoraco-lumbar products.

Craniomaxillofacial Implant Systems: Sales of craniomaxillofacial implant systems increased 16% during the year, on both a reported and constant currency basis, as a result of strong domestic sales growth led by products for neurologic indications and craniomaxillofacial implants.

Worldwide sales of MedSurg Equipment were $2,037.1 million for 2006, representing an increase of 16%, on both a reported and constant currency basis, as a result of higher shipments of surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment.

Surgical Equipment and Surgical Navigation Systems: Sales of surgical equipment and surgical navigation systems increased 12% during the year, on both a reported and constant currency basis, due to strong domestic sales growth in surgical navigation systems and operating room equipment and solid domestic sales growth in interventional pain products. Strong sales growth in powered surgical instruments outside the United States also led to the Company's sales growth.

Endoscopic, Communications and Digital Imaging Systems: Sales of endoscopic, communications and digital imaging systems increased 19% during the year, on both a reported and constant currency basis, as a result of strong worldwide sales growth in medical video imaging equipment led by the recently launched 1188 HD Camera and related accessories as well as imaging and communications products. Strong worldwide sales growth in general surgery products also contributed to the Company's sales growth.

Patient Handling and Emergency Medical Equipment: Sales of patient handling and emergency medical equipment increased 18% during the year, 17% on a constant currency basis, due to strong sales growth in hospital bed products in the United States, Latin America and Canada, strong domestic sales growth in emergency medical equipment as well as solid stretcher sales growth in Europe and Latin America.

Physical Therapy Services revenues were $258.4 million for 2006, representing a decrease of 2% primarily due to lower revenues from existing centers.

Cost of sales represented 34.2% of sales in 2006 compared with 35.3% in 2005. The lower cost of sales percentage in 2006 is primarily due to lower excess and obsolete inventory costs as a result of fewer comparative product introductions during the year and reduced royalty costs related to the expiration of certain royalty agreements partially offset by faster sales growth in the lower margin MedSurg Equipment segment.

Research, development and engineering expenses represented 6.0% of sales in 2006 compared with 5.8% in 2005. These expenses increased 14% in 2006 to $324.6 million. The higher spending level is the result of the Company's continued focus on new product development for anticipated future product launches and continued investments in new technologies. New product introductions in 2006 for the Orthopaedic Implants segment included the LFIT Anatomic Femoral Heads with X3 polyethylene liners which address range of motion and dislocation potential and the AVS AS Spacer which is used for anterior lumbar interbody fusion. Within the MedSurg Equipment segment, new product introductions in 2006 included the 1188 HD Camera and related accessories, the next generation of Stryker 3-Chip HD Cameras, the System 6 heavy duty power system and the Stryker Precision Oscillating Tip Saw which features a stationary blade shaft with an oscillating tip.

Selling, general and administrative expenses increased 11% in 2006 and represented 38.1% of sales compared with 38.0% in 2005. The slight increase in selling, general and administrative expenses as a percent of sales in 2006 is due to higher sales-related costs, primarily compensation, loaner instrumentation amortization and sample expenses, partially offset by decreases in insurance costs and slower growth in discretionary spending.

The purchased in-process research and development charge of $52.7 million recorded in the first quarter of 2006 relates to the acquisition of Sightline. At the date of the acquisition, the flexible endoscope technologies acquired had not yet reached technological feasibility. The upfront payment of $50.0 million, plus certain transaction costs and the assumption of certain liabilities, was preliminarily allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition. The purchased in-process research and development charge of $15.9 million recorded in the fourth quarter of 2005 relates to the acquisition of PlasmaSol. At the date of the acquisition, the sterilization technology acquired had not yet been approved for sale by the U.S. Food and Drug Administration (FDA) and, therefore, had not yet reached technological feasibility. The purchase price of $17.5 million was allocated to assets acquired, primarily for deferred income tax assets associated with acquired net operating losses, and purchased in-process research and development based on their fair value at the date of acquisition.

The Company believes that the technologies acquired in both the Sightline and PlasmaSol acquisitions will result in the introduction of new products and additional future sales. However, factors including regulatory delays, safety concerns or patent disputes could delay the introduction or marketing of these potential new products. Additionally, unanticipated issues may arise during current and future clinical trials that could delay or terminate a product's development prior to regulatory approval. The Company may experience an unfavorable impact on its operating results if it is unable to capitalize on those efforts by attaining the proper FDA approval. As of December 31, 2006, the Company has not encountered significant issues and expects completion of the development and initial commercialization of the flexible endoscope technologies and the sterilization technologies in 2007 and 2008, respectively.

As a result of the adoption of FASB Statement No. 123 (revised) requiring the expensing of stock options, the Company's operating income for the years ended December 31, 2006 and 2005 was reduced by $56.2 million and $48.7 million, respectively, and the Company's net earnings for the same periods were reduced by $36.5 million and $31.6 million, respectively. Basic and diluted net earnings per share for the years ended December 31, 2006 and 2005 were reduced by $.09 and $.08, respectively.

Interest and marketable securities income, which is included in other income (expense), increased to $41.4 million in 2006 from $13.3 million in 2005, primarily as a result of increased cash and cash equivalents and marketable securities balances compared to the year earlier period. Interest expense, which is included in other income (expense), increased to $9.5 million in 2006 from $7.7 million in 2005, primarily as a result of borrowings in Europe to complete the repatriation of foreign earnings in the fourth quarter of 2005.

The Company's effective income tax rate for the year ended December 31, 2006 was 29.5% as compared to an effective income tax rate for the year ended December 31, 2005 of 32.6%. The effective income tax rate for the year ended December 31, 2006 reflects the impact of the nondeductibility for income tax purposes of the purchased in-process research and development charge associated with the acquisition of Sightline. The effective income tax rate for the year ended December 31, 2005 reflects the impact of the nondeductibility for income tax purposes of the purchased in-process research and development charge associated with the acquisition of PlasmaSol as well as the income taxes associated with the repatriation of foreign earnings. After considering these factors, the Company's reported effective income tax rates for the years ended December 31, 2006 and 2005 are lower than the United States statutory income tax rate primarily as a result of manufacturing in lower tax, international jurisdictions.

Net earnings in 2006 increased 21% to $777.7 million from $643.6 million in 2005; basic net earnings per share increased 20% to $1.91 in 2006 from $1.59 in 2005; and diluted net earnings per share increased 20% to $1.89 in 2006 from $1.57 in 2005.

Excluding the impacts of the charges to write off purchased in-process research and development in 2006 and 2005 and to recognize the income tax expense associated with the repatriation of foreign earnings in 2005, adjusted net earnings increased 21% to $830.4 million in 2006 from $686.9 million in 2005. Adjusted basic net earnings per share increased 20% to $2.04 in 2006 from $1.70 in 2005, and adjusted diluted net earnings per share increased 21% to $2.02 in 2006 from $1.67 in 2005. The reconciliations of these non-GAAP financial measures are as follows (in millions except per share amounts):

	2006	*2005*	*% Change*
Reported net earnings	$777.7	$643.6	21%
Purchased in-process research and development	52.7	15.9	231
Income taxes on repatriation of foreign earnings	–	27.4	–
Adjusted net earnings	$830.4	$686.9	21
Basic net earnings per share:			
Reported basic net earnings per share	$ 1.91	$ 1.59	20
Purchased in-process research and development	$ .13	$ .04	225
Income taxes on repatriation of foreign earnings	–	$ .07	–
Adjusted basic net earnings per share	$ 2.04	$ 1.70	20
Weighted-average basic shares outstanding	406.5	403.7	
Diluted net earnings per share:			
Reported diluted net earnings per share	$ 1.89	$ 1.57	20
Purchased in-process research and development	$ .13	$ .04	225
Income taxes on repatriation of foreign earnings	–	$ .07	–
Adjusted diluted net earnings per share	$ 2.02	$ 1.67	21
Weighted-average diluted shares outstanding	411.8	410.8	

The weighted-average basic and diluted shares outstanding used in the calculation of these non-GAAP financial measures are the same as the weighted-average shares outstanding used in the calculation of the reported per share amounts.

2005 Compared with 2004

Stryker Corporation's net sales increased 14% in 2005 to $4,871.5 million from $4,262.3 million in 2004. Net sales grew by 12% as a result of increased unit volume and changes in product mix, 1% related to higher selling prices and 1% due to acquisitions.

Domestic sales were $3,165.6 million for 2005, representing an increase of 15% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment and higher revenue from Physical Therapy Services. International sales were $1,705.9 million for 2005, representing an increase of 13% as a result of higher shipments of Orthopaedic Implants and MedSurg Equipment. The impact of foreign currency comparisons to the dollar value of international sales was favorable by $11.5 million for 2005. On a constant currency basis, international sales increased 12% in 2005.

Worldwide sales of Orthopaedic Implants were $2,849.5 million for 2005, representing an increase of 11% as a result of higher shipments of reconstructive, trauma, spinal and craniomaxillofacial implant systems; bone cement; and the bone growth factor OP-1. Sales of Orthopaedic Implants also increased 11% for the year on a constant currency basis.

Hip Implant Systems: Sales of hip implant systems increased 4% during the year, on both a reported and constant currency basis, due to growth in sales of the Trident Hip System in Europe and the Pacific region and in Accolade cementless hip products and Restoration Modular Hip System revision hips in the United States, partially offset by lower sales of the Trident ceramic-on-ceramic hip system and hip fracture products in the United States.

Knee Implant Systems: Sales of knee implant systems increased 14% during the year, on both a reported and constant currency basis, due to strong sales growth in the recently launched Triathlon Knee System in the United States, Europe and the Pacific region as well as the Scorpio Knee System in Europe, Japan and the Pacific region.

Trauma Implant Systems: Sales of trauma implant systems increased 17% during the year, on both a reported and constant currency basis, as a result of the full-scale launch of the Gamma3 Hip Fracture System in the United States, Japan and Europe in the second half of 2004. Strong sales growth in the Company's T2 Nailing System, both in the United States and internationally, also drove trauma sales growth in 2005.

Spinal Implant Systems: Sales of spinal implant systems increased 17% during the year, on both a reported and constant currency basis, primarily due to strong sales growth of interbody devices in the United States led by sales of the recently launched AVS spacer products as well as solid worldwide growth in cervical and thoraco-lumbar product sales.

Craniomaxillofacial Implant Systems: Sales of craniomaxillofacial implant systems increased 8% during the year, 7% on a constant currency basis, as a result of solid domestic sales of products for neurologic indications.

Worldwide sales of MedSurg Equipment were $1,759.4 million for 2005, representing an increase of 20% as a result of higher shipments of surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. Sales of MedSurg Equipment also increased 20% for the year on a constant currency basis.

Surgical Equipment and Surgical Navigation Systems: Sales of surgical equipment and surgical navigation systems increased 16% during the year, on both a reported and constant currency basis, due to strong worldwide sales growth in the System 5 heavy-duty powered system, interventional pain products, Sterishield personal protection systems and surgical navigation products as well as strong sales growth in the Neptune operating waste management system in the United States.

Endoscopic,Communications and Digital Imaging Systems: Sales of endoscopic, communications and digital imaging systems increased 24% during the year, on both a reported and constant currency basis, as a result of strong sales growth in medical video imaging equipment, led by growth of digital imaging equipment and the 1088 HD Camera, and strong growth in general surgery products in the United States, partially offset by slower sales growth in arthroscopy in the United States resulting from the discontinuance of allograft products during the year.

Patient Handling and Emergency Medical Equipment: Sales of patient handling and emergency medical equipment increased 23% during the year, 22% on a constant currency basis, due to strong sales growth in hospital and maternity beds and emergency medical equipment in the United States and solid stretcher growth in the U. S. market.

Physical Therapy Services revenues were $262.6 million for 2005, representing an increase of 7% with all of the growth coming from new physical therapy centers.

Cost of sales represented 35.3% of sales in 2005 compared with 35.5% in 2004. The lower cost of sales percentage in 2005 is partially due to increased average selling prices for the Company's products and lower excess and obsolete inventory costs associated with discontinued products, partially offset by faster sales growth in the lower margin MedSurg Equipment segment and higher growth in royalty costs relative to sales growth.

Research, development and engineering expenses represented 5.8% of sales in 2005 compared with 5.0% in 2004. These expenses increased 32% in 2005 to $284.7 million. The higher spending level is the result of the Company's continued focus on new product development for anticipated future product launches and continued investments in new technologies, together with, beginning in the third quarter of 2004, spending associated with the continued development of products acquired from SpineCore. New product introductions in 2005 in the Orthopaedic Implants segment included X3 polyethylene, the Company's next-generation highly

crosslinked polyethylene featuring a higher level of strength and wear reduction in both hip and knee replacements, and the posteriorly stabilized version of the Triathlon Knee System in the United States, Europe, Canada and the Pacific region. Within the MedSurg Equipment segment, new product introductions in 2005 included the Maestro drill, which expanded the Company's line of micro powered instruments for spine; neurologic; and ear, nose & throat applications.

Selling, general and administrative expenses increased 10% in 2005 and represented 38.0% of sales compared with 39.5% in 2004. The decrease in selling, general and administrative expenses as a percent of sales in 2005 is due to lower meeting costs and slower growth in advertising costs and insurance premiums relative to the Company's growth in net sales. These decreases were partially offset by an increase in sales commission expense as a result of the 14% growth in net sales in 2005 in addition to higher amortization expense associated with loaner instrument sets.

The purchased in-process research and development charge of $15.9 million recorded in the fourth quarter of 2005 relates to the acquisition of PlasmaSol, as previously described. The purchased in-process research and development charge of $120.8 million recorded in the third quarter of 2004 relates to the acquisition of SpineCore, a private, development-stage company. At the date of the acquisition, the artificial lumbar and cervical spinal disc implant technologies acquired were in preliminary stages of clinical studies in the United States and had not yet reached technological feasibility. The upfront payment of $120.0 million, plus certain transaction costs, was allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition.

The Company believes that the technologies acquired in both the PlasmaSol and SpineCore acquisitions will result in the introduction of new products and additional future sales. However, factors including regulatory delays, safety concerns or patent disputes could delay the introduction or marketing of these potential new products. Additionally, unanticipated issues may arise during current and future clinical trials that could delay or terminate a product's development prior to regulatory approval. The Company may experience an unfavorable impact on its operating results if it is unable to capitalize on those efforts by attaining the proper FDA approval. As of December 31, 2006, the Company had not encountered significant issues and expects completion of the development and initial commercialization of both the sterilization technologies and spinal disc implant technologies beginning in 2008.

As a result of the adoption of FASB Statement No. 123 (revised), the Company's operating income for the years ended December 31, 2005 and 2004 was reduced by $48.7 million and $38.9 million, respectively, and the Company's net earnings for the same periods were reduced by $31.6 million and $25.7 million, respectively. Basic and diluted net earnings per share for the years ended December 31, 2005 and 2004 were reduced by $.08 and $.06, respectively.

Interest and marketable securities income, which is included in other income (expense), increased to $13.3 million in 2005 from $4.7 million in 2004, primarily due to increased cash and cash equivalents and marketable securities balances compared to the year earlier period. Interest expense, which is included in other income (expense), increased to $7.7 million in 2005 from $6.8 million in 2004, primarily as a result of increased borrowings in Europe to complete the repatriation of foreign earnings in the fourth quarter of 2005.

The effective income tax rate was 32.6% for the year ended December 31, 2005 and 35.1% for the year ended December 31, 2004. The effective income tax rate for 2005 reflects a charge of $27.4 million to recognize the income tax expense and related liability associated with the repatriation of $722 million of foreign earnings under the provisions of the American Jobs Creation Act completed in the fourth quarter. The effective income tax rate for 2005 also reflects the impact of the nondeductibility for income tax purposes of the purchased in-process research and development charge associated with the acquisition of PlasmaSol. The effective income tax rate for the year ended December 31, 2004 reflects the impact of the nondeductibility for income tax purposes of the purchased in-process research and development charge associated with the acquisition of SpineCore. After considering these factors, the Company's reported effective income tax rates for the years ended December 31, 2005 and 2004 are lower than the United States statutory income tax rate primarily as a result of manufacturing in lower tax, international jurisdictions.

Net earnings in 2005 increased 46% to $643.6 million from $440.0 million in 2004; basic net earnings per share increased 45% to $1.59 in 2005 from $1.10 in 2004; and diluted net earnings per share increased 45% to $1.57 in 2005 from $1.08 in 2004.

Excluding the impacts of the charges to write off purchased in-process research and development in 2005 and 2004 and to recognize income tax expense associated with the repatriation of foreign earnings in 2005, adjusted net earnings increased 22% to $686.9 million in 2005 from $560.8 million in 2004. Adjusted basic net earnings per share increased 21% to $1.70 in 2005 from $1.40 in 2004, and adjusted diluted net earnings per share increased 22% to $1.67 in 2005 from $1.37 in 2004. The reconciliations of these non-GAAP financial measures are as follows (in millions except per share amounts):

	2005	*2004*	*% Change*
Reported net earnings	$643.6	$440.0	46%
Purchased in-process research and development	15.9	120.8	(87)
Income taxes on repatriation of foreign earnings	27.4	–	–
Adjusted net earnings	$686.9	$560.8	22
Basic net earnings per share:			
Reported basic net earnings per share	$ 1.59	$ 1.10	45
Purchased in-process research and development	$ .04	$ .30	(87)
Income taxes on repatriation of foreign earnings	$ .07	–	–
Adjusted basic net earnings per share	$ 1.70	$ 1.40	21
Weighted-average basic shares outstanding	403.7	401.2	
Diluted net earnings per share:			
Reported diluted net earnings per share	$ 1.57	$ 1.08	45
Purchased in-process research and development	$ .04	$ .30	(87)
Income taxes on repatriation of foreign earnings	$ .07	–	–
Adjusted diluted net earnings per share	$ 1.67	$ 1.37	22
Weighted-average diluted shares outstanding	410.8	409.3	

The weighted-average basic and diluted shares outstanding used in the calculation of these non-GAAP financial measures are the same as the weighted-average shares outstanding used in the calculation of the reported per share amounts.

Liquidity and Capital Resources

The Company's working capital at December 31, 2006 increased $561.5 million to $2,182.8 million from $1,621.3 million at December 31, 2005. The increase in working capital resulted from growth in the Company's overall business and the use of cash earnings to fund increases in accounts receivable, inventories and prepaid expenses.

Accounts receivable days sales outstanding was 56 days at December 31, 2006 compared with 54 days at December 31, 2005. Days sales in inventory increased 8 days to 122 days at December 31, 2006 from 114 days at December 31, 2005. The increase in days sales in inventory at December 31, 2006 is primarily due to higher levels of inventory in support of anticipated product launches and first quarter sales as well as management's effort to run the manufacturing plants at a steady rate during the year.

The Company generated cash of $867.3 million from operations in 2006 compared with $833.4 million in 2005. The increase in cash from operations in 2006 compared with the prior year is primarily due to increased earnings partially offset by growth in the working capital accounts, primarily inventories and accounts receivable.

In 2006, the Company used cash of $217.5 million for capital expenditures, including $29.4 million related to the implementation of ERP systems at multiple manufacturing and distribution facilities; $24.1 million for the expansion of the Company's OP-1 manufacturing facility in Lebanon, New Hampshire; $17.5 million for the new corporate headquarters in Kalamazoo, Michigan; and $12.5 million for construction of the Homer Stryker Center for education and clinical research in Mahwah, New Jersey. In addition, the Company used cash of $97.1 million for acquisitions and $44.6 million for the payment of dividends. The Company also purchases and sells marketable securities, which are classified as available-for-sale investments in accordance with the provisions of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Marketable securities totaled $998.2 million at December 31, 2006.

In addition to the acquisitions discussed previously, the Company acquired eTrauma in the first quarter of 2005 for an upfront payment of $50.0 million in cash plus certain transaction costs. The acquisition of eTrauma was accounted for using the purchase method of accounting. The results of operations for the acquired business are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's reported operating results. Pro forma consolidated results of operations would not differ significantly as a result of the eTrauma acquisition.

The purchase price for eTrauma was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Based on the purchase price allocation, $22.0 million was allocated to identifiable intangible assets, to be amortized over their remaining lives of 5 to 8 years, and $30.2 million was allocated to goodwill. Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and eTrauma. In conjunction with the integration plan, the Company recorded additional purchase liabilities for severance and related costs of $0.3 million, which were included in the purchase price allocation.

The Company had $416.6 million in cash and cash equivalents and $998.2 million in marketable securities at December 31, 2006. The Company also had outstanding borrowings totaling $14.8 million at that date, all of which were classified as current obligations. The Company believes its cash on hand and marketable securities, as well as anticipated cash flows from operations, will be sufficient to fund future operating capital requirements; future manufacturing facility construction and other capital expenditures; future business and product line acquisitions to supplement its current product offerings; loaner instrumentation for surgical implants in support of new product launches; required debt repayments and the payment of dividends.

Should additional funds be required, the Company had $1,028.1 million of additional borrowing capacity available under all of its existing credit facilities, including the Company's $1,000.0 million 5-year nonamortizing, revolving Unsecured Credit Facility that expires in November 2010. In addition, the Company had $200.0 million of eligible accounts receivable that could be sold through its accounts receivable securitization facility at December 31, 2006.

The Company's future contractual obligations for agreements with initial terms greater than 1 year, including agreements to purchase materials in the normal course of business, are summarized as follows (in millions):

	Payment Period					
	2007	*2008*	*2009*	*2010*	*2011*	*Thereafter*
Long-term debt	$ 14.8	$ –	$ –	$ –	$ –	$ –
Operating leases	62.1	51.3	38.5	22.7	13.3	25.4
Unconditional purchase obligations	208.4	5.5	1.0	–	–	–

The Company's additional borrowing capacity, along with the expected expiration period of the commitments, is summarized as follows (in millions):

		Amount of Commitment Expiration Per Period	
	Total Amount Committed	Less than 1 year	In excess of 1 year
Unsecured Credit Facility and other lines of credit	$ 1,028.1	$ 65.8	$ 962.3

Critical Accounting Policies

The preparation of the Company's Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management evaluates these estimates and assumptions on an ongoing basis. Estimates are based on historical experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that of its significant accounting policies (see Note 1 to the Consolidated Financial Statements), an understanding of the following critical accounting policies is important in obtaining an overall understanding of the Consolidated Financial Statements.

Allowance for Doubtful Accounts: The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its customers to make required payments based on historical credit experience and expected future trends. If actual customer financial conditions are less favorable than projected by management, additional accounts receivable write-offs may be necessary, which could unfavorably affect future operating results.

Inventory Reserves: The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause some of the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required, which could unfavorably affect future operating results.

Income Taxes: The Company operates in multiple tax jurisdictions both inside and outside the United States. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions. Tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and product royalty arrangements, may require an extended period of time to resolve and may result in income tax adjustments if changes to the income allocation are required between jurisdictions with different tax rates. Because tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management's best estimate of the probable resolution of these matters. These income tax accruals are included within the income taxes liability in the consolidated balance sheets. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Other Matters

The Company distributes its products throughout the world. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The Company's operating results are primarily exposed to changes in exchange rates among the United States dollar, the Japanese yen and European currencies, in particular the euro and the British pound. When the United States dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the United States dollar strengthens, the opposite situation occurs. The Company manufactures its products in the United States, France, Germany, Ireland, Switzerland, Canada and Puerto Rico and incurs the costs to manufacture in the applicable local currencies. This worldwide deployment of factories serves to partially mitigate the impact of currency exchange rate changes on the Company's cost of sales.

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These nonfunctional currency exposures principally relate to intercompany receivables and payables arising from intercompany purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All forward currency exchange contracts are marked-to-market each period with resulting gains (losses) included in other income (expense) in the consolidated statements of earnings.

At December 31, 2006, the Company had outstanding forward currency exchange contracts to purchase $387.9 million and sell $227.0 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. At December 31, 2005, the Company had outstanding forward currency exchange contracts to purchase $217.6 million and sell $196.1 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points. A hypothetical 10% change in foreign currencies relative to the U. S. dollar would change the December 31, 2006 fair value by approximately $9.7 million. The Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

The Company has certain investments in net assets in international locations that are not hedged. These investments are subject to translation gains and losses due to changes in foreign currencies that are deferred and recorded as a separate component of shareholders' equity. For the year ended December 31, 2006, the strengthening of foreign currencies relative to the United States dollar increased the value of these investments in net assets, and the related deferred gain in shareholders' equity, by $102.6 million to $119.6 million from $17.0 million at December 31, 2005.

The Company is partially self-insured for product liability claims and utilizes a wholly owned captive insurance company in the United States to manage its self-insured retention limits. The captive insurance company provides insurance reserves for estimated liabilities for product claims incurred but not reported based on actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events.

In December 2003, the Company announced that its subsidiary Physiotherapy Associates, Inc., and Stryker received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a United States Department of Justice investigation of Physiotherapy Associates' billing and coding practices. In March 2005, the Company announced that it received a subpoena from the United States Department of Justice requesting documents for the period January 2002 through the present relating to "any and all consulting contracts, professional service agreements, or remuneration agreements between Stryker Corporation and any orthopedic surgeon, orthopedic surgeon in training, or medical school graduate using or considering the surgical use of hip or knee joint replacement/reconstruction products manufactured or sold by Stryker Corporation." In June 2006, the Company announced that it received a subpoena from the United States Department of Justice, Antitrust Division, requesting documents for the period January 2001 through the present regarding possible violations of federal criminal law, including possible violation of the antitrust laws, relating to the manufacture and sale of orthopaedic implant devices. The Company is fully cooperating with the Department of Justice regarding these matters.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. This Interpretation clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the Company's Consolidated Financial Statements. The Interpretation also provides guidance for the measurement and classification of tax positions, interest and penalties and requires additional disclosure on an annual basis. The Company plans to adopt the provisions of the Interpretation effective January 1, 2007, as required. The Company has not yet determined the effect the adoption of the Interpretation will have on the financial position of the Company but does not anticipate a material impact. Any difference between the amounts recognized in the Company's Consolidated Financial Statements prior to the adoption of the Interpretation and the amounts reported after the adoption will be accounted for as a cumulative-effect adjustment recorded in the beginning balance of retained earnings on January 1, 2007 and will not require restatement of prior periods.

Forward-Looking Statements

This report contains information that includes or is based on forward-looking statements within the meaning of the federal securities law that are subject to various risks and uncertainties that could cause the Company's actual results to differ materially from those expressed or implied in such statements. Such factors include, but are not limited to: pricing pressures generally, including cost-containment measures that could adversely affect the price of or demand for the Company's products; regulatory actions; unanticipated issues arising in connection with clinical studies and eventual United States FDA approval of additional OP-1 applications, the FlexiCore and CerviCore spinal implant products, the PlasmaSol sterilization products or other new product introductions; integration and other issues that could delay the introduction of the Sightline product line; changes in reimbursement levels from third-party payors; a significant increase in product liability claims; changes in economic conditions that adversely affect the level of demand for the Company's products; changes in foreign exchange markets; changes in financial markets; and changes in the competitive environment.

While the Company believes that the assumptions underlying such forward-looking statements are reasonable, there can be no assurance that future events or developments will not cause such statements to be inaccurate. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of Stryker Corporation:

The management of Stryker Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Stryker Corporation's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Stryker Corporation's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Based on that assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting is effective.

Stryker Corporation's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on the following page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of Stryker Corporation:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Stryker Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Stryker Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Stryker Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Stryker Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Stryker Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 2, 2007 expressed an unqualified opinion thereon.

Grand Rapids, Michigan
February 2, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

The Board of Directors and Shareholders of Stryker Corporation:

We have audited the accompanying consolidated balance sheets of Stryker Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of Stryker Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stryker Corporation and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1, 7, and 9 to the consolidated financial statements, in 2006 Stryker Corporation changed its methods of accounting for share-based payments and retirement plans in connection with the required adoption of Statement of Financial Accounting Standards Nos. 123(R) and 158, respectively.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Stryker Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 2, 2007 expressed an unqualified opinion thereon.

Grand Rapids, Michigan
February 2, 2007

CONSOLIDATED BALANCE SHEETS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	December 31	
	2006	*2005*
ASSETS		
Current Assets		
Cash and cash equivalents	$ 416.6	$ 491.2
Marketable securities	998.2	565.3
Accounts receivable, less allowance of $50.1 ($53.4 in 2005)	907.0	770.3
Inventories	677.6	563.5
Deferred income taxes	417.2	383.1
Prepaid expenses and other current assets	117.7	96.7
Total current assets	3,534.3	2,870.1
Property, Plant and Equipment		
Land, buildings and improvements	651.0	559.4
Machinery and equipment	1,000.0	843.1
	1,651.0	1,402.5
Less allowance for depreciation	699.3	571.5
	951.7	831.0
Other Assets		
Goodwill	531.3	513.2
Other intangibles, less accumulated amortization of $286.0 ($237.5 in 2005)	405.7	409.7
Loaner instrumentation, less accumulated amortization of $564.6 ($422.3 in 2005)	287.7	245.6
Deferred income taxes	118.6	91.1
Other	44.5	31.8
	1,387.8	1,291.4
	$5,873.8	$4,992.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 252.2	$ 206.5
Accrued compensation	285.9	252.9
Income taxes	208.2	207.3
Dividend payable	89.7	44.6
Accrued expenses and other liabilities	500.7	490.1
Current maturities of long-term debt	14.8	47.4
Total current liabilities	1,351.5	1,248.8
Long-Term Debt, Excluding Current Maturities	–	184.2
Other Liabilities	331.3	259.3
Shareholders' Equity		
Common stock, $.10 par value:		
Authorized—1,000.0 shares		
Outstanding—407.9 shares (405.2 in 2005)	40.8	40.5
Additional paid-in capital	569.1	452.0
Retained earnings	3,490.5	2,802.5
Accumulated other comprehensive gain	90.6	5.2
Total shareholders' equity	4,191.0	3,300.2
	$5,873.8	$4,992.5

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	Years ended December 31		
	2006	*2005*	*2004*
Net sales	$5,405.6	$4,871.5	$4,262.3
Cost of sales	1,848.7	1,718.5	1,513.8
Gross profit	3,556.9	3,153.0	2,748.5
Research, development and engineering expenses	324.6	284.7	214.9
Selling, general and administrative expenses	2,061.7	1,853.5	1,683.5
Intangibles amortization	43.6	48.8	47.8
Purchased in-process research and development	52.7	15.9	120.8
	2,482.6	2,202.9	2,067.0
Operating income	1,074.3	950.1	681.5
Other income (expense)	29.5	4.5	(3.4)
Earnings before income taxes	1,103.8	954.6	678.1
Income taxes	326.1	311.0	238.1
Net earnings	$ 777.7	$ 643.6	$ 440.0
Net earnings per share of common stock:			
Basic	$ 1.91	$ 1.59	$ 1.10
Diluted	$ 1.89	$ 1.57	$ 1.08

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balances at January 1, 2004	$ 39.9	$ 244.7	$ 1,799.7	$ 99.6	$ 2,183.9
Net earnings for 2004	–	–	440.0	–	440.0
Unrealized gains on securities of $0.4, net of $0.1 income tax expense	–	–	–	0.3	0.3
Unfunded pension losses, net of $0.6 income tax benefit	–	–	–	(3.8)	(3.8)
Foreign currency translation adjustments	–	–	–	102.2	102.2
Comprehensive earnings for 2004					538.7
Issuance of 3.1 shares of common stock under stock option and benefit plans, including $33.8 excess income tax benefit	0.4	61.9	–	–	62.3
Share-based compensation	–	39.5	–	–	39.5
Cash dividend declared of $.09 per share of common stock	–	–	(36.2)	–	(36.2)
Balances at December 31, 2004	40.3	346.1	2,203.5	198.3	2,788.2
Net earnings for 2005	–	–	643.6	–	643.6
Unrealized gains on securities of $1.0, net of $0.4 income tax expense	–	–	–	0.6	0.6
Unfunded pension losses, net of $1.2 income tax benefit	–	–	–	(0.8)	(0.8)
Foreign currency translation adjustments	–	–	–	(192.9)	(192.9)
Comprehensive earnings for 2005					450.5
Issuance of 2.7 shares of common stock under stock option and benefit plans, including $30.4 excess income tax benefit	0.2	56.5	–	–	56.7
Share-based compensation	–	49.4	–	–	49.4
Cash dividend declared of $.11 per share of common stock	–	–	(44.6)	–	(44.6)
Balances at December 31, 2005	40.5	452.0	2,802.5	5.2	3,300.2
Net earnings for 2006	–	–	777.7	–	777.7
Unrealized losses on securities of $1.3, net of $0.4 income tax benefit	–	–	–	(0.9)	(0.9)
Unfunded pension gains, net of $1.5 income tax expense	–	–	–	2.6	2.6
Foreign currency translation adjustments	–	–	–	102.6	102.6
Comprehensive earnings for 2006					882.0
Issuance of 2.8 shares of common stock under stock option and benefit plans, including $26.1 excess income tax benefit	0.3	60.2	–	–	60.5
Share-based compensation	–	56.9	–	–	56.9
Cash dividend declared of $.22 per share of common stock	–	–	(89.7)	–	(89.7)
Adjustments to adopt FASB Statement No. 158, net of $3.9 income tax benefit	–	–	–	(18.9)	(18.9)
Balances at December 31, 2006	$ 40.8	$ 569.1	$ 3,490.5	$ 90.6	$ 4,191.0

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS Stryker Corporation and Subsidiaries

(in millions)

	Years ended December 31		
	2006	*2005*	*2004*
Operating Activities			
Net earnings	$ 777.7	$ 643.6	$ 440.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	123.5	106.1	102.7
Amortization	208.3	183.8	148.2
Share-based compensation	56.9	49.4	39.5
Income tax benefit from exercise of stock options	33.2	35.0	39.8
Excess income tax benefit from exercise of stock options	(26.1)	(30.4)	(33.8)
Purchased in-process research and development	52.7	15.9	120.8
Payments of restructuring and acquisition-related liabilities	–	–	(3.8)
Provision for losses on accounts receivable	7.8	9.0	18.4
Deferred income tax expense (credit)	(27.1)	7.9	(72.7)
Other	6.0	7.8	10.2
Changes in operating assets and liabilities, net of effects of acquisitions:			
Reductions of accounts receivable securitization	–	–	(150.0)
Accounts receivable	(111.8)	(71.1)	(93.5)
Inventories	(86.8)	(39.7)	(63.0)
Loaner instrumentation	(198.1)	(189.4)	(161.4)
Accounts payable	39.1	(2.5)	68.3
Payments of acquisition purchase liabilities	–	(1.6)	(0.2)
Accrued expenses and other liabilities	24.0	75.0	138.4
Income taxes	(8.6)	18.0	34.0
Other	(3.4)	16.6	(22.4)
Net cash provided by operating activities	867.3	833.4	559.5
Investing Activities			
Acquisitions, net of cash acquired	(97.1)	(59.7)	(144.7)
Purchases of marketable securities	(9,137.8)	(1,543.4)	–
Proceeds from sales of marketable securities	8,709.7	968.4	–
Purchases of property, plant and equipment	(217.5)	(271.7)	(187.8)
Proceeds from sales of property, plant and equipment	0.4	3.4	8.5
Net cash used in investing activities	(742.3)	(903.0)	(324.0)
Financing Activities			
Proceeds from borrowings	113.7	586.3	538.6
Payments on borrowings	(340.9)	(364.8)	(556.0)
Dividends paid	(44.6)	(36.2)	(28.0)
Proceeds from exercise of stock options	48.6	30.4	37.3
Excess income tax benefit from exercise of stock options	26.1	30.4	33.8
Other	(6.1)	(13.8)	18.7
Net cash provided by (used in) financing activities	(203.2)	232.3	44.4
Effect of exchange rate changes on cash and cash equivalents	3.6	(20.9)	3.6
Increase (decrease) in cash and cash equivalents	(74.6)	141.8	283.5
Cash and cash equivalents at beginning of year	491.2	349.4	65.9
Cash and cash equivalents at end of year	$ 416.6	$ 491.2	$ 349.4

See accompanying notes to Consolidated Financial Statements.

NOTE 1
SIGNIFICANT ACCOUNTING POLICIES

Business: Stryker Corporation (the Company or Stryker) is one of the world's leading medical technology companies with the most broadly based range of products in orthopaedics and a significant presence in other medical specialties. Stryker works with respected medical professionals to help people lead more active and more satisfying lives. The Company's products include implants used in joint replacement, trauma, craniomaxillofacial and spinal surgeries; biologics; surgical, neurologic, ear, nose & throat and interventional pain equipment; endoscopic, surgical navigation, communications and digital imaging systems; as well as patient handling and emergency medical equipment. Stryker also provides outpatient physical therapy services in the United States.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

Revenue Recognition: A significant portion of the Company's Orthopaedic Implants revenue is generated from consigned inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at the time the Company receives appropriate notification that the product has been used or implanted. The Company records revenue from MedSurg Equipment product sales when title and risk of ownership have been transferred to the customer, which is typically upon shipment to the customer. For its Physical Therapy Services line of business, the Company records revenue when the services have been rendered. The Company records estimated sales returns, discounts and other applicable adjustments as a reduction of net sales in the same period revenue is recognized.

Shipping and Handling of Products: Amounts billed to customers for shipping and handling of products are included in net sales. Costs incurred related to shipping and handling of products are included in cost of sales.

Use of Estimates: The preparation of these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires Company management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation: The functional currencies for substantially all of the Company's international affiliates are their local currencies. Accordingly, the financial statements of these international affiliates are translated into United States dollars using current exchange rates for balance sheets and average exchange rates for statements of earnings and cash flows. Unrealized translation adjustments are included in accumulated other comprehensive gain (loss) in shareholders' equity. Transaction gains and losses, such as those resulting from the settlement of nonfunctional currency receivables or payables, are included in net earnings.

Cash Equivalents, Marketable Securities and Other Investments: Cash equivalents are highly liquid investments with a maturity of 3 months or less when purchased. Marketable securities consist of marketable debt securities and certificates of deposit classified as available-for-sale. Other investments, included within other assets in the consolidated balance sheets, consist of mutual funds, classified as trading, that are acquired to offset changes in certain liabilities related to deferred compensation arrangements and are expected to be used to settle these liabilities.

The Company's marketable securities and other investments are stated at fair value based on quoted market prices. Adjustments to the fair value of marketable securities and other investments that are classified as available-for-sale are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive gain (loss) in shareholders' equity. Adjustments to the fair value of other investments that are classified as trading are recorded in earnings as offsets to the related changes in liabilities under deferred compensation arrangements. The amortized cost of marketable debt securities classified as available-for-sale is adjusted for amortization of premiums and discounts to maturity computed under the effective interest method. Such amortization is included in other income (expense) along with interest and realized gains and losses. The cost of securities sold is determined by the specific identification method.

Accounts Receivable: Accounts receivable consists of trade and other miscellaneous receivables. The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its customers to make required payments based on historical credit experience and expected future trends.

Accounts Receivable Securitization: The Company has an accounts receivable securitization facility pursuant to which certain subsidiaries of the Company sell, on an ongoing basis, all of their domestic accounts receivable to Stryker Funding Corporation (SFC), a wholly owned special-purpose subsidiary of the Company, which in turn may sell, without recourse, up to an aggregate of a $200.0 million undivided percentage ownership interest in such receivables to bank-administered multiseller commercial paper conduits. Creditors of SFC have a claim to its assets before any equity becomes available to the Company.

There were no amounts of undivided percentage ownership interests in accounts receivable sold by SFC under the facility as of December 31, 2006 and 2005. Accounts receivable sold would be reflected in the consolidated balance sheet as reductions of accounts receivable in the period sold. The amount of receivables available to be sold is subject to change monthly, based on the level of defined eligible receivables less defined customary reductions for servicing, dilution and loss reserves. The Company's retained interest in accounts receivable held by SFC, which is in the form of a subordinated note, represents an overcollateralization of any undivided interest sold. This retained interest totaled $436.2 million and $347.1 million at December 31, 2006 and 2005, respectively.

Inventories: Inventories are stated at the lower of cost or market. Cost for approximately 79% of inventories is determined using the first-in, first-out (FIFO) cost method. Cost for certain domestic inventories is determined using the last-in, first-out (LIFO) cost method. The FIFO cost for all inventories approximates replacement cost.

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. The markets in which the Company operates are highly competitive, and new products and surgical procedures are introduced on an ongoing basis. Such marketplace changes may cause some of the Company's products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilization dates and expected future trends.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. Depreciation is computed by either the straight-line or declining-balance method over the estimated useful lives of 3 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include developed technology, which is amortized on a straight-line basis over 20 years, and customer relationships (which reflect expected continued customer patronage), trademarks and patents, which are amortized on a straight-line basis over 4 to 40 years (weighted-average life of 14 years for other intangible assets).

Loaner Instrumentation: Loaner instrumentation represents the net book value of loaner instruments for surgical implants provided to customers by the Company. Loaner instrumentation is amortized on a straight-line basis over a 3-year period. Amortization expense for loaner instrumentation is included in selling, general and administrative expenses.

Stock Options: At December 31, 2006, the Company had key employee and director stock option plans, which are described more fully in Note 7. Effective January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (revised), *Share-Based Payment*. The revised Statement requires companies to measure the cost of employee stock options based on the grant-date fair value and recognize that cost over the period during which a recipient is required to provide services in exchange for the options, typically the vesting period. The Company adopted the provisions of the revised Statement using the modified-retrospective transition method provided in the revised Statement. Under this method, the Company restated all prior periods presented on a consistent basis, based on the pro forma expense previously disclosed.

As a result of the adoption of the revised Statement, the Company's operating income for the years ended December 31, 2006, 2005 and 2004 was reduced by $56.2 million, $48.7 million and $38.9 million, respectively, and the Company's net earnings for the same periods were reduced by $36.5 million, $31.6 million and $25.7 million, respectively. Basic and diluted net earnings per share for the years ended December 31, 2006, 2005 and 2004 were reduced by $.09, $.08 and $.06, respectively. In addition, prior period balance sheets were adjusted to reflect the cumulative impact of stock option compensation expense and stock option exercise activity as required by the modified-retrospective transition method. The consolidated balance sheet at December 31, 2005 was adjusted to reflect decreases in retained earnings and deferred stock-based compensation of $125.7 million and $1.6 million, respectively, and increases in the balances of additional paid-in capital and noncurrent deferred income tax assets of $172.5 million and $48.4 million, respectively.

Prior to the adoption of the revised Statement, the Company presented all of the income tax benefits resulting from the exercise of stock options as cash flows provided by operating activities in the consolidated statements of cash flows. The revised Statement requires the income tax benefit from deductions, resulting from the exercise of stock options, in excess of the compensation cost recognized (excess income tax benefit) to be classified as cash flows provided by financing activities. Excess income tax benefit from exercise of stock options reported as cash flows provided by financing activities for the years ended December 31, 2006, 2005 and 2004, respectively, would have been classified as cash flows provided by operating activities if the Company had not adopted the provisions of the revised Statement.

The weighted-average fair value per share of options granted during 2006, 2005 and 2004, estimated on the date of grant using the Black-Scholes option pricing model, was $17.16, $17.45 and $16.83, respectively. The fair value of options granted was estimated using the following weighted-average assumptions:

	2006	*2005*	*2004*
Risk-free interest rate	4.6%	2.9%	1.9%
Expected dividend yield	0.2%	0.2%	0.2%
Expected stock price volatility	24.8%	30.7%	34.3%
Expected option life	7.0 years	6.5 years	6.5 years

The risk-free interest rate for periods within the expected life of options granted is based on the United States Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company's stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. The Company recognizes the cost of stock options using the straight-line method over their vesting periods.

Income Taxes: The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense (credit) represents the change in net deferred income tax assets and liabilities during the year.

The Company operates in multiple tax jurisdictions both inside and outside the United States and tax authorities in these jurisdictions regularly perform audits of the Company's tax filings. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations. Tax audits associated with the allocation of this income and other complex issues, including inventory transfer pricing and product royalty arrangements, may require an extended period of time to resolve and may result in income tax adjustments if changes to the income allocation are required between jurisdictions with different tax rates. Because tax adjustments in certain jurisdictions can be significant, the Company records accruals representing management's best estimate of the probable resolution of these matters. These income tax accruals are included within the income taxes liability in the consolidated balance sheets. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

Derivative Financial Instruments: The Company follows the provisions of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended by Statements No. 137 and No. 138, in accounting for its derivative financial instruments. The Statements require the Company to recognize all derivatives on the balance sheet at fair value. The Company uses derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates. The Company enters into forward currency exchange contracts to manage these economic risks. These contracts are adjusted to fair value through earnings.

Legal and Other Contingencies: The Company is involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor, intellectual property and other matters. The potential future outcomes of these matters are outside of management's complete control and will generally not be known for prolonged periods of time. In certain of the legal proceedings, the claimants seek damages, as well as other compensatory relief, which could result in the payment of significant claims and settlements. In legal matters for which management has sufficient information to reasonably estimate the Company's future obligations, a liability representing management's best estimate of the probable cost for the resolution of these legal matters is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies.

Accumulated Other Comprehensive Gain (Loss): The components of accumulated other comprehensive gain (loss) are as follows (in millions):

	Unrealized Gains (Losses) on Securities	Unfunded Pension Gains (Losses)	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Gain (Loss)
Balances at January 1, 2005	$ (0.7)	$ (10.9)	$ 209.9	$ 198.3
Other comprehensive gain (loss) for 2005	0.6	(0.8)	(192.9)	(193.1)
Balances at December 31, 2005	(0.1)	(11.7)	17.0	5.2
Other comprehensive gain (loss) for 2006	(0.9)	2.6	102.6	104.3
Adjustments to adopt FASB Statement No. 158, net of income tax benefit	–	(18.9)	–	(18.9)
Balances at December 31, 2006	$ (1.0)	$ (28.0)	$ 119.6	$ 90.6

On December 31, 2006, the Company adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. The Statement requires an entity to recognize, on its balance sheet, an asset or liability reflecting the funded status of defined benefit postretirement plans as the difference between the projected benefit obligation and fair value of plan assets with changes continuing to be reflected in the accumulated other comprehensive gain (loss) component of shareholders' equity net of related income taxes. This Statement does not change the calculation of the amount of net periodic benefit cost included in net earnings. As a result of the adoption of the Statement, the funded status of the Company's defined benefit pension plans resulted in the recognition, in the Company's December 31, 2006 consolidated balance sheet, of an additional $22.8 million liability with corresponding changes in accumulated other comprehensive gain (loss) and deferred income taxes. The adoption of the Statement did not require a restatement of prior periods. Additional information regarding the adoption of this Statement is provided in Note 9.

Recently Issued Accounting Standards: In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109.* This Interpretation clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the Company's Consolidated Financial Statements. The Interpretation also provides guidance for the measurement and classification of tax positions, interest and penalties, and requires additional disclosure on an annual basis. The Company plans to adopt the provisions of the Interpretation effective January 1, 2007, as required. The Company has not yet determined the effect the adoption of the Interpretation will have on the financial position of the Company but does not anticipate a material impact. Any difference between the amounts recognized in the Company's Consolidated Financial Statements prior to the adoption of the Interpretation and the amounts reported after the adoption will be accounted for as a cumulative-effect adjustment recorded in the beginning balance of retained earnings on January 1, 2007 and will not require restatement of prior periods.

Reclassifications: Certain prior year amounts have been reclassified to conform with the presentation used in 2006.

NOTE 2
FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The following is a summary of the Company's investments (in millions):

	Cost	Unrealized Losses	Gross Estimated Fair Value
At December 31, 2006:			
Available-for-sale securities:			
Corporate and asset-backed debt securities	$ 515.3	$ (0.6)	$ 514.7
U.S. treasury debt securities	245.0	(0.7)	244.3
Certificates of deposit	131.9	(0.1)	131.8
U.S. agency debt securities	61.5	–	61.5
Municipal debt securities	22.0	–	22.0
Other	23.9	–	23.9
Total available-for-sale securities	999.6	(1.4)	998.2
Trading securities:			
Mutual funds	29.7	–	29.7
Total investments	$1,029.3	$ (1.4)	$1,027.9
Reported as:			
Current assets—Marketable securities			$ 998.2
Noncurrent assets—Other			29.7
			$1,027.9
At December 31, 2005:			
Available-for-sale securities:			
Municipal debt securities	$ 468.1	$ (0.1)	$ 468.0
U.S. treasury debt securities	79.7	–	79.7
U.S. agency debt securities	9.6	–	9.6
Certificates of deposit	8.0	–	8.0
Total available-for-sale securities	565.4	(0.1)	565.3
Trading securities:			
Mutual funds	23.1	–	23.1
Total investments	$ 588.5	$ (0.1)	$ 588.4
Reported as:			
Current assets—Marketable securities			$ 565.3
Noncurrent assets—Other			23.1
			$ 588.4

The net carrying value and estimated fair value of available-for-sale debt securities at December 31, 2006, by contractual maturity, are as follows (in millions):

	Cost	Estimated Fair Value
At December 31, 2006:		
Due in one year or less	$457.0	$456.1
Due after one year through three years	541.2	540.7
Due after three years	1.4	1.4
	$999.6	$998.2

Interest and marketable securities income, which is included in other income (expense), totaled $41.4 million in 2006, $13.3 million in 2005 and $4.7 million in 2004.

The Company enters into forward currency exchange contracts to mitigate the impact of currency fluctuations on transactions denominated in nonfunctional currencies, thereby limiting risk to the Company that would otherwise result from changes in exchange rates. These nonfunctional currency exposures relate principally to intercompany receivables and payables arising from intercompany transactions, including purchases of manufactured products. The periods of the forward currency exchange contracts correspond to the periods of the exposed transactions, with realized gains and losses included in the measurement and recording of transactions denominated in the nonfunctional currencies. All forward currency exchange contracts are marked-to-market each period with resulting gains (losses) included in other income (expense) in the consolidated statements of earnings.

At December 31, 2006, the Company had outstanding forward currency exchange contracts to purchase $387.9 million and sell $227.0 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. At December 31, 2005, the Company had outstanding forward currency exchange contracts to purchase $217.6 million and sell $196.1 million of various currencies (principally United States dollars and euros) with maturities ranging principally from 7 to 180 days. The estimated fair value of forward currency exchange contracts represents the measurement of the contracts at month-end spot rates as adjusted by current forward points and is recorded as a component of accrued expenses and other liabilities in the consolidated balance sheets. At December 31, 2006, the Company is exposed to credit loss in the event of nonperformance by counterparties on its outstanding forward currency exchange contracts but does not anticipate nonperformance by any of the counterparties.

NOTE 3
INVENTORIES

Inventories are summarized as follows (in millions):

	December 31	
	2006	*2005*
Finished goods	$506.2	$414.9
Work-in-process	76.0	65.4
Raw material	98.8	87.0
FIFO cost	681.0	567.3
Less LIFO reserve	3.4	3.8
	$677.6	$563.5

NOTE 4
ACQUISITIONS

In the first quarter of 2006, the Company acquired all of the outstanding stock of Sightline Technologies Ltd. (Sightline), a private, development-stage company, for an upfront payment of $50.0 million in cash plus certain transaction costs and the assumption of certain liabilities. The acquisition of Sightline, a developer of flexible endoscopes, is expected to enhance the Company's presence in the gastrointestinal and other markets within its MedSurg Equipment segment. Sightline's operating results are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the Sightline acquisition.

The purchase price was preliminarily allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of $52.7 million, or $.13 per diluted share, against the Company's operating results. At the date of the acquisition, the flexible endoscope technologies acquired had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States.

Terms of the transaction also include potential milestone payments of up to an additional $90.0 million upon the achievement of certain operational and financial targets related to Sightline's products, the first of which is expected to occur in 2007. The potential milestone payments are expected to be capitalized at their fair values as intangible assets at the time of payment and will be amortized over their remaining useful lives.

In the fourth quarter of 2005, the Company acquired, by merger, all of the outstanding stock of PlasmaSol Corp. (PlasmaSol), a private, development-stage company. PlasmaSol is a developer of a technology that should allow Stryker to provide sterilization equipment for use with certain of its MedSurg Equipment products. The cost of the transaction totaled $17.5 million including an upfront cash payment plus the assumption of certain liabilities. PlasmaSol's operating results are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the PlasmaSol acquisition.

The purchase price was allocated to assets acquired primarily for deferred income tax assets associated with acquired net operating losses and purchased in-process research and development based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of $15.9 million, or $.04 per diluted share, against the Company's 2005 operating results. At the date of acquisition, the sterilization technology acquired had not yet been approved for sale by the United States Food and Drug Administration (FDA) and, therefore, had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States.

In the first quarter of 2005, the Company acquired, by merger, all of the outstanding stock of eTrauma.com Corp. (eTrauma) for $50.0 million in cash plus certain transaction costs. The acquisition expanded the Company's digital imaging equipment product offerings within its MedSurg Equipment segment by adding eTrauma's proprietary Picture Archive and Communications Systems (PACS) image management and viewing software. The acquisition of eTrauma was accounted for using the purchase method of accounting. The results of operations for the acquired business are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the eTrauma acquisition.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Based on the purchase price allocation, $22.0 million was allocated to identifiable intangibles, to be amortized over their remaining lives of 5 to 8 years, and $30.2 million was allocated to goodwill, which was not deductible for income tax purposes in the United States. Immediately after the acquisition was consummated, management of the Company began to implement an integration plan to combine Stryker and eTrauma. In conjunction with the integration plan, the Company recorded additional purchase liabilities for severance and related costs of $0.3 million, which were included in the purchase price allocation.

In the third quarter of 2004, the Company acquired, by merger, all of the outstanding stock of SpineCore, Inc. (SpineCore), for an upfront payment of $120.0 million in cash plus certain transaction costs. The acquisition of SpineCore, a developer of artificial lumbar and cervical spinal disc implant technologies, is expected to enhance the Company's presence in the spinal implant market, an important growth area within its Orthopaedic Implants segment. SpineCore's operating results are included in the Company's Consolidated Financial Statements from the date of the acquisition and did not materially impact the Company's operating results. Pro forma consolidated results of operations would not differ significantly as a result of the SpineCore acquisition.

The purchase price was allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair value at the date of acquisition. The amount of the purchase price allocated to purchased in-process research and development resulted in a charge of $120.8 million, or $.30 per diluted share, against the Company's 2004 operating results. At the date of the transaction, the spinal disc implant technologies acquired were in preliminary stages of clinical studies in the United States and had not yet reached technological feasibility. The amount written off as purchased in-process research and development was not deductible for income tax purposes in the United States.

Terms of the transaction also include potential milestone and royalty payments of up to an additional $240.0 million upon commercialization of SpineCore's products in the United States, which is not expected to occur before 2008. The potential milestone payments are expected to be capitalized at their fair values as intangible assets at the time of payment and will be amortized over their remaining lives.

The Company believes that the technologies acquired in the Sightline, PlasmaSol and SpineCore acquisitions will result in the introduction of new products and additional future sales. However, factors including regulatory delays, safety concerns or patent disputes could delay the introduction or marketing of these potential new products. Additionally, unanticipated issues may arise during current and future clinical trials that could delay or terminate a product's development prior to regulatory approval. The Company may experience an unfavorable impact on its operating results if it is unable to capitalize on those efforts by attaining the proper FDA approval. As of December 31, 2006, the Company had not encountered significant issues and expects completion of the development and initial commercialization of the flexible endoscope technologies in 2007 and both the sterilization technologies and spinal disc implant technologies in 2008.

NOTE 5
GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the net carrying amount of goodwill by segment for the years ended December 31, 2006 and 2005 are as follows (in millions):

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Balances as of January 1, 2005	$469.4	$ 18.8	$ 18.1	$506.3
Goodwill acquired	–	31.6	3.0	34.6
Foreign currency translation effects	(25.2)	(0.3)	–	(25.5)
Other	–	–	(2.2)	(2.2)
Balances as of December 31, 2005	444.2	50.1	18.9	513.2
Goodwill acquired	–	–	1.8	1.8
Foreign currency translation effects	18.0	0.2	–	18.2
Other	–	(1.4)	(0.5)	(1.9)
Balances as of December 31, 2006	$462.2	$ 48.9	$ 20.2	$531.3

In the fourth quarters of 2006 and 2005, the Company completed the required annual impairment tests of goodwill as prescribed by FASB Statement No. 142, *Goodwill and Other Intangible Assets,* and determined, in all instances, that recorded goodwill was not impaired and that no goodwill write-down was necessary.

The following is a summary of the Company's other intangible assets (in millions):

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
At December 31, 2006:			
Amortized intangible assets:			
Developed technology	$260.7	$105.0	$155.7
Customer relationships	172.4	40.2	132.2
Patents	181.7	93.1	88.6
Trademarks	37.0	20.5	16.5
Other	39.9	27.2	12.7
	$691.7	$286.0	$405.7
At December 31, 2005:			
Amortized intangible assets:			
Developed technology	$244.9	$ 84.7	$160.2
Customer relationships	163.8	32.8	131.0
Patents	169.7	78.7	91.0
Trademarks	35.7	18.2	17.5
Other	33.1	23.1	10.0
	$647.2	$237.5	$409.7

The estimated amortization expense for each of the five succeeding years is as follows (in millions):

2007	$ 39.7
2008	$ 39.3
2009	$ 38.4
2010	$ 31.3
2011	$ 24.0

NOTE 6
LONG-TERM DEBT

Long-term debt is summarized as follows (in millions):

	December 31	
	2006	*2005*
Unsecured Credit Facility	$ –	$224.8
Other	14.8	6.8
	14.8	231.6
Less current maturities	14.8	47.4
	$ –	$184.2

The Company has established a $1,000.0 million Unsecured Credit Facility. The facility, which expires in November 2010, includes a senior 5-year nonamortizing, revolving credit agreement with a maximum amount of $1,000.0 million. The Company may increase the credit facility maximum limit in $100.0 million increments up to an additional $500.0 million upon acceptance by the existing lender group or additional lenders.

The Unsecured Credit Facility requires a facility fee ranging from 0.04% to 0.15% on the aggregate commitment of the credit facility, depending on the Company's debt rating. The credit facility includes a $500.0 million multicurrency sublimit, under which yen and euro can be borrowed; a $100.0 million swing line sublimit; and a $100.0 million letter of credit sublimit. The credit facility bears interest at a base rate, as defined, plus an applicable margin ranging from 0.12% to 0.475%, depending on the Company's debt rating.

During 2006, the weighted-average interest rate, excluding required fees, for all borrowings under the credit facility was 2.9%. The Unsecured Credit Facility requires the Company to comply with certain financial and other covenants. The Company was in compliance with all covenants at December 31, 2006. In addition to the Unsecured Credit Facility, the Company has lines of credit, issued by various financial institutions, available to fund the Company's day-to-day operating needs. At December 31, 2006, the Company had $1,028.1 million of additional borrowing capacity available under all of its existing credit facilities.

The carrying amounts of the Company's long-term debt approximate their fair values, based on the quoted interest rates for similar types and amounts of borrowing agreements.

Interest paid on debt, including required fees, was $6.3 million in 2006, $8.1 million in 2005 and $6.0 million in 2004; these amounts are reflected in interest expense, which is included in other income (expense).

NOTE 7
CAPITAL STOCK

On April 20, 2004 the Company's shareholders approved an amendment to Section A of Article III of the Company's Restated Articles of Incorporation to increase its authorized shares of common stock to 1 billion from 500 million shares.

On April 20, 2004 the Company's Board of Directors approved a two-for-one stock split, effective May 14, 2004, for shareholders of record on May 3, 2004. All share and per share data have been adjusted to reflect the stock split as though it had occurred at the beginning of all periods presented.

The Company has 0.5 million authorized shares of $1 par value preferred stock, none of which is outstanding.

The Company has key employee and director stock option plans under which options are granted at an exercise price not less than the fair market value of the underlying common stock at the date of grant. The options are granted for periods of up to 10 years and become exercisable in varying installments. A summary of stock option activity follows:

	Shares (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2006	24.2	$28.78		
Granted	4.8	46.84		
Exercised	(3.1)	16.57		
Cancelled	(0.5)	42.93		
Options outstanding at December 31, 2006	25.4	$33.35	6.1	$551.9
Exercisable at December 31, 2006	14.5	$24.75	4.6	$439.0
Options expected to vest	10.3	$44.56	8.1	$108.9

The aggregate intrinsic value, which represents the cumulative difference between the fair market value of the underlying common stock and the option exercise prices, of options exercised during the years ended December 31, 2006, 2005 and 2004 was $100.0 million, $100.5 million and $115.8 million, respectively. The total grant-date fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was $46.4 million, $43.1 million and $39.5 million, respectively. Shares reserved for future compensation grants of Stryker common stock were 25.9 million at December 31, 2006. Option shares reserved for future grants were 10.1 million at December 31, 2005. Exercise prices for options outstanding as of December 31, 2006 ranged from $7.10 to $52.73. At December 31, 2006, there was $136.0 million of unrecognized compensation cost related to nonvested stock options granted under the stock option plans; that cost is expected to be recognized over the following 8.2 years (weighted-average period of 1.9 years).

NOTE 8
NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share (in millions, except per share amounts):

	2006	*2005*	*2004*
Net earnings	$777.7	$643.6	$440.0
Weighted-average shares outstanding for basic net earnings per share	406.5	403.7	401.2
Effect of dilutive employee stock options	5.3	7.1	8.1
Adjusted weighted-average shares outstanding for diluted net earnings per share	411.8	410.8	409.3
Net earnings per share of common stock:			
Basic	$ 1.91	$ 1.59	$ 1.10
Diluted	$ 1.89	$ 1.57	$ 1.08

Options to purchase an average of 4.5 million and 2.5 million shares of common stock during the years ended December 31, 2006 and 2005, respectively, were outstanding but were not included in the computation of diluted net earnings per share because the exercise prices of the options were greater than the average market price of common shares for those periods.

NOTE 9
RETIREMENT PLANS

Certain of the Company's subsidiaries have both funded and unfunded defined benefit pension plans covering some or all of their employees. All of the defined benefit pension plans have projected benefit obligations in excess of plan assets. As discussed in Note 1, the Company adopted the provisions of FASB Statement No. 158 as of December 31, 2006. The adoption of the Statement did not require a restatement of prior periods. Substantially all of the defined benefit pension plans use a December 31 measurement date for the determination of plan obligations and funded status of the plans. A summary of the Company's defined benefit pension plans is as follows (in millions):

	December 31	
	2006	*2005*
Change in projected benefit obligations:		
Projected benefit obligations at beginning of year	$156.8	$145.3
Service cost	10.7	8.6
Interest cost	6.9	6.4
Foreign exchange impact	12.4	(14.1)
Employee contributions	0.8	0.6
Actuarial losses (gains)	(0.2)	15.1
Benefits paid	(5.0)	(5.1)
Projected benefit obligations at end of year	182.4	156.8
Change in plan assets:		
Fair value of plan assets at beginning of year	91.6	78.7
Actual return	9.7	10.3
Employer contributions	6.4	13.2
Employee contributions	0.8	0.6
Foreign exchange impact	6.2	(6.7)
Benefits paid	(4.5)	(4.5)
Fair value of plan assets at end of year	110.2	91.6
Funded status at end of year	$(72.2)	$(65.2)
Weighted-average assumptions as of December 31:		
Discount rate	4.5%	4.3%
Expected return on plan assets	6.3%	6.3%
Rate of compensation increase	3.1%	3.1%

The components of the amounts recognized in the consolidated balance sheets are as follows (in millions):

	December 31	
	2006	*2005*
Noncurrent assets—Other	$ –	$ 1.5
Current liabilities—Accrued compensation	(0.8)	(6.3)
Noncurrent liabilities—Other liabilities	(71.4)	(38.7)
	$(72.2)	$(43.5)

The components of the amounts recognized in accumulated other comprehensive gain (loss) before the effect of income taxes are as follows (in millions):

	December 31	
	2006	*2005*
Unrecognized net actuarial loss	$(13.0)	$(17.1)
Adjustments to adopt FASB Statement No. 158:		
Additional unrecognized net actuarial loss	(21.6)	–
Unrecognized prior service cost	(0.9)	–
Unrecognized transition amount	(0.3)	–
	$(35.8)	$(17.1)

The accumulated benefit obligation for all of the defined benefit pension plans was $158.2 million and $133.6 million as of December 31, 2006 and 2005, respectively. Pension plans with an accumulated benefit obligation in excess of plan assets had projected benefit obligations, accumulated benefit obligations and fair value of plan assets of $146.2 million, $129.5 million and $80.2 million, respectively, as of December 31, 2006 and $129.1 million, $112.6 million and $68.4 million, respectively, as of December 31, 2005.

The components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in accumulated other comprehensive gain (loss) before the effect of income taxes are as follows (in millions):

	2006	*2005*	*2004*
Net periodic benefit cost:			
Service cost	$(10.9)	$ (8.8)	$(6.6)
Interest cost	(6.9)	(6.3)	(5.6)
Expected return on plan assets	6.0	5.1	4.1
Amortization of prior service cost and transition amount	(0.2)	(0.2)	(0.2)
Recognized actuarial loss	(1.4)	(0.9)	(0.5)
Net periodic benefit cost	(13.4)	(11.1)	(8.8)
Other changes in plan assets and benefit obligations recognized in accumulated other comprehensive gain (loss):			
Net actuarial gain (loss)	2.7	(2.9)	(4.9)
Recognized actuarial loss	1.4	0.9	0.5
Adjustments to adopt FASB Statement No. 158:			
Unrecognized actuarial loss	(21.6)	–	–
Prior service cost	(0.9)	–	–
Transition amount	(0.3)	–	–
Total recognized in accumulated other comprehensive gain (loss)	(18.7)	(2.0)	(4.4)
Total recognized in net periodic benefit cost and accumulated other comprehensive gain (loss)	$(32.1)	$(13.1)	$(13.2)

The estimated net actuarial loss and amortization of prior service cost and transition amount for the defined benefit pension plans to be recognized from accumulated other comprehensive income into net periodic benefit cost in the year ended December 31, 2007 are $1.8 million and $0.2 million, respectively.

The Company has assumed an average long-term expected return on defined benefit plan assets of 6.3% as of December 31, 2006. The expected return is determined by applying the target allocation in each asset category of plan investments to the anticipated return for each asset category based on historical and projected returns.

The weighted-average allocation of plan assets by asset category is as follows:

	December 31	
	2006	*2005*
Equity securities	65%	65%
Debt securities	29	30
Other	6	5
	100%	100%

The investment strategy for the Company's defined benefit pension plans is both to meet the liabilities of the plans as they fall due and to maximize the return on invested assets within appropriate risk tolerances. Reflected below are target investment allocation ranges for the plans at December 31, 2006:

	Low	High
Equity Securities	56%	73%
Debt securities	26	41
Other	2	8

The Company anticipates contributing approximately $8.2 million to its defined benefit pension plans in 2007.

The following estimated future benefit payments, which reflect expected future service as appropriate, are expected to be paid in the years indicated (in millions):

	2007	*2008*	*2009*	*2010*	*2011*	*2012-16*
Expected benefit payments	$ 4.8	$ 5.0	$ 5.7	$ 6.2	$ 6.0	$40.2

Retirement plan expense under the Company's defined contribution retirement plans totaled $73.4 million in 2006, $64.5 million in 2005 and $61.1 million in 2004. A portion of the Company's retirement plan expenses was funded with Stryker common stock totaling $7.0 million in 2006, $6.3 million in 2005 and $5.4 million in 2004. The use of Stryker common stock represents a noncash operating activity that is not reflected in the consolidated statements of cash flows. The amount of Stryker common stock held by the Company's defined contribution retirement plans totaled $86.2 million (approximately 1.6 million shares) and $71.2 million (approximately 1.6 million shares) as of December 31, 2006 and 2005, respectively. The value of Stryker common stock as a percentage of total defined contribution retirement plan assets was 13% as of both December 31, 2006 and 2005.

NOTE 10
INCOME TAXES

In the fourth quarter of 2004, the President of the United States signed the American Jobs Creation Act (the Act). The Act provided a temporary incentive for United States companies to repatriate accumulated income earned in foreign jurisdictions by providing an 85% dividends-received deduction for certain dividends from controlled corporations.

In the third quarter of 2005, the Company's Board of Directors approved a plan to repatriate $722 million of foreign earnings under the provisions of the Act. The repatriation plan was completed in the fourth quarter of 2005, and the Company recorded a charge of $27.4 million, or $.07 per diluted share, to recognize the income tax expense and related liability in the United States associated with the repatriation. The repatriated funds were invested pursuant to an approved Domestic Reinvestment Plan that conformed to the Act.

Earnings before income taxes consist of the following (in millions):

	2006	*2005*	*2004*
United States operations	$ 547.5	$ 369.9	$ 201.8
Foreign operations	556.3	584.7	476.3
	$1,103.8	$ 954.6	$ 678.1

The components of the provision for income taxes follow (in millions):

	2006	*2005*	*2004*
Current income tax expense:			
Federal	$ 235.4	$ 173.0	$ 151.0
State	29.8	27.3	17.9
Foreign	88.0	102.8	141.9
	353.2	303.1	310.8
Deferred income tax expense (credit)	(27.1)	7.9	(72.7)
	$ 326.1	$ 311.0	$ 238.1

A reconciliation of the United States statutory income tax rate to the Company's effective income tax rate follows:

	2006	*2005*	*2004*
United States statutory income tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, less effect of federal deduction	2.1	2.5	1.9
Tax benefit relating to operations in Ireland and Puerto Rico	(9.1)	(9.8)	(9.8)
Nondeductible purchased in-process research and development	1.7	0.6	6.2
Nondeductible permanent differences	1.3	1.9	3.0
United States income taxes on repatriation of foreign earnings	–	2.9	–
Foreign income taxes at rates different from the United States statutory rate	(0.3)	0.6	(0.7)
Other	(1.2)	(1.1)	(0.5)
	29.5%	32.6%	35.1%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are recorded to reduce deferred income tax assets when it is more likely than not that a tax benefit will not be realized. The tax effect of significant temporary differences, which comprise the Company's deferred income tax assets and liabilities, is as follows (in millions):

	December 31	
	2006	*2005*
Deferred income tax assets:		
Inventories	$ 278.6	$ 255.5
Accounts receivable and other assets	20.1	20.7
Other accrued expenses	110.7	87.8
Depreciation and amortization	24.5	24.2
State taxes	15.0	15.0
Net operating loss carryforwards	23.3	16.2
Other	78.0	66.0
Total deferred income tax assets	550.2	485.4
Less valuation allowance	(14.4)	(11.2)
Total deferred income tax assets after valuation allowances	535.8	474.2
Deferred income tax liabilities:		
Depreciation and amortization	(139.7)	(118.5)
Other accrued expenses	(12.4)	(11.6)
Other	(14.2)	(10.5)
Total deferred income tax liabilities	(166.3)	(140.6)
Total net deferred income tax assets	$ 369.5	$ 333.6

Net operating loss carryforwards totaling approximately $47.6 million at December 31, 2006 are available to reduce future taxable earnings of certain domestic and foreign subsidiaries.

Deferred income tax assets and liabilities are included in the consolidated balance sheets as follows (in millions):

	December 31	
	2006	*2005*
Current assets—Deferred income taxes	$ 417.2	$ 383.1
Noncurrent assets—Deferred income taxes	118.6	91.1
Current liabilities—Accrued expenses and other liabilities	(38.1)	(35.8)
Noncurrent liabilities—Other liabilities	(128.2)	(104.8)
Total net deferred income tax assets	$ 369.5	$ 333.6

At December 31, 2006, tax authorities in several tax jurisdictions both inside and outside the United States were conducting routine audits of the Company's income tax returns filed in prior years. These audits are generally designed to determine if individual tax authorities are in agreement with the Company's interpretations of complex income tax regulations regarding the allocation of income to the various tax jurisdictions. During 2006, the Company did not reach resolution on any significant outstanding tax audit and, therefore, increased its income tax accruals by $19.7 million for the Company's best estimate of the probable resolution of these tax positions.

No provision has been made for United States federal and state income taxes or foreign income taxes that may result from future remittances of the undistributed earnings ($1,772.8 million at December 31, 2006) of foreign subsidiaries because it is expected that such earnings will be reinvested overseas indefinitely. Determination of the amount of any unrecognized deferred income tax liability on these unremitted earnings is not practicable.

Total income taxes paid, net of refunds received, were $325.6 million in 2006, $247.8 million in 2005 and $235.8 million in 2004.

NOTE 11
SEGMENT AND GEOGRAPHIC DATA

The Company segregates its operations into two reportable business segments: Orthopaedic Implants and MedSurg Equipment. The Orthopaedic Implants segment sells orthopaedic reconstructive (hip, knee and shoulder), trauma, spinal and craniomaxillofacial implant systems; bone cement; and the bone growth factor OP-1. The MedSurg Equipment segment sells surgical equipment; surgical navigation systems; endoscopic, communications and digital imaging systems; as well as patient handling and emergency medical equipment. The Other category includes Physical Therapy Services and corporate administration, interest expense and interest and marketable securities income.

Effective January 1, 2006, the Company changed its business segment reporting to include the financial results of certain products within its MedSurg Equipment segment rather than within its Orthopaedic Implants segment. The Company believes these products are better aggregated with its other MedSurg Equipment products based on similarities in manufacturing and marketing practices and customer base. Prior year results have been reclassified to correspond with this change in reporting.

The Company's reportable segments are business units that offer different products and services and are managed separately because each business requires different manufacturing, technology and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company measures the financial results of its reportable segments using an internal performance measure that excludes the purchased in-process research and development charges recognized in 2006, 2005 and 2004, the additional income taxes on the repatriation of foreign earnings recognized in 2005 as well as the effect of share-based compensation, which includes compensation related to both employee and director stock option plans and restricted stock grants. Identifiable assets are those assets used exclusively in the operations of each business segment or are allocated when used jointly. Corporate assets are principally cash and cash equivalents; marketable securities; and property, plant and equipment.

Sales and other financial information by business segment follows (in millions):

	Orthopaedic Implants	MedSurg Equipment	Other	Total
Year ended December 31, 2006				
Net sales	$3,110.1	$2,037.1	$ 258.4	$5,405.6
Interest and marketable securities income	–	–	41.4	41.4
Interest expense	–	–	9.5	9.5
Depreciation and amortization expense	267.9	53.0	10.9	331.8
Income taxes (credit)	238.6	109.6	(2.2)	346.0
Segment net earnings (loss)	564.1	317.1	(13.8)	867.4
Less purchased in-process research and development				52.7
Less share-based compensation, net of income tax benefits				37.0
Net earnings				777.7
Total assets	3,576.1	1,103.3	1,194.4	5,873.8
Capital expenditures	134.9	53.3	29.3	217.5
Year ended December 31, 2005				
Net sales	2,849.5	1,759.4	262.6	4,871.5
Interest and marketable securities income	–	–	13.3	13.3
Interest expense	–	–	7.7	7.7
Depreciation and amortization expense	230.0	49.6	10.3	289.9
Income taxes (credit)	206.7	101.3	(7.1)	300.9
Segment net earnings (loss)	464.8	272.6	(18.4)	719.0
Less purchased in-process research and development				15.9
Less share-based compensation, net of income tax benefits				32.1
Less income taxes on repatriation of foreign earnings				27.4
Net earnings				643.6
Total assets	2,988.8	874.7	1,129.0	4,992.5
Capital expenditures	183.5	69.9	18.3	271.7
Year ended December 31, 2004				
Net sales	2,556.2	1,461.2	244.9	4,262.3
Interest income	–	–	4.7	4.7
Interest expense	–	–	6.8	6.8
Depreciation and amortization expense	196.1	40.0	14.8	250.9
Income taxes (credit)	190.2	79.4	(18.1)	251.5
Segment net earnings (loss)	409.9	209.1	(32.0)	587.0
Less purchased in-process research and development				120.8
Less share-based compensation, net of income tax benefits				26.2
Net earnings				440.0
Total assets	2,906.0	698.4	515.6	4,120.0
Capital expenditures	127.9	52.1	7.8	187.8

The Company's principal areas of operation outside of the United States are Europe and Japan. The Company also has operations in the Pacific region, Canada, Latin America and the Middle East. Geographic information follows (in millions):

	Net Sales	Long-Lived Assets
Year ended December 31, 2006		
United States	$3,556.8	$1,321.1
Europe	972.4	701.8
Japan	364.5	101.5
Other foreign countries	511.9	96.5
	$5,405.6	$2,220.9
Year ended December 31, 2005		
United States	$3,165.6	$1,220.0
Europe	891.1	627.7
Japan	380.1	99.0
Other foreign countries	434.7	84.6
	$4,871.5	$2,031.3
Year ended December 31, 2004		
United States	$2,753.0	$1,038.6
Europe	780.2	695.0
Japan	351.5	112.3
Other foreign countries	377.6	56.7
	$4,262.3	$1,902.6

NOTE 12
LEASES

The Company leases various manufacturing and office facilities and equipment under operating leases. Future minimum lease commitments under these leases are as follows (in millions):

2007	$ 62.1
2008	51.3
2009	38.5
2010	22.7
2011	13.3
Thereafter	25.4
	$213.3

Rent expense totaled $94.7 million in 2006, $85.3 million in 2005 and $79.9 million in 2004.

NOTE 13
CONTINGENCIES

The Company is involved in various proceedings, legal actions and claims arising in the normal course of business, including proceedings related to product, labor, intellectual property and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. The Company records amounts for losses that are deemed to be probable and subject to reasonable estimate. However, the Company does not anticipate material losses as a result of these proceedings beyond amounts already provided in the accompanying Consolidated Financial Statements.

In December 2003, the Company announced that its subsidiary Physiotherapy Associates, Inc., and Stryker received a subpoena from the United States Attorney's Office in Boston, Massachusetts, in connection with a United States Department of Justice investigation of Physiotherapy Associates' billing and coding practices. In March 2005, the Company announced that it received a subpoena from the United States Department of Justice requesting documents for the period January 2002 through the present relating to "any and all consulting contracts, professional service agreements, or remuneration agreements between Stryker Corporation and any orthopedic surgeon, orthopedic surgeon in training, or medical school graduate using or considering the surgical use of hip or knee joint replacement/reconstruction products manufactured or sold by Stryker Corporation." In June 2006, the Company announced that it received a subpoena from the United States Department of Justice, Antitrust Division requesting documents for the period January 2001 through the present regarding possible violations of federal criminal law, including possible violation of the antitrust laws, relating to the manufacture and sale of orthopaedic implant devices. The Company is fully cooperating with the Department of Justice regarding these matters.

Pursuant to certain of the Company's credit and lease agreements, the Company has provided financial guarantees to third parties in the form of indemnification provisions. These provisions indemnify the third parties for costs, including but not limited to adverse judgments in lawsuits and the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law. The terms of the guarantees are equal to the terms of the related credit or lease agreements. The Company is not able to calculate the maximum potential amount of future payments it could be required to make under these guarantees, as the potential payment is dependent on the occurrence of future unknown events (e.g., changes in United States or foreign tax laws).

SUMMARY OF QUARTERLY DATA (UNAUDITED) Stryker Corporation and Subsidiaries

(in millions, except per share amounts)

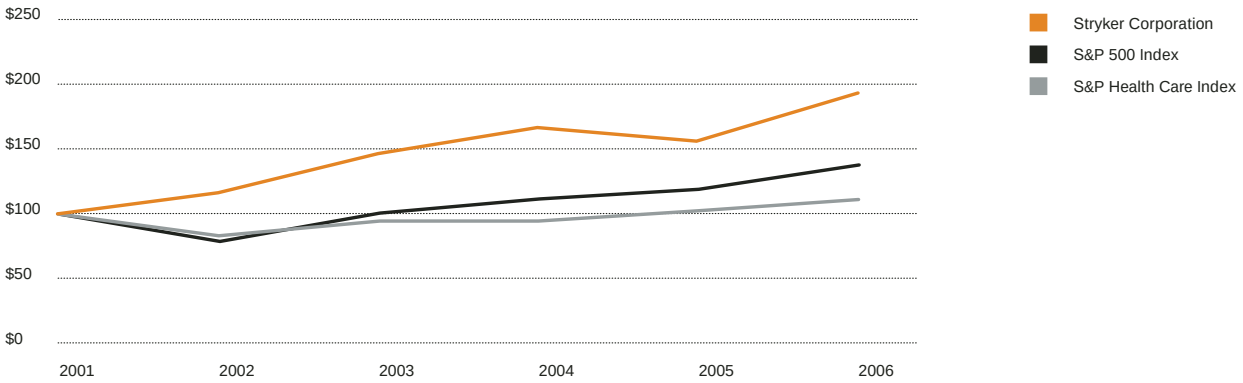
	2006 Quarter Ended				2005 Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Net sales	$1,320.9	$1,327.9	$1,294.0	$1,462.8	$1,202.5	$1,218.6	$1,171.9	$1,278.5
Gross profit	868.0	875.4	852.3	961.2	772.5	795.5	754.6	830.4
Earnings before income taxes	227.3	296.6	262.4	317.5	235.8	251.3	214.3	253.2
Net earnings	147.5	213.9	188.4	227.9	166.7	177.8	120.7	178.4
Net earnings per share of common stock:								
Basic	.36	.53	.46	.56	.41	.44	.30	.44
Diluted	.36	.52	.46	.55	.41	.43	.29	.43
Market price of common stock:								
High	50.90	47.75	51.00	55.92	52.64	50.95	56.32	49.74
Low	43.77	40.77	42.06	48.83	43.00	43.51	46.80	39.74

The price quotations reported above were supplied by the New York Stock Exchange.

PERFORMANCE GRAPH (UNAUDITED)

Set forth below is a graph comparing the total returns (including reinvestment of dividends) of the Company, the Standard & Poor's (S&P) 500 Composite Stock Price Index and the S&P Health Care (Medical Products and Supplies) Index. The graph assumes $100 invested on December 31, 2001 in the Company's Common Stock and each of the indices.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN



	2001	*2002*	*2003*	*2004*	*2005*	*2006*
Stryker Corporation	$100.00	$115.20	$146.14	$166.20	$153.42	$191.06
S&P 500 Index	$100.00	$ 77.90	$100.25	$111.15	$116.61	$135.03
S&P Health Care Index	$100.00	$ 81.18	$ 93.40	$ 94.96	$101.10	$108.71

BOARD OF DIRECTORS

John W. Brown, Chairman
Chairman of the Board, Stryker Corporation

*Howard E. Cox, Jr. * † ‡*
Partner, Greylock

Donald M. Engelman, Ph.D.
Eugene Higgins Professor of Molecular Biophysics and Biochemistry, Yale University, and Chair of the Science and Technology Steering Committee of the Brookhaven National Laboratory

Louise L. Francesconi
Vice President of Raytheon Company and President of Raytheon Missile Systems

*Jerome H. Grossman, M.D. * ‡*
Director of the Harvard/Kennedy School Health Care Delivery Policy Program at Harvard University

Stephen P. MacMillan
President and Chief Executive Officer, Stryker Corporation

*William U. Parfet * † ‡*
Chairman and Chief Executive Officer, MPI Research, Inc.

Ronda E. Stryker † ‡
Granddaughter of the founder of the Company and daughter of the former President of the Company, Vice Chairman and Director of Greenleaf Trust

* Audit Committee
† Compensation Committee
‡ Governance and Nominating Committee

CORPORATE OFFICERS

Stephen P. MacMillan
President and Chief Executive Officer

J. Patrick Anderson
Vice President, Corporate Affairs

Dean H. Bergy
Vice President and Chief Financial Officer

Curtis E. Hall
Vice President and General Counsel

Christopher F. Homrich
Vice President and Treasurer

Stephen Si Johnson
Vice President and Group President, MedSurg

James E. Kemler
Vice President and Group President, Biotech, Spine, Osteosynthesis and Development

James R. Lawson
Executive Vice President

Edward B. Lipes
Executive Vice President

Eric Lum
Vice President, Tax

Katherine A. Owen
Vice President, Strategy and Investor Relations

James B. Praeger
Controller

Michael W. Rude
Vice President, Human Resources

David J. Simpson
Executive Vice President

Elizabeth A. Staub
Vice President, Regulatory Affairs and Quality Assurance

Bronwen R. Taylor
Chief Compliance Officer

Thomas R. Winkel
Vice President, Administration and Secretary

Jeffrey R. Winter
Vice President, Internal Audit

Bryant S. Zanko
Vice President, Business Development

OPERATING GROUPS AND DIVISIONS

ORTHOPAEDICS
Michael P. Mogul – President

BIOTECH, SPINE, OSTEOSYNTHESIS AND DEVELOPMENT
James E. Kemler – Group President

Biotech
Mark A. Philip, Ph.D. – President

Spine
Timothy J. Scannell – President

Osteosynthesis
Vivian Masson – President

Development
Ronald L. Lancaster – Vice President

MEDSURG
Stephen Si Johnson – Group President

Canada and Latin America
Lee D. Lovely – Vice President and General Manager

Endoscopy
William R. Enquist – Global President

Instruments
Curt R. Hartman – Global President

Medical
Lonny J. Carpenter – Vice President and General Manager

INTERNATIONAL
Luciano Cattani – Group President

Europe, Middle East, Africa
Patrick J. Beyer – President

Japan
Yoshiaki Nakazawa – Representative Director and President

Pacific
Andrew Fox-Smith – President

PHYSIOTHERAPY ASSOCIATES
Jud Hoff – Vice President and General Manager

OTHER INFORMATION

General Counsel
Winston & Strawn LLP, New York, New York

Independent Registered Public Accounting Firm
Ernst & Young LLP, Grand Rapids, Michigan

Transfer Agent and Registrar
National City Bank, Cleveland, Ohio

Shareholders needing information regarding their certificates or dividends should contact:

National City Bank
Corporate Trust Operations
P.O. Box 92301
Cleveland, Ohio 44193-0900
800 622 6757
shareholder.inquiries@nationalcity.com

Investor Contact
Katherine A. Owen, Vice President, Strategy and Investor Relations

Annual Meeting
The Annual Meeting of Shareholders of Stryker Corporation will be held at the Radisson Plaza Hotel & Suites at The Kalamazoo Center in Kalamazoo, Michigan, on Wednesday, April 25, 2007, at 2:00 p.m. EST.

Form 10-K
The Company files a Form 10-K with the Securities and Exchange Commission. Shareholders wishing a copy of the 2006 report may obtain it free of charge at www.stryker.com or request it by writing to:

Secretary
Stryker Corporation
2825 Airview Boulevard
Kalamazoo, MI 49002

Stock Listing
The Company's common stock is traded on the New York Stock Exchange under the symbol SYK.

Chief Executive Officer and Chief Financial Officer Certifications
The Company has filed with the U.S. Securities and Exchange Commission all required certifications of the Chief Executive Officer (CEO) and Chief Financial Officer of the Company regarding the quality of Stryker's public disclosures. In addition, Stryker's CEO submitted to the New York Stock Exchange (NYSE) the annual CEO certification stating that he is not aware of any violation by the Company of the NYSE's corporate governance listing standards.

Board of Directors

Front:
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Louise L. Francesconi,
Stephen P. MacMillan,
John W. Brown
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Donald M. Engelman, Ph.D.,
Howard E. Cox, Jr.

Design: Philographica, Brookline, Massachusetts Copy: Susan Gelb/Written Work, Boston, Massachusetts Photography: Amos Chan, New York, New York

FOOTNOTES

Footnote to page 13

[1] [1] Longhi A, Errani C, De Paolis M, Mercuri M, Bacci G. Primary bone osteosarcoma in the pediatric age: state of the art. Cancer Treat Rev. 2006 Oct;32(6):423-36. Epub 2006 Jul 24. Review.
[2] Grimer RJ. Surgical options for children with osteosarcoma. Lancet Oncol. 2005 Feb;6(2):85-92. Review.
[3] Sluga M, Windhager R, Pfeiffer M, Ofner P, Lang S, Dominkus M, Nehrer S, Zoubek A, Kotz R. [Osteosarcoma and Ewing's sarcoma: The most frequent malignant bone tumors in children—therapy and outcome] Z Orthop Ihre Grenzgeb. 2002 Nov-Dec;140(6):652-5. German.
[4] Campanacci M. Bone and soft tissue tumors. 2nd ed. Spinger-Verlag, Wien 1999.
[5] Springfield D. "Surgery for Bone and Soft-Tissue Tumors." Lippincott-Raven 1997.

Footnotes to pages 14-17

[1] Hitt, Kirby et al, Anthropometric Measurements of the Human Knee: Correlation to the Sizing of Current Knee Arthroplasty System, *Journal of Bone and Joint Surgery,* Volume 58-A, Supplement 4 2003, pages 115-122.

[2] Stryker Orthopaedics Triathlon CR Tibial Inserts made from X3 UHMWPE, 5530-G-409 show a 68% reduction in volumetric wear rate versus the same insert fabricated from N2\Vac gamma sterilized UHMW PE, 5530-P-409. The insert tested was Size 4, 9 mm thick. Testing was conducted under multiaxial knee simulator (multi-station MTS knee joint simulator [1]) for five million cycles using appropriate size CoCr counterfaces, a specific type of diluted calf serum lubricant and the motion and loading conditions, representing normal walking, outlined in ISO/DIS 14243-3. Volumetric wear rates were 17.7 ± 2.2 $mm^3/10^6$ cycles for standard polyethylene inserts and 5.7 ± 1.5 $mm^3/10^6$ cycles for test samples. Test inserts were exposed to a gas plasma sterilization process. In vitro knee wear simulator tests have not been shown to quantitatively predict clinical wear performance.

Stryker Orthopaedics Triathlon PS Tibial Inserts made of X3 UHMWPE, 5532-G-409 show a 64% reduction in volumetric wear rate versus the same insert fabricated from N2\Vac gamma sterilized UHMWPE, 5532-P-409. The insert tested was Size 4, 9 mm thick. Testing was conducted under multiaxial knee simulator (multi-station MTS knee joint simulator) for five million cycles using a size 7 CoCr counterfaces, a specific type of diluted calf serum lubricant and literature or fluoroscopy based motion and loading conditions representing stair climbing [2,3]. Volumetric wear rates were 3.6 ± 0.61 $mm^3/10^6$ cycles for standard polyethylene inserts and were 1.3 ± 0.44 $mm^3/10^6$ cycles for test samples. Test inserts were exposed to a gas plasma sterilization process. In vitro knee wear simulator tests have not been shown to quantitatively predict clinical wear performance.

[1] A. Essner, A. Wang, C. Stark and J. H. Dumbleton, "A simulator for the evaluation of total knee replacement wear," 5th World Biomaterials Congress, Toronto, Canada, May, 1996, pg 580.
[2] R. Riener, M. Rabuffetti and C. Frigo, "Stair ascent and descent at different inclinations," *Gait and Posture* 15: 2002, pp. 32-44.
[3] JB. Morrison, "Function of the knee joint in various activities," *Bio-medical Engineering,* 4: 1969, pp. 573-580.

[3] Hawker, G., Wright, J., Coyte, P., Williams, J., Harvey, B., Glazier, R., Badley, E. (2000). Differences between Men and Women in the Rate of Hip and Knee Arthroplasty. *New England Journal of Medicine* 342:1016-1022.

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[1] Chinese Mass Sports Status Survey, General Administration of Sports in China, 2001.

EMPLOYEES ON PAGE 22

Invent It (Mahwah, New Jersey, U.S.)
From left to right: Stuart Axelson, *Senior Director, Concept Development,* Mark Kester, Ph.D., *Senior Director, Research,* Joe Racanelli, *Manager, Modeling and Simulation,* Scott Logan, *Chief Engineer,* Tiffani Rogers, *Regulatory Affairs Specialist,* Damon Servidio, *Principal Engineer, Concept Development,* Andrea Coppolecchia, *Senior Clinical Study Manager,* Carlos Collazo, *Principal Engineer,* Sujit Sivadas, *Project Engineer*

Manufacture It (Limerick, Ireland)
From left to right: Rosemarie O'Callaghan, *Production Team Leader,* Shane Griffin, *Operator,* Martin McMahon, *Operator,* Michael Buchanan, *Production Team Leader,* Shane Mason, *Operator,* Alan Sheehan, *Operator,* Sally Hartigan, *Operator,* Eámonn Nestor, *Business Unit Leader*

Sell It (Beijing, China)
From left to right: Wei-guo Zhang, *Area Business Manager–Recon,* Wei Zhao, *Product Specialist–Spine,* Michael Duan, *Area Business Manager–Fixation,* Cindy Huang, *Order Administrator,* Sam Fung, *Business Director–Endoscopy & Medical,* Xue-tao Xue, *Business Manager–Endoscopy & Medical,* Xiao-hui Wang, *Associate Product Manager–Instruments,* Leon Lam, *Zone Business Manager*

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Not all products referenced within this report are approved or cleared for sale, distribution or use in the United States.

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