Covidien plc
Form 10-K
November 15, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 28, 2012
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

001-33259
(Commission File Number)

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COVIDIEN PUBLIC LIMITED COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Ireland | 98-0624794 |
| (Jurisdiction of Incorporation) | (IRS Employer Identification No.) |

20 on Hatch, Lower Hatch Street
Dublin 2, Ireland
(Address of registrant's principal executive office)
+353 1 438-1700
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Ordinary Shares, Par Value $0.20 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant (assuming solely for the purposes of this calculation that all directors and executive officers of the Registrant are “affiliates”) as of March 30, 2012, the last business day of the Registrant’s most recently completed second fiscal quarter, was approximately $26,332 million (based upon the closing price of $54.68 per share as reported by the New York Stock Exchange on that date).

The number of ordinary shares outstanding as of November 12, 2012 was 473,388,967.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s proxy statement to be filed within days of the close of the registrant’s fiscal year in connection with the registrant’s 2013 annual general meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

General

We are a global leader in the development, manufacture and sale of healthcare products for use in clinical and home settings. Our products are found in almost every hospital in the United States, and we have a significant and growing presence in non-U.S. markets. Our mission is to create and deliver innovative healthcare solutions, developed in ethical collaboration with medical professionals, which enhance the quality of life for patients and improve outcomes for our customers and our shareholders.

Business Segments

Our three reportable segments are as follows:

- Medical Devices includes the development, manufacture and sale of endomechanical instruments, energy devices, soft tissue repair products, vascular products, oximetry and monitoring products, airway and ventilation products and other medical products.
- Pharmaceuticals includes the development, manufacture and distribution of specialty pharmaceuticals, active pharmaceutical ingredients, contrast products and radiopharmaceuticals.
- Medical Supplies includes the development, manufacture and sale of nursing care products, medical surgical products, SharpSafety™ products and original equipment manufacturer (OEM) products.

During fiscal 2012, we generated net sales of $11.9 billion and net income of $1.9 billion. Approximately 55% of our net sales are generated in the United States and 45% are generated outside of the United States.

Medical Devices

With fiscal 2012 net sales of $8.1 billion, our Medical Devices segment comprises 68% of our net sales. In fiscal 2011 and 2010, net sales totaled $7.8 billion, or 68% of our net sales, and $6.7 billion, or 64% of our net sales, respectively. Our Medical Devices segment develops, manufactures and sells the following products:

- Endomechanical Instruments—laparoscopic instruments, surgical staplers and interventional lung solutions. Key products include: the Tri-Staple™ technology platform for endoscopic stapling, including the Endo GIA™ reloads with Tri-Staple technology and the Endo GIA ultra universal stapler; the iDrive™ powered stapling systems; the Versaport™ bladeless optical trocar; and the i·Logic™ System to evaluate lung lesions. Sales of our stapling products represent 13% of our total net sales in both fiscal 2012 and 2011, and 12% of our total net sales in fiscal 2010.
- Energy Devices—vessel sealing, electrosurgical, ablation products and related capital equipment. Key products include: the ForceTriad™ tissue fusing and electrosurgery system; the LigaSure™ vessel sealing system and LigaSure Advance™, a multifunctional laparoscopic instrument for use with the ForceTriad; the Cool-tip™ radiofrequency ablation system; the Evident™ microwave ablation system; the Sonicision™ cordless ultrasonic dissection system; and the HALO ablation catheters for treatment of Barrett's esophagus.
- Soft Tissue Repair Products—sutures, mesh, biosurgery products and hernia mechanical devices. Key products include: the V-Loc™ wound closure devices; AbsorbaTack™ absorbable mesh fixation device for hernia repair; and Parietex ProGrip™, a self-gripping, biocompatible solution for inguinal hernias.
- Vascular Products—compression, dialysis, venous insufficiency, thrombectomy, neurovascular and peripheral vascular products. Key products include: the Pipeline® Embolization Device, an endovascular treatment for large or giant wide-necked brain aneurysms; the EverFlex™ Self-Expanding Stent; the TurboHawk™ and SilverHawk™ plaque excision systems; the Solitaire™ FR revascularization device for treatment of acute ischemic stroke; the ClosureFAST™ radiofrequency catheter; and the Kendall SCD™ Vascular Compression System.
- Oximetry and Monitoring Products—sensors, monitors and temperature management products. Key products include: the Nellcor™ OxiMax™ N-600x™ pulse oximeter; the Bispectral Index™ (BIS™) brain monitoring technology; the Nellcor™ Bedside SpO2 Patient Monitoring System; the INVOS® Cerebral/Somatic Oximeter; Microstream® capnography monitors; and related modules and sensors.

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- Airway and Ventilation Products—airway, ventilator, breathing systems and inhalation therapy products. Key products include: the Puritan Bennett™ 840 line of ventilators; the Puritan Bennett™ 520 and 560 portable ventilator; the TaperGuard™ Evac tube; Mallinckrodt® Endotracheal Tubes; Shiley® Tracheostomy Tubes; DAR® Filters; and resuscitation bags.

Products offered by our Medical Devices segment are used primarily by hospitals and ambulatory care centers. In addition, our products are also used by alternate site healthcare providers, such as physician offices. We market our products through our direct sales force and third-party distributors primarily to physicians, nurses, materials managers, group purchase organizations (GPOs) and governmental healthcare authorities.

Pharmaceuticals

With fiscal 2012 net sales of $2.0 billion, our Pharmaceuticals segment comprises 17% of our net sales. In fiscal 2011 and 2010, net sales totaled $2.0 billion, or 17% of our net sales, and $2.0 billion, or 19% of our net sales, respectively.

Our Pharmaceuticals segment develops, manufactures and distributes the following products:

- Specialty Pharmaceuticals—branded and generic pharmaceuticals, including pain and addiction treatment products.
- Active Pharmaceutical Ingredients (API)—medicinal opiates, acetaminophen and supplies other active ingredients, including peptides, stearates and phosphates to the pharmaceutical industry.
- Contrast Products—contrast delivery systems and contrast agents.
- Radiopharmaceuticals—radioactive isotopes and associated pharmaceuticals used for the diagnosis and treatment of disease.

Our Specialty Pharmaceutical products are sold to major wholesalers and retail drug store chains. We market our imaging products primarily to physicians, technologists and purchasing administrators at hospitals, imaging centers, cardiology clinics and radiopharmacies.

In December 2011, we announced a plan to spin off our pharmaceuticals business into a stand-alone public company. We anticipate that the transaction will be in the form of a distribution that will be tax-free to U.S. shareholders of a new publicly traded stock in the new pharmaceuticals company. Completion of the transaction is expected to be subject to certain conditions, including, among others, receipt of regulatory approvals, assurance as to the tax-free status of the spin-off of the pharmaceuticals business to our U.S. shareholders, the effectiveness of a Form 10 registration statement to be filed with the U.S. Securities and Exchange Commission (SEC) and final approval by our Board of Directors. We currently expect to complete the transaction in June 2013; however, there can be no assurance regarding the ultimate timing of the proposed transaction or that the transaction will be completed.

Medical Supplies

With fiscal 2012 net sales of $1.7 billion, our Medical Supplies segment comprises 15% of our net sales. In fiscal 2011 and 2010, net sales totaled $1.8 billion, or 15% of net sales and $1.7 billion, or 17% of net sales, respectively.

Our Medical Supplies segment develops, manufactures and distributes the following products within the United States and Europe:

- Nursing Care Products—incontinence, wound care, enteral feeding, urology and suction products. Key products include Curity™ and Kerlix™ gauze and bandages and Kangaroo™ enteral feeding systems.
- Medical Surgical Products—operating room supply products and related accessories, electrodes, thermometry and chart paper product lines. Under our Medi-Trace™ brand, we offer a comprehensive line of monitoring, diagnostic and defibrillation electrodes.
- SharpSafety™ Products—needles, syringes and sharps disposal products.
- Original Equipment Manufacturer (OEM) Products—various medical supplies, such as needles and syringes, manufactured for other medical products companies.

Products offered by our Medical Supplies segment are used primarily in hospitals, surgi-centers and alternate care facilities, such as homecare and long-term care facilities, and are marketed to materials managers, GPOs and integrated delivery networks (IDNs) primarily through third-party distributors; however, we also have direct sales representatives.

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Additional information with respect to our business segments is included in note 23 to our consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

Customers

Our customers include hospitals, surgi-centers, alternate site facilities, including long-term care facilities and imaging centers, and drug manufacturers throughout the world. We often negotiate with GPOs and IDNs, which enter into supply contracts for the benefit of their member facilities. We serve customers in over 140 countries and we maintain a strong local presence in each of the geographic areas in which we operate.

In fiscal 2012 and 2011, no customer represented 10% or more of our total net sales. Sales to one of our distributors, which supplies products from all of our segments to many end users, represented 10% of net sales in fiscal 2010. Our net sales by geographic area are set forth below:

| (Dollars in Millions) | 2012 | 2011 | 2010 |
|---|---|---|---|
| United States | $6,572 | $6,331 | $5,725 |
| Other Americas | 725 | 745 | 653 |
| Europe | 2,637 | 2,746 | 2,605 |
| Asia-Pacific | 1,918 | 1,752 | 1,446 |
| Net sales[1] | $11,852 | $11,574 | $10,429 |

[1] Sales to external customers are reflected in the regions based on the reporting entity that records the transaction.

Intellectual Property

Patents, trademarks and other proprietary rights are very important to our business. We also rely upon trade secrets, manufacturing know-how, technological innovations and licensing opportunities to maintain and improve our competitive position. We review third-party proprietary rights, including patents and patent applications, as available, in an effort to develop an effective intellectual property strategy, avoid infringement of third-party proprietary rights, identify licensing opportunities and monitor the intellectual property owned by others.

We hold more than 14,500 patents and have nearly 12,000 patent applications pending in the United States and in certain other countries that relate to aspects of the technology used in many of our products. We do not consider our business to be materially dependent upon any individual patent.

Research and Development

We are engaged in research and development in an effort to introduce new products, to enhance the effectiveness, ease of use, safety and reliability of our existing products, and to expand the applications for our products. Our research and development efforts include internal initiatives and those that use licensed or acquired technology. We are focused on developing technologies that will provide patients and healthcare providers with solutions that meet their clinical needs in treating medical conditions through less invasive procedures and in a cost-effective manner. Our research and development expenditures were $623 million, $554 million and $447 million in fiscal 2012, 2011 and 2010, respectively.

We evaluate developing technologies in areas where we have technological or marketing expertise for possible investment or acquisition. We intend to continue to invest in research and development and focus our internal and external investments in fields that we believe will offer the greatest potential for near and long-term growth. We are committed to investing in products that have a demonstrable clinical impact and value to the healthcare system and through which we can benefit from our core competencies and global infrastructure.

Governmental Regulation and Supervision

We face comprehensive governmental regulation both within and outside the United States relating to the development, manufacture, sale and distribution of our products. A number of factors substantially increase the time, difficulty and costs incurred in obtaining and maintaining the approval to market newly developed and existing products. These include detailed inspection of and controls over research and laboratory procedures, clinical investigations, manufacturing, narcotic licensing, marketing, sampling, distribution, recordkeeping, storage and disposal practices and various post-market requirements. Governmental regulatory actions can result in the seizure or recall of products, suspension or revocation of the authority necessary for their production and sale, and civil or

criminal sanctions.

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Medical device and drug laws also are in effect in many of the non-U.S. markets in which we conduct business. These laws range from comprehensive device and drug approval requirements to requests for product data or certifications. In addition, inspection of and controls over manufacturing, as well as monitoring of device-related adverse events, are components of most of these regulatory systems. Most of our business is subject to varying degrees of governmental regulation in the countries in which we operate, and the general trend is toward increasingly stringent regulation.

The exercise of broad regulatory powers by the U.S. Food and Drug Administration (FDA) continues to result in increases in the amount of testing and documentation required for approval or clearance of new drugs and devices, which adds to the time and expense of product introductions. Similar trends also are evident in major non-U.S. markets, including the European Union, China and Japan. Certain areas of our business are subject to additional oversight by the U.S. Drug Enforcement Administration (DEA) (for example, our pain management pharmaceutical products) or the Nuclear Regulatory Commission (for example, our radiopharmaceutical products).

We have systems to support compliance with U.S. and non-U.S. regulatory requirements. Our facilities developing, manufacturing, servicing or distributing medical devices or drugs follow programs and procedures to help ensure compliance with current good manufacturing practices and quality system requirements.

We are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws. Healthcare costs continue to be a subject of study, investigation and regulation by governmental agencies and legislative bodies around the world. Recently, in the United States, particular attention has been focused on drug and medical device prices and profits, and on programs that encourage doctors to write prescriptions for particular drugs or recommend, use or purchase of particular medical devices. Payors have become more influential in the marketplace and increasingly are focused on drug and medical device pricing, appropriate drug and medical device utilization and the quality and costs of healthcare. The Medicare Prescription Drug, Improvement and Modernization Act, enacted in 2003, also has increased attention on drug and device pricing. Violations of these frauds and abuse-related laws are punishable by criminal or civil sanctions, including substantial fines, imprisonment and exclusion from participation in healthcare programs such as Medicare and Medicaid and health programs outside the United States.

We are also subject to the U.S. Foreign Corrupt Practices Act (FCPA) and similar worldwide anti-bribery laws in non-U.S. jurisdictions which generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Because of the predominance of government-sponsored healthcare systems around the world, most of our customer relationships outside of the United States are with governmental entities and are therefore subject to such anti-bribery laws. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our training and compliance programs, our internal control policies and procedures may not protect us from reckless or criminal acts committed by our employees or agents.

Raw Materials

We use a wide variety of resin, pulp, plastics, textiles and electrical components for production of our products. We purchase these materials from external suppliers, some of which are single-source. We also purchase raw materials used in the bulk pharmaceuticals business from non-U.S. governments and suppliers that meet U.S. State Department requirements. We purchase materials from selected suppliers based on quality assurance, cost effectiveness or constraints resulting from regulatory requirements and work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability.

Long-lived Assets

Our long-lived assets by geographic area are set forth below:

| | Fiscal Year | | |
|---|---|---|---|
| (Dollars in Millions) | 2012 | 2011 | 2010 |
| United States | $2,173 | $2,093 | $2,058 |
| Other Americas | 245 | 197 | 146 |
| Europe | 346 | 343 | 355 |
| Asia-Pacific | 212 | 176 | 154 |

| | | | |
|---|---|---|---|
| Long-lived assets[1] | $2,976 | $2,809 | $2,713 |

[1] Long-lived assets are comprised of property, plant and equipment and demonstration equipment.

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Manufacturing

We have 51 manufacturing sites located throughout the world that handle production, assembly, quality assurance testing, packaging and sterilization of our products. Our major centers of manufacturing output include sites in the following countries (with the number of sites in parentheses):

| Americas | Europe/Middle East | Asia-Pacific |
|---|---|---|
| United States (26) | Ireland (4) | China (1) |
| Mexico (3) | France (2) | Japan (1) |
| Canada (2) | Germany (2) | Malaysia (1) |
| Brazil (1) | Israel (1) | Thailand (1) |
| Costa Rica (1) | Italy (1) | |
| Dominican Republic (1) | Netherlands (1) | |
| Puerto Rico (1) | United Kingdom (1) | |

We estimate that our manufacturing production by region in fiscal 2012 (as measured by cost of production) was approximately: Americas–84%, Europe/Middle East–11% and Asia-Pacific–5%.

Sales, Marketing and Distribution

We have a well-trained, experienced sales force strategically located in markets throughout the world, with a presence in over 60 countries. We also utilize third-party distributors.

We maintain distribution centers in 30 countries. Products generally are delivered to these distribution centers from our manufacturing facilities and then subsequently delivered to the customer. In some instances, product, such as nuclear medicine, is delivered directly from our manufacturing facility to the customer. We contract with a wide range of transport providers to deliver our products by road, rail, sea and air.

Competition

We participate in medical device, pharmaceutical and medical supply markets around the world. These global markets are characterized by continuous change resulting from technological innovations. Our market position depends on our ability to develop and commercialize products that meet clinician needs, while offering reliable product quality, cost-effectiveness and dependable service. Our competitors range from large manufacturers with multiple business lines, including Johnson & Johnson, Becton Dickinson and C.R. Bard, among others, to smaller manufacturers with more limited product selection.

Medical Devices—The medical devices market is highly fragmented and competitive. There is no single company, however, that competes with us over the full breadth of products offered by our Medical Devices segment. Our competitors include diversified healthcare companies, such as Johnson & Johnson, Boston Scientific, Baxter and C.R. Bard, and other companies that are more focused on specific product categories, such as Masimo and Dräger.

Pharmaceuticals—Major competitors of our active ingredients product line include Johnson & Johnson, Siegfried and Johnson Matthey, and major competitors of our specialty pharmaceuticals product line include Pfizer, Endo Pharmaceuticals, Purdue Pharma, Teva, Mylan and Watson. Our secure sources of raw opiate material, manufacturing capabilities, comprehensive generic pain management offering and established relationships with retail pharmacies enable us to compete effectively against larger generics manufacturers such as Teva and Watson. In addition, we believe that our experience with the FDA, DEA and our Risk Evaluation and Mitigation strategies (REMS) provide us the knowledge to successfully operate in this highly competitive, regulatory environment.

Main competitors of our contrast and nuclear medicine products include Bayer AG, Bracco and GE Healthcare for contrast agents and Lantheus Medical Imaging and GE Healthcare for nuclear medicine cardiology agents. Unlike most of our competition, we offer a full line of contrast agents, contrast delivery systems and radiopharmaceuticals. Our broad product portfolio allows us to be a complete source for all imaging agent needs.

Medical Supplies—The markets in which our Medical Supplies segment participates are characterized by intense competition. While customers may choose our products based on reputation for quality, they may turn to products from low-cost suppliers. Our Medical Supplies segment competes against branded products offered by Becton Dickinson, C.R. Bard and CareFusion, as well as private-label products provided by low-cost suppliers, such as Cardinal Health and Medline.

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Environmental

We are subject to various federal, state and local environmental protection and health and safety laws and regulations both within and outside the United States. Our operations, like those of other medical product companies, involve the use of substances regulated under environmental laws, primarily in manufacturing and sterilization processes. We cannot assure you that we have been or will be in compliance with environmental and health and safety laws at all times. If we violate these laws, we could be fined, criminally charged or otherwise sanctioned by regulators. We believe that our operations currently comply in all material respects with applicable environmental laws and regulations.

Certain environmental laws assess liability on current or previous owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances at such formerly owned or operated properties or at properties at which parties have disposed of hazardous substances. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances.

In addition, from time to time, we have received notification from the U.S. Environmental Protection Agency (EPA) and from state environmental agencies that conditions at a number of sites where we and others disposed of hazardous substances require investigation, cleanup and other possible remedial actions. These agencies may require that we reimburse the government for costs incurred at these sites or otherwise pay for the cost of investigation and cleanup of those sites including compensation for damage to natural resources. We have projects underway at a number of current and former manufacturing facilities to investigate and remediate environmental contamination resulting from past operations. These projects relate to a variety of activities, including decontamination and decommissioning of radioactive materials and removal of solvents, metals and other hazardous substances from soil and groundwater. These projects involve both investigation and remediation expenses and capital expenditures.

We provide for expenses associated with environmental remediation obligations once we determine that a potential environmental liability at a particular site is probable and the amount can be reasonably estimated. We regularly assess current information and developments as the investigations and remediation proceed and adjust accruals, as necessary, to provide for the expected impact of these environmental matters.

The ultimate cost of cleanup at disposal sites and manufacturing facilities is difficult to predict given uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. Based upon our experience, current information and applicable laws, we believe that it is probable that we will incur investigation and remedial costs, including asset retirement obligations, of approximately $227 million, of which $19 million is included in accrued and other current liabilities and $208 million is included in other liabilities on our consolidated balance sheet at September 28, 2012. All accruals have been recorded without giving effect to any possible future insurance proceeds.

Environmental laws are complex, change frequently and have become more stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance with these laws and to address liabilities arising from past or future releases of, or exposures to, hazardous substances, we cannot assure you that our costs of complying with current or future environmental protection, health and safety laws will not exceed our estimates or adversely affect our results of operations and financial condition. Further, we cannot assure you that we will not be subject to additional environmental claims for personal injury or cleanup in the future based on our past, present or future business activities. While it is not feasible to predict the outcome of all pending environmental matters, it is reasonably probable that there will be a need for future provisions for environmental costs that, in management’s opinion, are not likely to have a material effect on our financial condition, but could be material to the results of operations in any one accounting period.

Corporate History

Covidien Ltd. was incorporated in Bermuda in 2000 as a wholly-owned subsidiary of Tyco International Ltd. On June 29, 2007, Tyco International distributed all of our shares to Tyco International shareholders. In December 2008, our Board of Directors approved moving our principal executive office from Bermuda to Ireland. On May 28, 2009, shareholders voted in favor of a reorganization proposal pursuant to which Covidien Ltd. common shares would be cancelled and holders of such shares would receive ordinary shares of Covidien plc on a one-to-one basis. The

reorganization transaction was completed on June 4, 2009, following approval from the Supreme Court of Bermuda, at which time Covidien plc replaced Covidien Ltd. as the ultimate parent company. Shares of the Irish company, Covidien plc, began trading on the New York Stock Exchange on June 5, 2009, under the symbol "COV," the same symbol under which Covidien Ltd. shares were previously traded.

Unless otherwise indicated, references in this Annual Report to 2013, 2012, 2011, 2010, 2009 and 2008 are to our fiscal years ended September 27, 2013, September 28, 2012, September 30, 2011, September 24, 2010, September 25, 2009 and September 26, 2008, respectively.

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Employees

At September 28, 2012, we had approximately 43,400 employees.

Available Information

Covidien is required to file annual, quarterly and special reports, proxy statements and other information with the SEC. Investors may read and copy any document that Covidien files, including this Annual Report on Form 10-K, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, from which investors can electronically access Covidien's SEC filings.

Our Internet website is www.covidien.com. We make available free of charge on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. In addition, we have posted the charters for our Audit Committee, Compensation and Human Resources Committee, Nominating and Governance Committee and Compliance Committee, as well as the Memorandum and Articles of Association and Guide to Business Conduct, under the heading "Corporate Governance" in the Investor Relations section of our website. These charters and principles are not incorporated in this report by reference. We will also provide a copy of these documents free of charge to shareholders upon request.

## Item 1A. Risk Factors

You should carefully consider the risks described below before investing in our publicly traded securities. The risks described below are not the only ones facing us. Our business is also subject to the risks that affect many other companies, such as competition, technological obsolescence, labor relations, general economic conditions, geopolitical events and international operations. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business, operations, financial condition and liquidity.

### Risks Relating to Our Business

We face the following risks in connection with the general conditions and trends of the industries in which we operate.

**We may be unable to effectively introduce and market new products or may fail to keep pace with advances in technology.**

The healthcare industry is characterized by continuous technological change, resulting in changing customer preferences and requirements. The success of our business depends on our ability to introduce new products and adapt to these changing technologies and customer demands. The success of new product development depends on many factors, including our ability to anticipate and satisfy customer needs, obtain regulatory and reimbursement approvals on a timely basis, develop and manufacture products in a cost-effective and timely manner, maintain advantageous positions with respect to intellectual property and differentiate our products from those of our competitors. To compete successfully in the marketplace, we must make substantial investments in new product development whether internally or externally through licensing or acquisitions. Our failure to introduce new and innovative products in a timely manner would have an adverse effect on our business, results of operations, financial condition and cash flows.

Even if we are able to develop, manufacture and obtain regulatory and reimbursement approvals for our new products, the success of those products depends on market acceptance. Market acceptance for our new products could be affected by several factors, including:

- the availability of alternative products from our competitors;
- the price of our products;
- the timing of our market entry; and
- our ability to market and distribute our products effectively.

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Sales of our products are affected by the reimbursement practices of a small number of large public and private insurers.

Sales of our products depend, in part, on the extent to which the costs of our products are reimbursed by governmental health administration authorities, private health coverage insurers and other third-party payors. Our potential customers' ability to obtain appropriate reimbursement for products and services from these third-party payors affects the selection of products they purchase and the prices they are willing to pay. In addition, demand for new products may be limited unless we obtain reimbursement approval from governmental and private third-party payors prior to introduction. Reimbursement criteria vary by country, are becoming increasingly stringent and require management expertise and significant attention to obtain and maintain qualification for reimbursement.

Major third-party payors for healthcare services both within and outside of the United States continue to work to contain costs through, among other things, the introduction of cost containment incentives and closer scrutiny of healthcare expenditures. In March 2010, significant reforms to the U.S. healthcare system were enacted as law. The law includes provisions that, among other things, reduce Medicare reimbursement. We cannot predict what additional healthcare initiatives, if any, will be implemented, or the effect any future legislation or regulation will have on us. However, the implementation of healthcare reforms both within and outside of the United States may further reduce the level at which reimbursement is provided and adversely affect demand for and profitability of our products. Legislative or administrative reforms to U.S. or non-U.S. reimbursement practices that significantly reduce or deny reimbursement for treatments using our products could adversely affect the acceptance of our products and the prices our customers are willing to pay and could have a material effect on our business, results of operations, financial condition and cash flows.

The implementation of healthcare reform in the United States could adversely affect us.

In March 2010, the Patient Protection and Affordable Care Act was enacted in the United States. This legislation includes a provision that imposes a 2.3% excise tax on the sale of certain medical devices by a manufacturer, producer or importer of such devices in the United States starting after December 31, 2012. The legislation also includes a $28 billion fee on the branded pharmaceutical industry over nine years starting in 2011 and a $2.8 billion annual fee on branded pharmaceuticals thereafter. The amount of branded pharmaceutical fee payable by each company is based upon market share. Since our branded pharmaceutical sales currently represent a small portion of the total market, this annual assessment has not had a significant impact on our results of operations. We estimate that the medical devices tax, however, will increase our selling, general and administrative expenses by between $75 and $100 million annually, beginning in our second quarter of fiscal 2013. We cannot predict with any certainty what other impact this legislation may have on our business. This legislation reduces Medicare and Medicaid payments to hospitals, clinical laboratories and pharmaceutical companies, and could otherwise reduce the volume of medical procedures. These factors, in turn, could result in reduced demand for our products and increased downward pricing pressure. It is also possible that this legislation will result in lower reimbursements for our products. While this legislation is intended to expand health insurance coverage to uninsured persons in the United States, the impact of any overall increase in access to healthcare on sales of our products remains uncertain.

Cost-containment efforts of our customers, purchasing groups, third-party payors and governmental organizations could adversely affect our sales and profitability.

Many existing and potential customers for our products within the United States have become members of GPOs and IDNs, in an effort to reduce costs. GPOs and IDNs negotiate pricing arrangements with healthcare product manufacturers and distributors and offer the negotiated prices to affiliated hospitals and other members. GPOs and IDNs typically award contracts on a category-by-category basis through a competitive bidding process. Bids are generally solicited from multiple manufacturers with the intention of driving down pricing. Due to the highly competitive nature of the GPO and IDN contracting processes, we may not be able to obtain or maintain contract positions with major GPOs and IDNs across our product portfolio.

Furthermore, the increasing leverage of organized buying groups may reduce market prices for our products, thereby reducing our profitability.

While having a contract with a GPO or IDN for a given product category can facilitate sales to members of that GPO or IDN, such contract positions can offer no assurance that sales volumes of those products will be maintained. GPOs

and IDNs increasingly are awarding contracts to multiple suppliers for the same product category. Even when we are the sole contracted supplier of a GPO or IDN for a certain product category, members of the GPO or IDN generally are free to purchase from other suppliers. Furthermore, GPO and IDN contracts typically are terminable without cause upon 60 to 90 days' notice. Accordingly, although we have multiple contracts with many major GPOs and IDNs, the members of such groups may choose to purchase

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from our competitors due to the price or quality offered by such competitors, which could result in a decline in our sales and profitability.

Distributors of our products also have begun to negotiate terms of sale more aggressively to increase their profitability. Failure to negotiate distribution arrangements having advantageous pricing and other terms of sale could cause us to lose market share and would adversely affect our business, results of operations, financial condition and cash flows.

Outside the United States, we have experienced pricing pressure from centralized governmental healthcare authorities and increased efforts by such authorities to lower healthcare costs. We frequently are required to engage in competitive bidding for the sale of our products to governmental purchasing agents. Our failure to offer acceptable prices to these customers could adversely affect our sales and profitability in these markets.

We may be unable to protect our intellectual property rights or may infringe on the intellectual property rights of others.

We rely on a combination of patents, trademarks, trade secrets and nondisclosure agreements to protect our proprietary intellectual property. Our efforts to protect our intellectual property and proprietary rights may not be sufficient. We cannot assure you that our pending patent applications will result in the issuance of patents to us, that patents issued to or licensed by us in the past or in the future will not be challenged or circumvented by competitors or that these patents will be found to be valid or sufficiently broad to preclude our competitors from introducing technologies similar to those covered by our patents and patent applications. In addition, our ability to enforce and protect our intellectual property rights may be limited in certain countries outside the United States, which could make it easier for competitors to capture market position in such countries by utilizing technologies that are similar to those developed or licensed by us. Competitors also may harm our sales by designing products that mirror the capabilities of our products or technology without infringing our intellectual property rights. If we do not obtain sufficient protection for our intellectual property, or if we are unable to effectively enforce our intellectual property rights, our competitiveness could be impaired, which would limit our growth and future revenue.

We operate in an industry characterized by extensive patent litigation. Patent litigation is costly to defend and can result in significant damage awards, including treble damages under certain circumstances, and injunctions that could prevent the manufacture and sale of affected products or force us to make significant royalty payments in order to continue selling the affected products. At any given time, we are involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. We can expect to face additional claims of patent infringement in the future. A successful claim of patent or other intellectual property infringement against us could adversely affect our business, results of operations, financial condition and cash flows.

We are subject to complex and costly regulation.

Our products are subject to regulation by the FDA and other national, supranational, federal and state governmental authorities. It can be costly and time-consuming to obtain regulatory approvals to market a medical device or pharmaceutical product. Approvals might not be granted for new devices or drugs on a timely basis, if at all. Regulations are subject to change as a result of legislative, administrative or judicial action, which may further increase our costs or reduce sales. As an example, the FDA has proposed changes to the clearance process for medical devices that are substantially equivalent to other legally marketed devices, called the 510(k) process. If the changes to the 510(k) process are adopted as proposed, the time and cost to get many of our medical devices to market could increase significantly. Our failure to maintain approvals or obtain approval for new products could adversely affect our business, results of operations, financial condition and cash flows.

We also rely on licenses from the DEA to purchase raw materials used in many of our pharmaceutical products and to manufacture and distribute such products. Our failure to maintain these licenses could adversely affect our pharmaceuticals business.

In addition, we are subject to regulations covering manufacturing practices, product labeling and advertising and adverse-event reporting that apply after we have obtained approval to sell a product. Many of our facilities and procedures and those of our suppliers are subject to ongoing oversight, including periodic inspection by governmental authorities. Compliance with production, safety, quality control and quality assurance regulations is costly and

time-consuming.

Our manufacturing facilities and those of our suppliers could be subject to significant adverse regulatory actions in the future. These actions could include warning letters, fines, injunctions, civil penalties, recalls, seizures of our products and criminal prosecution.

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Possible consequences of such actions could include:

- substantial modifications to our business practices and operations;
- a total or partial shutdown of production in one or more of our facilities while we remediate the alleged violation;
- the inability to obtain future pre-market clearances or approvals; and
- withdrawals or suspensions of current products from the market.

Any of these events, in combination or individually, could disrupt our business and adversely affect our business, results of operations, financial condition and cash flows.

The manufacture of our products is highly exacting and complex, and our business could suffer if we, or our suppliers, encounter manufacturing problems.

The manufacture of our products is highly exacting and complex, due in part to strict regulatory requirements. Problems may arise during manufacturing for a variety of reasons including equipment malfunction, failure to follow specific protocols and procedures, defective raw materials and environmental factors. If problems arise during the production of a batch of product, that entire batch of product may have to be discarded. These problems could lead to increased costs, lost revenue, damage to customer relationships, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other products. If problems are not discovered before the product is released to the market, we also could incur recall and product liability costs. Significant manufacturing problems could have a material effect on our business, results of operations, financial condition and cash flows.

Defects or failures associated with our products could lead to recalls or safety alerts and negative publicity.

Manufacturing flaws, component failures, design defects, off-label uses or inadequate disclosure of product-related information could result in an unsafe condition or the injury or death of a patient. These problems could lead to a recall of, or issuance of a safety alert relating to, our products and result in significant costs and negative publicity. Due to the strong name recognition of our brands, an adverse event involving one of our products could result in reduced market acceptance and demand for all products within that brand, and could harm our reputation and our ability to market our products in the future. In some circumstances, adverse events arising from or associated with the design, manufacture or marketing of our products could result in the suspension or delay of regulatory reviews of our applications for new product approvals. We also may undertake a voluntary recall of products or temporarily shut down production lines based on performance relative to our own internal safety and quality monitoring and testing data. Any of the foregoing problems could disrupt our business and have a material effect on our business, results of operations, financial condition and cash flows.

We may incur product liability losses and other litigation liability.

In the ordinary course of business, we are subject to product liability claims and lawsuits, including potential class actions, alleging that our products have resulted in or could result in an unsafe condition or injury. Any product liability claim brought against us, with or without merit, could be costly to defend and could result in an increase of our insurance premiums. Some claims brought against us might not be covered by our insurance policies. In addition, we have significant self-insured retention amounts which we would have to pay in full before obtaining any insurance proceeds to satisfy a judgment or settlement. Furthermore, even where the claim is covered by our insurance, our insurance coverage might be inadequate and we would have to pay the amount of any settlement or judgment that is in excess of our policy limits. We may not be able to obtain insurance on terms acceptable to us or at all since insurance varies in cost and can be difficult to obtain. Our failure to maintain adequate insurance coverage or successfully defend against product liability claims could have a material effect on our business, results of operations, financial condition and cash flows.

An interruption in our ability to manufacture our products or an inability to obtain key components or raw materials may adversely affect our business.

Many of our key products are manufactured at single locations, with limited alternate facilities. If an event occurs that results in damage to one or more of our facilities, we may be unable to manufacture the relevant products at previous levels or at all. In addition, for reasons of quality assurance or cost effectiveness, we purchase certain components and

raw materials from sole suppliers. Due to the stringent regulations and requirements of the FDA and other similar non-U.S. regulatory agencies regarding the manufacture of our products, we may not be able to quickly establish additional or replacement sources for certain components or materials. A reduction or interruption in manufacturing, or an inability to secure alternative sources

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of raw materials or components, could have a material effect on our business, results of operations, financial condition and cash flows.

We may experience higher costs to produce our products as a result of changes in prices for oil, gas and other commodities.

We use resins, other petroleum-based materials and pulp as raw materials in many of our products. Prices of oil and gas also significantly affect our costs for freight and utilities. Oil, gas and pulp prices are volatile and may increase, resulting in higher costs to produce and distribute our products. Due to the highly competitive nature of the healthcare industry and the cost-containment efforts of our customers and third-party payors, we may be unable to pass along cost increases through higher prices. If we are unable to fully recover these costs through price increases or offset these increases through cost reductions, we could experience lower margins and profitability and our business, results of operations, financial condition and cash flows could be materially and adversely affected.

Divestitures of some of our businesses or product lines may adversely affect our business, results of operations and financial condition.

We continue to evaluate the performance of all of our businesses and may sell a business or product line. Any divestitures may result in significant write-offs, including those related to goodwill and other intangible assets, which could have a material effect on our business, results of operations and financial condition. Divestitures could involve additional risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management's attention from other business concerns, the disruption of our business and the potential loss of key employees. We may not be successful in managing these or any other significant risks that we encounter in divesting a business or product line.

We may not be successful in our strategic acquisitions of, investments in or alliances with other companies and businesses, and acquisitions could require us to issue additional debt or equity.

We may pursue acquisitions of complementary businesses, technology licensing arrangements and strategic alliances to expand our product offerings and geographic presence as part of our business strategy. We may not complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the expected benefits of any acquisition, license arrangement or strategic alliance. Other companies may compete with us for these strategic opportunities. Even if we are successful in making an acquisition, the products and technologies that we acquire may not be successful or may require significantly greater resources and investments than we originally anticipated. We also could experience negative effects on our results of operations and financial condition from acquisition-related charges, amortization of intangible assets and asset impairment charges. These effects, individually or in the aggregate, could cause a deterioration of our credit rating and result in increased borrowing costs and interest expense. We could experience difficulties in integrating separated organizations, systems and facilities, and personnel with diverse backgrounds. Integration of an acquired business also may require management resources that otherwise would be available for development of our existing business. If an acquired business fails to operate as anticipated or cannot be successfully integrated into our existing business, our business, results of operations, financial condition and cash flows could be materially and adversely affected.

In connection with acquisitions, we may incur or assume significant debt and unknown or contingent liabilities, such as environmental remediation expense, products liability, patent infringement claims or other unknown liabilities. Financing for acquisitions could decrease our ratio of earnings to fixed charges and adversely affect our borrowing capacity. Furthermore, acquisition financing may not be available to us on acceptable terms if and when required. If we were to undertake an acquisition by issuing equity securities, the acquisition could have a dilutive effect on the interests of the holders of our shares.

We face significant competition and may not be able to compete effectively.

We compete with many companies ranging from other multinationals to start-up companies. Competition takes many forms, including price reductions on products that are comparable to our own, development of new products that are more cost-effective or have superior performance than our current products, and the introduction of reprocessed products or generic versions when our proprietary products lose their patent protection. Our current or future products could be rendered obsolete or uneconomic as a result of this competition. Our failure to compete effectively could have a material effect on our business, results of operations, financial condition and cash flows.

We also face competition for marketing, distribution and collaborative development agreements, for establishing relationships with academic and research institutions, and for licenses to intellectual property. In addition, academic institutions, governmental agencies and other public and private research organizations also may conduct research, seek patent protection and establish collaborative arrangements for discovery, research, clinical development and marketing of products

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similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring necessary product technologies.

We are subject to risks associated with doing business outside of the United States.

Our operations outside of the United States are subject to risks that are inherent in conducting business under non-U.S. laws, regulations and customs. Sales outside of the United States made up approximately 45% of our net sales in fiscal 2012 and we expect that non-U.S. sales will contribute significantly to future growth. The risks associated with our operations outside the United States include:

- healthcare reform legislation;
- changes in non-U.S. medical reimbursement policies and programs;
- multiple non-U.S. regulatory requirements that are subject to change and that could restrict our ability to manufacture and sell our products;
- possible failure to comply with anti-bribery laws such as the FCPA and similar anti-bribery laws in other jurisdictions;
- different local product preferences and product requirements;
- trade protection measures and import or export licensing requirements;
- difficulty in establishing, staffing and managing non-U.S. operations;
- different labor regulations;
- changes in environmental, health and safety laws;
- potentially negative consequences from changes in or interpretations of tax laws;
- political instability and actual or anticipated military or political conflicts;
- economic instability and inflation, recession or interest rate fluctuations; and
- minimal or diminished protection of intellectual property in some countries.

These risks, individually or in aggregate, could have a material effect on our business, results of operations, financial condition and cash flows.

Foreign currency exchange rates may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates. Approximately 45% of our net sales for fiscal 2012 were derived from sales in non-U.S. markets, and we expect sales from non-U.S. markets to continue to represent a significant portion of our net sales. Therefore, if the U.S. dollar strengthens in relation to the currencies of other countries where we sell our products, such as the euro, our U.S. dollar reported revenue and income will decrease. Changes in the relative values of currencies occur regularly and, in some instances, may have a significant effect on our operating results.

Most of our customer relationships outside of the United States are with governmental entities and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws in non-U.S. jurisdictions.

The FCPA and similar worldwide anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Because of the predominance of government-sponsored healthcare systems around the world, most of our customer relationships outside of the United States are with governmental entities and are therefore subject to such anti-bribery laws. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our training and compliance programs, our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or agents. Violations of anti-bribery laws, or allegations of such violations, could disrupt our business and result in a material effect on our results of operations, financial condition and cash flows.

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We are subject to healthcare fraud and abuse regulations that could result in significant liability, require us to change our business practices and restrict our operations in the future.

We are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry, including anti-kickback and false claims laws. Violations of these laws are punishable by criminal or civil sanctions, including substantial fines, imprisonment and exclusion from participation in healthcare programs such as Medicare and Medicaid and health programs outside the United States. These laws and regulations are wide ranging and subject to changing interpretation and application, which could restrict our sales or marketing practices. Furthermore, since many of our customers rely on reimbursement from Medicare, Medicaid and other governmental programs to cover a substantial portion of their expenditures, our exclusion from such programs as a result of a violation of these laws could have a material effect on our business, results of operations, financial condition and cash flows.

Our operations expose us to the risk of material environmental liabilities, litigation and violations.

We are subject to numerous federal, state, local and non-U.S. environmental protection and health and safety laws governing, among other things:

- the generation, storage, use and transportation of hazardous materials;
- emissions or discharges of substances into the environment;
- investigation and remediation of hazardous substances or materials at various sites;
- chemical constituents in medical equipment and end-of-life disposal and take-back programs; and
- the health and safety of our employees.

We may not have been, or we may not at all times be, in compliance with environmental and health and safety laws. If we violate these laws, we could be fined, criminally charged or otherwise sanctioned by regulators. Environmental laws outside of the United States are becoming more stringent resulting in increased costs and compliance burdens. Certain environmental laws assess liability on current or previous owners or operators of real property for the costs of investigation, removal or remediation of hazardous substances or materials at their properties or at properties at which they have disposed of hazardous substances. Liability for investigative, removal and remedial costs under certain federal and state laws are retroactive, strict and joint and several. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. We have received notification from the EPA and similar state environmental agencies that conditions at a number of formerly owned sites where we and others have disposed of hazardous substances require investigation, cleanup and other possible remedial action and may require that we reimburse the government for its costs incurred at these sites or otherwise pay for the costs of investigation and remediation and for natural resource damage claims from such sites.

While we have budgeted for future capital and operating expenditures to maintain compliance with environmental laws, our costs of complying with current or future environmental protection and health and safety laws, or our liabilities arising from past or future releases of, or exposures to, hazardous substances may exceed our estimates or adversely affect our business, results of operations, financial condition and cash flows. We may also be subject to additional environmental claims for personal injury or cleanup in the future based on our past, present or future business activities.

Current or worsening economic conditions may adversely affect our business and financial condition.

The global financial crisis has caused extreme disruption in the financial markets, including severely diminished credit availability and liquidity, affecting many of our customers. Customers may reduce spending during times of economic uncertainty, and it is possible that suppliers also may be adversely affected. Decreased consumer spending levels and increased pressure on prices for our products and services could result in decreased revenues and have a material effect on our business, results of operations, financial condition and cash flows.

In addition, many customers, including many governments or entities that rely on government funding, may be unable to pay on a timely basis, or may pay at a significant discount, for our products that they do purchase. We have, for example, experienced significant delays in the collection of receivables from the national health care systems in certain countries including, but not limited to, certain regions in Spain, Italy and Portugal. Repayment of these receivables is dependent upon the financial stability of the economies of those countries. In light of the current euro zone financial crisis, we continue to monitor the countries' creditworthiness. Failure to receive payment of all or a

significant portion of these receivables could materially affect our results of operations.

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Further, although we intend to finance expansion and renovation projects with existing cash, cash flow from operations and borrowing under our existing commercial paper program or senior credit facility, we may require additional financing to support our continued growth. Uncertainties in the capital and credit markets, however, could limit our access to capital on terms acceptable to us or at all.

Risks Relating to Tax Matters

Examination and audits by tax authorities, including the Internal Revenue Service, could result in additional tax payments.

Our tax returns are subject to examination by various tax authorities, including the U.S. Internal Revenue Service (IRS). The IRS has commenced its examination of our U.S. federal income tax returns. Open periods for examination include certain periods during which we were a subsidiary of Tyco International. The resolution of the matters arising during periods in which we were a Tyco International subsidiary is subject to the conditions set forth in the Tax Sharing Agreement discussed below. Under the Tax Sharing Agreement, Tyco International has the right to administer, control and settle all U.S. income tax audits for periods prior to the separation from Tyco International. In connection with such examinations, tax authorities, including the IRS, have proposed tax adjustments. Tyco International has appealed certain of the proposed tax adjustments and it is our understanding that Tyco International intends to vigorously defend its previously filed tax returns. In the event that Tyco International is unable to resolve these issues in the IRS administrative process, Tyco International will likely contest the adjustments through litigation. The outcome of any such litigation is uncertain and could result in a significant increase in our liability for taxes arising during these periods. While we believe that the amounts recorded as income taxes payable and guaranteed contingent tax liabilities related to these adjustments are adequate, the timing and outcome of such litigation is highly uncertain and could have a significant effect on our financial statements.

We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions. It is our intention to vigorously defend our prior tax returns. However, the calculation of our tax liabilities involves the application of complex tax regulations to our global operations in many jurisdictions. Therefore, any dispute with a tax authority may result in a payment that is materially different from our current estimate of the tax liabilities associated with these returns. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities generally would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the amount for which we are ultimately liable, we would incur additional charges to expense and such charges could have a material effect on our business, results of operations, financial condition and cash flow.

We share responsibility for certain of our, Tyco International's and TE Connectivity Ltd.'s income tax liabilities for tax periods prior to and including June 29, 2007.

On June 29, 2007, we entered into a Tax Sharing Agreement with Tyco International and TE Connectivity pursuant to which we share responsibility for certain of our, Tyco International's and TE Connectivity's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. More specifically, we, Tyco International and TE Connectivity share 42%, 27% and 31%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to our, Tyco International's and TE Connectivity's U.S. income tax returns, certain income tax liabilities arising from adjustments made by tax authorities to intercompany transactions or similar adjustments, and certain taxes attributable to internal transactions undertaken in anticipation of the separation from Tyco International. All costs and expenses associated with the management of these shared tax liabilities are being shared equally among the parties. Under the Tax Sharing Agreement, Tyco International has the right to administer, control and settle all U.S. income tax audits for periods prior to and including June 29, 2007. The timing, nature and amount of any settlement agreed to by Tyco International may not be in our best interests. The other parties to the Tax Sharing Agreement will be able to remove Tyco International as the controlling party only under limited circumstances, including a change of control or bankruptcy of Tyco International, or by a majority vote of the parties. We are responsible for all of our own taxes that are not shared pursuant to the Tax Sharing Agreement's sharing formula.

We are primarily liable for taxes owed by Tyco International subsidiaries that became Covidien subsidiaries after separation from Tyco International. Although we share certain of these tax liabilities with Tyco International and TE Connectivity pursuant to the Tax Sharing Agreement, if Tyco International and TE Connectivity default on their

obligations to us under the Tax Sharing Agreement, we would be liable for the entire amount of these liabilities. If any party to the Tax Sharing Agreement were to default in its obligation to another party to pay its share of the distribution taxes that arise as a result of no party's fault, each non-defaulting party would be required to pay, equally with any other non-defaulting party, the amounts in default. In addition, if another party to the Tax Sharing Agreement that is responsible for all or a portion of an income tax liability were to default in its payment of such liability to a taxing authority, we could be legally liable under applicable tax law for such liabilities and be required to make additional tax payments. Accordingly, under

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certain circumstances, we may be obligated to pay amounts in excess of our agreed upon share of our, Tyco International's and TE Connectivity's tax liabilities.

On September 28, 2012, Tyco International spun-off two of its businesses to its shareholders, with Tyco International remaining as a publicly-traded company. This could adversely impact Tyco International's ability to fulfill its obligations to us under the Tax Sharing Agreement.

If the distribution of Covidien and TE Connectivity common shares by Tyco International to its shareholders or certain internal transactions undertaken in anticipation of the separation from Tyco International are determined to be taxable for U.S. federal income tax purposes, we could incur significant U.S. federal income tax liabilities.

Tyco International has received private letter rulings from the IRS regarding the U.S. federal income tax consequences of the distribution of Covidien and TE Connectivity common shares by Tyco International to its shareholders, substantially to the effect that the distribution, except for cash received in lieu of a fractional share, of our shares and the TE Connectivity common shares, will qualify as tax-free under Sections 368(a)(1)(D) and 355 of the Code. The private letter rulings also provided that certain internal transactions undertaken in anticipation of the separation from Tyco International would qualify for favorable treatment under the Code. In addition to obtaining the private letter rulings, Tyco International obtained opinions from the law firm of McDermott Will & Emery LLP confirming the tax-free status of the distribution and certain internal transactions. The private letter rulings and the opinions relied on certain facts and assumptions, and certain representations and undertakings, from us, TE Connectivity and Tyco International regarding the past and future conduct of our respective businesses and other matters. Notwithstanding the private letter rulings and the opinions, the IRS could determine on audit that the distribution or the internal transactions should be treated as taxable transactions if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated, or that the distributions should be taxable for other reasons, including as a result of significant changes in stock or asset ownership after the distribution. If the distribution ultimately is determined to be taxable, Tyco International would recognize a gain in an amount equal to the excess of the fair market value of our shares and TE Connectivity common shares distributed to Tyco International shareholders on the distribution date over Tyco International's tax basis in such common shares. Such gain, if recognized, generally would not be subject to U.S. federal income tax; however, we would incur significant U.S. federal income tax liabilities if it ultimately is determined that certain internal transactions undertaken in anticipation of the separation from Tyco International should be treated as taxable transactions.

In addition, under the terms of the Tax Sharing Agreement, in the event the distribution or the internal transactions were determined to be taxable and such determination was the result of actions taken after the distribution by us, Tyco International or TE Connectivity, the party responsible for such failure would be responsible for all taxes imposed on us, Tyco International or TE Connectivity as a result thereof. If such determination is not the result of actions taken after the distribution by us, Tyco International or TE Connectivity, then we, Tyco International and TE Connectivity would be responsible for 42%, 27% and 31%, respectively, of any taxes imposed on us, Tyco International or TE Connectivity as a result of such determination. Such tax amounts could be significant. In the event that any party to the Tax Sharing Agreement defaults in its obligation to pay distribution taxes to another party that arise as a result of no party's fault, each non-defaulting party would be responsible for an equal amount of the defaulting party's obligation to make a payment to another party in respect of such other party's taxes.

Risks Relating to Our Jurisdiction of Incorporation

Legislative action in the United States could materially and adversely affect us.

Tax-Related Legislation

Legislative action may be taken by the U.S. Congress which, if ultimately enacted, could limit the availability of tax benefits or deductions that we currently claim, override tax treaties upon which we rely, or otherwise affect the taxes that the United States imposes on our worldwide operations. Such changes could adversely affect our effective tax rate and/or require us to take further action, at potentially significant expense, to seek to preserve our effective tax rate. In addition, if proposals were enacted that had the effect of disregarding the Irish reorganization or limiting our ability as an Irish company to take advantage of tax treaties with the United States, we could incur additional tax expense and/or otherwise incur business detriment.

Legislation Relating to Governmental Contracts

Various U.S. federal and state legislative proposals that would deny governmental contracts to U.S. companies that move their corporate location abroad may affect us. We are unable to predict the likelihood that, or final form in which, any such proposed legislation might become law, the nature of regulations that may be promulgated under any future legislative enactments, or the effect such enactments and increased regulatory scrutiny may have on our business.

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Irish law differs from the laws in effect in the United States and may afford less protection to holders of our securities. It may not be possible to enforce court judgments obtained in the United States against us in Ireland based on the civil liability provisions of the U.S. federal or state securities laws. In addition, there is some uncertainty as to whether the courts of Ireland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the U.S. federal or state securities laws or hear actions against us or those persons based on those laws. We have been advised that the United States currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Ireland.

As an Irish company, Covidien plc is governed by the Irish Companies Acts, which differ in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company generally are owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly, holders of Covidien plc securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the United States.

We may not be able to maintain a competitive worldwide effective corporate tax rate.

While we believe that being incorporated in Ireland should help us maintain a competitive worldwide effective corporate tax rate, we cannot give any assurance as to what our effective tax rate will be because of, among other things, uncertainty regarding the tax policies of all the jurisdictions where we operate our business. Our actual effective tax rate may vary from our expectation and that variance may be material. Additionally, the tax laws of Ireland and other jurisdictions could change in the future, and such changes could cause a material change in our effective tax rate.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Our executive offices in the United States are located in a facility in Mansfield, Massachusetts, a portion of which is owned and the majority of which is leased. As of September 28, 2012, we owned or leased a total of 350 facilities in 67 countries. Our owned facilities consist of approximately 11 million square feet, and our leased facilities consist of approximately 8 million square feet. Our 51 manufacturing facilities are located in the United States and in 17 other countries. We believe all of these facilities are well-maintained and suitable for the operations conducted in them.

These facilities are used by the following business segments:

| | Number of Facilities |
|---|---|
| Medical Devices | 277 |
| Pharmaceuticals | 33 |
| Medical Supplies | 29 |
| Corporate | 11 |
| Total | 350 |

## Item 3. Legal Proceedings

We are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. We believe that these legal proceedings and claims likely will be resolved over an extended period of time. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information and applicable law, we do not expect that these proceedings will have a material effect on our financial condition. However, one or more of the proceedings could have a material effect on our results of operations or cash flows for a

future period. The most significant of these matters are discussed below.

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Products Liability Litigation

We are currently involved in litigation in various state and federal courts against manufacturers of transvaginal pelvic mesh products alleging personal injuries resulting from the implantation of those products. Two of our subsidiaries have supplied pelvic mesh product to one of the manufacturers named in the litigation and we are indemnifying that manufacturer on certain claims. The litigation includes a federal multi-district litigation in the United States District Court for the Northern District of West Virginia and cases in various state courts and in Canada. Generally, complaints allege design and manufacturing claims, failure to warn, breach of warranty, fraud, violations of state consumer protection laws and loss of consortium claims. We believe that we have meritorious defenses to these claims and are vigorously defending against them. As of September 28, 2012, there were approximately 850 cases pending believed to involve products manufactured by our subsidiaries. During fiscal 2011, we recorded a charge of $46 million for all known pending cases and estimated future claims, net of anticipated insurance recoveries. During the fiscal 2012, we continued to receive claims and used claims data to update our estimate of future claims. Accordingly, we recorded an additional charge of $49 million. We believe that we have adequate amounts recorded relating to these matters based on current information. While we believe that the final disposition of all known claims, after taking into account amounts already accrued and insurance coverage, will not have a material effect on our results of operations, financial condition or cash flows, it is not possible at this time to determine with certainty the ultimate outcome of these matters or the effect of potential future claims.

Government Proceedings

On January 7, 2009, we received a subpoena from the U.S. Attorney's Office for the Northern District of California requesting production of documents relating to the sales and marketing of our Tofranil-PM™, Restoril™ and Magnacet™ products. We are complying as required by the terms of the subpoena.

On October 13, 2010, the U.S. Department of Health and Human Services, Office of Inspector General, issued a subpoena to ev3 Inc., one of our subsidiaries, requesting production of documents relating to the sales and marketing of the SilverHawk™ device. ev3 is complying as required with the terms of the subpoena.

On May 2, 2011, the U.S. Attorney's Office for the District of Massachusetts issued a subpoena to ev3 requesting production of documents relating to the following neurovascular products: Onyx®, Axium™ and Concerto™. ev3 is complying as required with the terms of the subpoena.

On November 30, 2011 and October 22, 2012, Mallinckrodt LLC, one of our subsidiaries, received subpoenas from the DEA requesting production of documents relating to its suspicious order monitoring program. Mallinckrodt is complying as required by the terms of the subpoenas.

Prior to our separation from Tyco International, Tyco International received and responded to various allegations that certain improper payments were made by Tyco International subsidiaries, including subsidiaries which are now part of Covidien. During 2005, Tyco International reported to the Department of Justice (DOJ) and the SEC the investigative steps and remedial measures that it had taken in response to the allegations. Tyco International also informed the DOJ and the SEC that it retained outside counsel to perform a company-wide baseline review of its policies, controls and practices with respect to compliance with the FCPA, that it would continue to make periodic progress reports to these agencies and that it would present its factual findings upon conclusion of the baseline review. We have continued to communicate with the DOJ and SEC to provide updates on the baseline review and follow-up investigations, including, as appropriate, briefings concerning additional instances of potential improper conduct identified by us in the course of our ongoing compliance activities. The baseline review and other compliance reviews revealed that some past business practices may not comply with Covidien and FCPA requirements. On September 24, 2012, Tyco International settled all outstanding FCPA matters with the SEC and the DOJ, including those matters involving Covidien. Pursuant to the Separation and Distribution Agreement entered into on June 29, 2007 in connection with our separation from Tyco International, we indemnified Tyco International for our portion of the settlement, the amount of which was not significant.

Asbestos Matters

Mallinckrodt Inc. is named as a defendant in personal injury lawsuits based on alleged exposure to asbestos-containing materials. A majority of the cases involve product liability claims, based principally on allegations of past distribution of products incorporating asbestos. A limited number of the cases allege premises

liability, based on claims that individuals were exposed to asbestos while on Mallinckrodt's property. Each case typically names dozens of corporate defendants in addition to Mallinckrodt. The complaints generally seek monetary damages for personal injury or bodily injury resulting from alleged exposure to products containing asbestos. Our involvement in asbestos cases has been limited because Mallinckrodt did not mine or produce asbestos. Furthermore, in our experience, a large percentage of these claims have never been substantiated and have been dismissed by the courts. We

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have not suffered an adverse verdict in a trial court proceeding related to asbestos claims, and intend to continue to vigorously defend these lawsuits. When appropriate, we settle claims; however, amounts paid to settle and defend all asbestos claims have been immaterial. As of September 28, 2012, there were approximately 12,200 asbestos liability cases pending against Mallinckrodt.

We estimate pending asbestos claims and claims that were incurred but not reported, as well as related insurance recoveries. Our estimate of our liability for pending and future claims is based on claim experience over the past five years and covers claims either currently filed or expected to be filed over the next seven years. We believe that we have adequate amounts recorded related to these matters. While it is not possible at this time to determine with certainty the ultimate outcome of these asbestos-related proceedings, we believe that the final outcome of all known and anticipated future claims, after taking into account amounts already accrued and insurance coverage, will not have a material effect on our results of operations, financial condition or cash flows.

Environmental Proceedings

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites.

Mallinckrodt Appeal to Maine Board of Environmental Protection. One of our subsidiaries, Mallinckrodt US LLC (formerly known as Mallinckrodt LLC), is a successor to a company which owned and operated a chemical manufacturing facility located in Orrington, Maine from 1967 until 1982. This facility was sold in 1982 to Hanlin Group, Inc., who then sued Mallinckrodt in 1989 alleging that Mallinckrodt had violated various environmental laws during its operation of the facility. These alleged claims were settled in 1991. Under the settlement agreement, Mallinckrodt agreed to pay certain specific costs for the completion of an environmental site investigation required by the EPA and the Maine Department of Environmental Protection (MDEP). Based on the site investigation, Mallinckrodt submitted a Corrective Measures Study (CMS) plan and identified a preferred alternative which was submitted to the EPA and MDEP for approval in 2004. MDEP disagreed with the proposed alternative and served a compliance order on Mallinckrodt and United States Surgical Corporation in December 2008. The compliance order included a directive to remove a significant volume of soils at the site. On December 19, 2008, Mallinckrodt filed an appeal with the Maine Board of Environmental Protection (Maine Board) to challenge the terms of the compliance order. A hearing before the Maine Board began on January 25, 2010 and concluded on February 4, 2010. On August 19, 2010, the Maine Board modified the MDEP order and issued a final order requiring removal of two landfills, capping of the remaining three landfills, installation of a groundwater extraction system and long-term monitoring of the site and the three remaining landfills.

On September 17, 2010, Mallinckrodt appealed the final order issued by the Maine Board in Maine Superior Court. On appeal Mallinckrodt has requested that the Superior Court invalidate the Maine Board’s final order in its entirety or in the alternative, reverse or modify the final order to eliminate the requirements that Mallinckrodt remove one of the two landfills and recap the remaining three landfills. Mallinckrodt also appealed certain administrative requirements of the final order. On November 1, 2012, the Superior Court affirmed the Maine Board's final order. Mallinckrodt has appealed the Superior Court's decision to the Maine Supreme Judicial Court.

As of September 28, 2012, we estimate that the cost to comply with these proposed remediation alternatives at this site ranges from $96 million to $170 million. However, there are still significant uncertainties in the outcome of the pending litigation, and we continue to disagree with the level of remediation outlined in the Maine Board’s final order. At September 28, 2012, estimated future investigation and remediation costs of $96 million were accrued for this site.

Maine People’s Alliance and Natural Resources Defense Council v. Mallinckrodt. Since April 2000, Mallinckrodt has also been involved in a lawsuit filed in the U.S. District Court for the District of Maine by the Natural Resources Defense Council and the Maine People’s Alliance. Plaintiffs sought an injunction requiring Mallinckrodt to conduct extensive studies of

mercury contamination of the Penobscot River and Bay and options for remediating such contamination, and to perform appropriate remedial activities, if necessary.

On July 29, 2002, following a March 2002 trial, the District Court entered an opinion and order which held that conditions in the Penobscot River and Bay may pose an imminent and substantial endangerment and that Mallinckrodt was liable for the cost of performing a study of the river and bay. The District Court subsequently appointed a study

panel to oversee the study and ordered Mallinckrodt to pay costs associated with the study. The study panel conducted Phase I studies and proposed a Phase II study which was approved by the District Court. The Phase II study calls for several additional years of field work, followed by a fourth year for data synthesis. We have accrued for the cost of the studies as estimated by the study panel; however, due to the uncertainties involved pending completion of the study panel's work, it is not possible to estimate
the costs, if any, that might result from an order to conduct remediation in the Penobscot River and Bay. Accordingly, costs of any such remediation are not included in the range of estimated aggregate environmental remediation costs below.

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Remediation Cost Estimates. The ultimate cost of site cleanup and timing of future cash flow is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. As of September 28, 2012, we concluded that it was probable that we would incur remediation costs in the range of $169 million to $284 million for the cleanup of all known sites for which the costs are currently estimable, including the Orrington, Maine site. As of September 28, 2012, we concluded that the best estimate within this range was $170 million, of which $18 million was included in accrued and other current liabilities and $152 million was included in other liabilities on our consolidated balance sheet. We believe that any potential payment of such estimated amounts will not have a material effect on our results of operations, financial condition or cash flows.

Other Matters

We are a defendant in a number of other pending legal proceedings incidental to present and former operations, acquisitions and dispositions. We do not expect the outcome of these proceedings, either individually or in the aggregate, to have a material effect on our results of operations, financial condition or cash flows.

Executive Officers of the Registrant

Our executive officers as of November 15, 2012 are listed in the following table. References to Covidien include the Tyco Healthcare business which, until our separation from Tyco International in June 2007, was part of Tyco International. At the annual meeting of the Board of Directors, the executive officers are elected by the Board of Directors to hold office for one year until their respective successors are elected and qualified, or until earlier resignation or removal. There is no arrangement or understanding between any executive officer and any other person pursuant to which the executive officer was selected. In addition, other than between Mr. Almeida and Mr. Hanson, who are brothers-in-law, there are no family relationships between any of the executive officers.

| Name | Age | Position(s) |
|---|---|---|
| José E. Almeida | 50 | Chairman of the Board of Directors, President and Chief Executive Officer |
| Charles J. Dockendorff | 58 | Executive Vice President and Chief Financial Officer |
| James C. Clemmer | 48 | Senior Vice President and President, Medical Supplies |
| Michael P. Dunford | 52 | Senior Vice President, Human Resources |
| Bryan C. Hanson | 45 | Senior Vice President and Group President, Surgical Solutions |
| Eric A. Kraus | 51 | Senior Vice President, Corporate Communications |
| John H. Masterson | 51 | Senior Vice President and General Counsel |
| Amy A. McBride-Wendell | 51 | Senior Vice President, Strategy and Business Development |
| Michael Sgrignari | 49 | Senior Vice President, Quality and Operations |
| Mark C. Trudeau | 51 | Senior Vice President and President, Pharmaceuticals |
| Peter L. Wehrly | 53 | Senior Vice President and Group President, Respiratory & Monitoring Solutions and Vascular Therapies |
| Richard G. Brown, Jr. | 64 | Vice President, Chief Accounting Officer and Corporate Controller |
| Eric C. Green | 54 | Vice President, Chief Tax Officer |
| Coleman N. Lannum | 48 | Vice President, Investor Relations |

José E. Almeida—Mr. Almeida has served as the Chairman of our Board of Directors since March of 2012. He has served on our Board of Directors since becoming Covidien's President and Chief Executive Officer in July 2011. Prior to assuming the role of President and Chief Executive Officer of Covidien, Mr. Almeida, from October 2006 to June 2011, served as President of Covidien's Medical Devices business segment. Prior to that, from April 2004 to September 2006, Mr. Almeida was President of Covidien’s International business. From January 2003 to April 2004, Mr. Almeida was Chief Operating Officer of Greatbatch, Inc., a developer and manufacturer of power sources and components for implantable medical devices. Mr. Almeida joined the Company in 1995 as Director of Corporate Engineering and then held several positions of increasing responsibility, including Vice President of European Manufacturing and Vice President of Global Manufacturing, through December 2002.

Charles J. Dockendorff—Mr. Dockendorff has been Executive Vice President and Chief Financial Officer of Covidien since December 2006. Prior to that, from October 1995 to November 2006, Mr. Dockendorff served as Vice President

and Chief Financial Officer of Covidien.

James C. Clemmer—Mr. Clemmer has been Senior Vice President of Covidien since November 2009. Mr. Clemmer has been President of Covidien's Medical Supplies business segment since October 2006. From June 2004 to September 2006, Mr. Clemmer was Group President of the Kendall Healthcare division of Covidien, from June 2001 to June 2004, Mr. Clemmer

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was President of the SharpSafety and Critical Care divisions of Covidien and, from March 2001 to June 2001, Mr. Clemmer was Vice President and General Manager of the SharpSafety division of Covidien.

Michael P. Dunford—Mr. Dunford has been Senior Vice President, Human Resources of Covidien since July 2009. Prior to that, Mr. Dunford served as Vice President, Human Resources Global Processes and Systems of Covidien since May 2008. Mr. Dunford served as Vice President, Human Resources, Operations of Covidien from December 2006 to May 2008, and served as Vice President, Corporate Human Resources of Covidien from May 2003 to December 2006. Mr. Dunford held several other human resources positions with Covidien since September 1999.

Bryan C. Hanson—Mr. Hanson has been Senior Vice President and Group President for the Surgical Solutions business of Covidien since July 2011. Prior to that, from July 2006 to June 2011, Mr. Hanson served as President of Covidien's Energy-based Devices business. Mr. Hanson held several other positions of increasing responsibility in sales, marketing and general management with Covidien since October 1992.

Eric A. Kraus—Mr. Kraus has been Senior Vice President, Corporate Communications of Covidien since July 2006. Prior to joining Covidien, from July 1999 to July 2006, Mr. Kraus was Vice President, Corporate Communications and Public Affairs of The Gillette Company.

John H. Masterson—Mr. Masterson has been Senior Vice President and General Counsel of Covidien since December 2006. Prior to that, from April 1999 to November 2006, Mr. Masterson served as Vice President and General Counsel of Covidien.

Amy A. McBride-Wendell—Ms. McBride-Wendell has been Senior Vice President, Strategy and Business Development of Covidien since December 2006. Prior to that, from March 1998 to November 2006, Ms. McBride-Wendell served as Vice President, Business Development of Covidien.

Michael Sgrignari—Mr. Sgrignari has been Senior Vice President, Quality and Operations of Covidien since July 2011. Prior to that, from May 2008 to June 2011, Mr. Sgrignari was Vice President, Operations, of Covidien's Medical Devices business segment. Mr. Sgrignari held several other positions of increasing responsibility in engineering and operations positions with Covidien since January 1991.

Mark C. Trudeau—Mr. Trudeau has been Senior Vice President and President of the Pharmaceuticals business segment of Covidien since February 2012. Prior to joining Covidien, Mr. Trudeau served as President and Chief Executive Officer of Bayer HealthCare Pharmaceuticals Inc., Bayer HealthCare LLC USA from January 2009 to January 2012. Prior to joining Bayer, Mr. Trudeau served as Senior Vice President and General Manager of the Bristol-Myers Squibb Immunology Division from September 1998 to December 2009.

Peter L. Wehrly—Mr. Wehrly has been Senior Vice President and Group President for the Respiratory & Monitoring Solutions and Vascular Therapies businesses of Covidien since July 2011. Prior to that, from April 2009 to June 2011, Mr. Wehrly served as President of Covidien's Respiratory & Monitoring Solutions business. Prior to joining Covidien, Mr. Wehrly was President and Chief Executive Officer of Medingo Ltd., a company that produces miniature insulin patch pumps.

Richard G. Brown, Jr.—Mr. Brown has been Vice President, Chief Accounting Officer and Corporate Controller of Covidien since September 2006. Prior to joining Covidien, he was Corporate Controller and Chief Accounting Officer of Eastman Kodak Company from December 2003 to September 2006. Prior to Eastman Kodak, Mr. Brown was a partner at Ernst & Young LLP, where he was employed for 32 years.

Eric C. Green—Mr. Green has been the Vice President and Chief Tax Officer of Covidien since June 2007. Prior to that, from October 2003 to June 2007, he was Vice President, Tax Planning and Analysis of Tyco International. Prior to joining Tyco International, Mr. Green was with Accenture where he was Director, Entity Tax Matters Group from July 2001 to September 2003 and Director, Global Tax Strategy/Planning from February 1998 to July 2001.

Coleman N. Lannum—Mr. Lannum has been Vice President, Investor Relations of Covidien since September 2006. He was retired from November 2005 until he joined Covidien. From February 2005 to November 2005, Mr. Lannum was a vice president for American Express Asset Management. Prior to that, Mr. Lannum was a senior vice president and senior portfolio manager with Putnam Investments.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Covidien ordinary shares are listed and traded on the New York Stock Exchange (NYSE) under the symbol "COV." As of November 12, 2012, there were 3,833 holders of record of Covidien ordinary shares. The following tables present the high and low sales prices of Covidien ordinary shares for the periods indicated, as reported by the NYSE, in addition to the dividends declared per ordinary share during those periods.

| Fiscal Year 2012 | High | Low | Dividends |
|---|---|---|---|
| First Quarter | $48.87 | $41.35 | $— |
| Second Quarter | $55.00 | $44.52 | $0.450 |
| Third Quarter | $56.20 | $50.25 | $— |
| Fourth Quarter | $60.57 | $50.40 | $0.485 |
| Fiscal Year 2011 | High | Low | Dividends |
| First Quarter | $46.93 | $39.10 | $— |
| Second Quarter | $53.75 | $45.21 | $0.400 |
| Third Quarter | $57.65 | $51.34 | $— |
| Fourth Quarter | $54.49 | $43.57 | $0.425 |

Additional information required by this item is incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Dividends" in Item 7 of this annual report on Form 10-K.

Irish Restrictions on Import and Export of Capital

The Financial Transfers Act 1992 provides that the Irish Minister for Finance can make provision for the restriction of financial transfers between Ireland and other countries. For the purposes of this Act, "financial transfers" include all transfers which would be movements of capital or payments within the meaning of the treaties governing the European Communities if they had been made between Member States of the Communities. This Act has been used by the Minister for Finance to implement European Council Directives, which provide for the restriction of financial transfers to certain countries, organizations and people including the Al-Qaeda network and the Taliban, Belarus, Burma (Myanmar), Democratic People's Republic of Korea, Democratic Republic of Congo, Egypt, Eritrea, Iran, Iraq, Ivory Coast, Lebanon, Liberia, Republic of Guinea, Somalia, Sudan, Syria, Tunisia, Yugoslavia (Slobodan Milosevic and associated persons) and Zimbabwe.

Irish Taxes Applicable to U.S. Holders

Dividends paid by Covidien will generally be subject to Irish dividend withholding tax at the standard rate of income tax (currently 20 percent) unless an exemption applies.

Dividends paid to U.S. residents will not be subject to Irish dividend withholding tax provided that:

- in the case of a beneficial owner, the address of the beneficial owner in the records of his or her broker is in the United States and this information is provided by the broker to the Company's qualifying intermediary; or
- in the case of a record owner, the record owner has provided to the Company's transfer agent a valid W-9 showing either a U.S. address or a valid taxpayer identification number.

Irish income tax may also arise with respect to dividends paid on Covidien's ordinary shares. A U.S. resident who meets one of the exemptions from dividend withholding tax described above and who does not hold Covidien shares through a branch or agency in Ireland through which a trade is carried on generally will not have any Irish income tax liability on a dividend paid by Covidien. In addition, if a U.S. shareholder is subject to the dividend withholding tax, the withholding payment discharges any Irish income tax liability, provided the shareholder furnishes to the Irish Revenue authorities a statement of the dividend withholding tax imposed.

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While the U.S./Ireland Double Tax Treaty contains provisions regarding withholding, due to the wide scope of the exemptions from dividend withholding tax available under Irish domestic law, it would generally be unnecessary for a U.S. resident shareholder to rely on the treaty provisions.

Issuer Purchases of Equity Securities

The following table presents information regarding Covidien's purchases of ordinary shares during the fourth quarter of fiscal 2012:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs |
|---|---|---|---|---|
| 06/30/12 – 07/27/12 | — | $— | — | $ 1,423,288,380 |
| 07/28/12 – 08/31/12 | 6,055,982 | $56.41 | 6,055,982 | $ 1,081,643,788 |
| 09/01/12 – 09/28/12 | 3,542,006 | $57.72 | 3,542,006 | $ 877,216,177 |

The shares included in the table above were repurchased under our $2.0 billion share repurchase program that was approved by our Board of Directors on August 11, 2011.

Item 6. Selected Financial Data

The following table presents selected financial and other data for Covidien plc. The consolidated statement of income data set forth below for fiscal 2012, 2011 and 2010, and the consolidated balance sheet data at September 28, 2012 and September 30, 2011, are derived from our audited consolidated financial statements included elsewhere in this annual report. The consolidated statement of income data for fiscal 2009 and 2008 and the consolidated balance sheet data at September 24, 2010, September 25, 2009 and September 26, 2008 are derived from our audited consolidated financial statements that are not included in this annual report.

The selected historical financial data presented below should be read in conjunction with our consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report.

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| | Fiscal Year[1] | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | (Dollars in Millions, Except per Share Data) | | | | |
| Consolidated Statement of Income Data: | | | | | |
| Net sales | $11,852 | $11,574 | $10,429 | $10,263 | $9,910 |
| Gross profit[2] | 6,814 | 6,578 | 5,805 | 5,641 | 5,309 |
| Selling, general and administrative expenses[3] | 3,686 | 3,527 | 3,219 | 3,225 | 2,923 |
| Research and development expenses[4] | 623 | 554 | 447 | 542 | 363 |
| Restructuring charges, net | 91 | 122 | 76 | 61 | 77 |
| Operating income | 2,414 | 2,375 | 2,063 | 1,813 | 1,946 |
| Interest expense, net | (190) | (181) | (177) | (151) | (166) |
| Other income, net[5] | 25 | 22 | 40 | 145 | 199 |
| Income from continuing operations before income taxes | 2,249 | 2,216 | 1,926 | 1,807 | 1,979 |
| Income from continuing operations | 1,902 | 1,883 | 1,563 | 942 | 1,443 |
| Consolidated Balance Sheet Data (End of Period): | | | | | |
| Total assets | $22,257 | $20,374 | $20,387 | $17,139 | $16,003 |
| Long-term debt | 4,531 | 4,197 | 4,451 | 2,961 | 2,986 |
| Shareholders' equity | 10,565 | 9,817 | 8,974 | 8,001 | 7,747 |
| Share Data: | | | | | |
| Income from continuing operations: | | | | | |
| Basic earnings per share | $3.96 | $3.82 | $3.13 | $1.87 | $2.89 |
| Diluted earnings per share | $3.92 | $3.79 | $3.10 | $1.86 | $2.86 |
| Cash dividend declared per share | $0.94 | $0.83 | $0.74 | $0.66 | $0.64 |
| Basic weighted-average number of shares outstanding | 481 | 493 | 500 | 503 | 500 |
| Diluted weighted-average number of shares outstanding | 486 | 497 | 504 | 505 | 505 |

(1) Fiscal 2011 includes 53 weeks. All other fiscal years above include 52 weeks.

(2) Gross profit for fiscal 2012 includes $17 million of charges related to the sale of acquired inventory that had been written up to fair value upon the acquisition of businesses, $15 million of inventory impairments resulting from a product discontinuance and $13 million of restructuring-related accelerated depreciation expense. Gross profit for fiscal 2011 includes $32 million of charges related to the sale of acquired inventory that had been written up to fair value upon the acquisition of a business and $9 million of restructuring-related accelerated depreciation expense. Gross profit for fiscal 2010 includes $39 million of charges related to the sale of acquired inventory that had been written up to fair value upon the acquisition of a business.

(3) Amount for fiscal 2012 includes legal charges of $49 million related to our indemnification obligations for certain claims pertaining to all known and pending estimated future pelvic mesh product liability claims, $36 million of costs related to the separation of our Pharmaceuticals segment, $20 million of transaction costs associated with acquisitions and a $3 million capital equipment impairment resulting from a product discontinuance. Amount for fiscal 2011 includes net legal charges of $35 million related to our indemnification obligations for certain claims pertaining to all known pending and estimated future pelvic mesh product liability claims, net of insurance recoveries and shareholder settlement income. Amount for fiscal 2010 includes transaction costs of $39 million associated with acquisitions, a legal charge of $33 million related to an antitrust case and a net loss on divestitures of $25 million. Amount for fiscal 2009 includes charges of $183 million for our share of settlements of Tyco International securities cases and our portion of the estimated cost to settle all the remaining Tyco International

securities cases outstanding, legal charges totaling $94 million for three antitrust cases, a charge of $71 million for the estimated additional cost to remediate environmental matters at a site located in Orrington, Maine and charges totaling $21 million related to divestitures. Amount for fiscal 2008 includes net charges of $42 million for our portion of settlements with certain Tyco International shareholders.

(4) Amount for fiscal 2012 includes a $12 million charge related to entering into a licensing agreement. Amount for fiscal 2009 includes $115 million of in-process research and development charges and $30 million related to upfront fees and milestone payments for licensing arrangements. Amount for fiscal 2008 includes $22 million of in-process research and development charges.

(5) Amounts primarily relate to the impact of the Tax Sharing Agreement with Tyco International and TE Connectivity.

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our selected financial data and our consolidated financial statements and the accompanying notes included in this annual report. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those discussed under the headings "Risk Factors" and "Forward-Looking Statements."

### Overview

We develop, manufacture and sell healthcare products for use in clinical and home settings. Our mission is to create and deliver innovative healthcare solutions, developed in ethical collaboration with medical professionals, which enhance the quality of life for patients and improve outcomes for our customers and our shareholders. Our three reportable segments are as follows:

- Medical Devices includes the development, manufacture and sale of endomechanical instruments, energy devices, soft tissue repair products, vascular products, oximetry and monitoring products, airway and ventilation products and other medical products.
- Pharmaceuticals includes the development, manufacture and distribution of specialty pharmaceuticals, active pharmaceutical ingredients, contrast products and radiopharmaceuticals.
- Medical Supplies includes the development, manufacture and sale of nursing care products, medical surgical products, SharpSafety products and original equipment manufacturer (OEM) products.

Effective June 29, 2007, Covidien became the parent company owning the former healthcare businesses of Tyco International Ltd. On June 29, 2007, Tyco International distributed all of our shares, as well as the shares of its former electronics businesses (TE Connectivity Ltd.), to Tyco International shareholders.

Our consolidated financial statements have been prepared in U.S. dollars, in accordance with accounting principles generally accepted in the United States of America.

### Separation of Our Pharmaceuticals Business

In December 2011, we announced a plan to spin off our pharmaceuticals business into a stand-alone public company. We anticipate that the transaction will be in the form of a distribution that will be tax-free to U.S. shareholders of a new publicly traded stock in the new pharmaceuticals company. Completion of the transaction is expected to be subject to certain conditions, including, among others, receipt of regulatory approvals, assurance as to the tax-free status of the spin-off of the pharmaceuticals business to our U.S. shareholders, the effectiveness of a Form 10 registration statement to be filed with the U.S. Securities and Exchange Commission and final approval by our Board of Directors. We currently expect to complete the transaction in June 2013; however, there can be no assurance regarding the ultimate timing of the proposed transaction or that the transaction will be completed. Subsequent to the separation, the historical results of our Pharmaceuticals segment will be presented as discontinued operations.

### Healthcare Reform

In March 2010, the Patient Protection and Affordable Care Act was enacted in the United States. This legislation includes a provision that imposes a 2.3% excise tax on the sale of certain medical devices by a manufacturer, producer or importer of such devices in the United States starting after December 31, 2012. The legislation also includes a $28 billion fee on the branded pharmaceutical industry over nine years starting in 2011 and a $2.8 billion annual fee on branded pharmaceuticals thereafter. The amount of branded pharmaceutical fee payable by each company is based upon market share. Since our branded pharmaceutical sales currently represent a small portion of the total market, this annual assessment has not had a significant impact on our results of operations. We estimate that the medical devices tax, however, will increase our selling, general and administrative expenses by between $75 and $100 million annually, beginning in our second quarter of fiscal 2013.

### Strategic Acquisitions, Licensing Agreements and Divestitures

We regularly engage in strategic reviews of our businesses to improve operations, financial returns and alignment between our businesses and our strategy. We have made strategic acquisitions and divestitures in the past and we will continue to explore strategic alternatives for our businesses, including licensing and distribution transactions and

selective acquisitions, as well as divestitures of non-strategic and/or underperforming businesses.

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Acquisitions

In October 2012, our Pharmaceuticals segment acquired CNS Therapeutics, Inc., a pharmaceuticals company focused on developing and commercializing products for site-specific administration to the central nervous system to treat neurological disorders and chronic pain, for approximately $100 million. The acquisition of CNS Therapeutics complements and expands our branded pharmaceuticals portfolio.

During fiscal 2012, our Medical Devices segment acquired the following companies:

- MindFrame, Inc.—a designer and manufacturer of devices designed to optimize rapid perfusion and clot removal in the treatment of patients suffering from ischemic stroke, for total consideration of $72 million, comprised of $70 million in cash (net of cash acquired) and $2 million of debt assumed, which we subsequently repaid;
- Oridion Systems Ltd. (Oridion)—a developer of patient monitoring systems, for $327 million in cash (net of cash acquired);
- superDimension, Ltd.—a developer of minimally invasive interventional pulmonology devices, for total consideration of $286 million, comprised of: $243 million in cash (net of cash acquired); $21 million of debt assumed, which we subsequently repaid; and the fair value of contingent consideration of $22 million. The contingent consideration, which could total $50 million, consists of milestone payments related to the achievement of sales targets.
- Newport Medical Instruments, Inc.—a designer and manufacturer of ventilators, for total consideration of $101 million, comprised of $92 million in cash (net of cash acquired) and $9 million of debt assumed, which we subsequently repaid;
- Maya Medical—a developer of a treatment for hypertension, for total consideration of $106 million, comprised of: $49 million in cash; $10 million of debt assumed, which we subsequently repaid; and the fair value of contingent consideration of $47 million. The contingent consideration, which could total a maximum of $170 million, consists of $70 million in milestone payments related to the commercialization of a radiofrequency energy-based renal denervation device and $100 million in milestone payments related to a device that delivers a chemical agent to cause renal denervation.
- BÂRRX Medical, Inc. (BÂRRX)—a developer of bipolar radiofrequency ablation devices used in the treatment of Barrett's esophagus syndrome, for total consideration of $393 million, comprised of $322 million in cash (net of cash acquired) and the fair value of contingent consideration of $71 million. During fiscal 2012, we recorded an additional $4 million of contingent consideration upon the achievement of health insurance coverage targets for procedures utilizing BÂRRX devices. We paid $50 million of this contingent consideration during fiscal 2012.

During fiscal 2010, our Medical Devices segment acquired the following companies:

- ev3 Inc.—a developer of technologies for the endovascular treatment of peripheral vascular and neurovascular diseases, for approximately $2.5 billion in cash (net of cash acquired);
- Somanetics Corporation—a developer of cerebral and somatic oximetry and monitoring systems, for $291 million in cash (net of cash acquired); and
- Aspect Medical Systems, Inc. (Aspect)—a provider of brain monitoring technology, for total consideration of $208 million, comprised of $150 million in cash (net of cash acquired) and $58 million of debt assumed, which we subsequently repaid.

License Agreement

During fiscal 2012, our Medical Devices segment entered into an exclusive licensing agreement which grants us product rights for two medical device patent and product candidates that are designed to remove peripheral artery blockages. This licensing arrangement included an upfront cash payment of $12 million, which was included in research and development expenses. In addition, during fiscal 2012, we made regulatory-related milestone payments of $15 million, which were capitalized as an intangible asset. We may also be required to make additional payments of up to $50 million if certain regulatory and sales milestones are achieved.

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Divestitures

During fiscal 2010, we sold our sleep and oxygen therapy product lines, both of which were formerly included within our Medical Devices segment. In addition, in fiscal 2010, we sold our nuclear pharmacies in the United States, which was formerly included in our Pharmaceuticals segment. Selling, general and administrative expenses for fiscal 2010 includes a net loss on divestitures of $25 million, primarily related to the sale of our sleep therapy product line.

During fiscal 2010, we also sold our Specialty Chemicals, which was formerly included in our Pharmaceuticals segment. This business met the criteria of a discontinued operation and, accordingly has been classified as a discontinued operation in our consolidated financial statements for all periods presented. See “Discontinued Operations” for further information.

Covidien Business Factors Influencing the Results of Operations

Fiscal Year

We report our results based on a “52-53 week” year ending on the last Friday of September. Fiscal 2012 and 2010 consisted of 52 weeks and ended on September 28, 2012 and September 24, 2010, respectively. Fiscal 2011 ended on September 30, 2011 and consisted of 53 weeks. The additional week in fiscal 2011 has been reflected in our fourth quarter.

Sales and Marketing Investment

Selling and marketing expenses increased $57 million and $304 million in fiscal 2012 and 2011, respectively. The increase in fiscal 2012 resulted largely from sales force expansion, primarily in the emerging markets, and increased costs resulting from current year acquisitions. The increase in fiscal 2011 was primarily due to increased costs resulting from acquisitions that occurred during the fourth quarter of fiscal 2010 and planned increases to support product launches. We expect sales and marketing expenses to continue to increase over the next several years as we make investments to drive our future growth, specifically in Asia.

Separation and Acquisition Transaction Costs

During fiscal 2012, we incurred $36 million in costs related to the separation of our Pharmaceuticals segment. These costs, which are included in selling, general and administrative expenses, primarily relate to professional fees and duplicative costs incurred to build out the corporate infrastructure of the pharmaceuticals company. We expect to continue to incur costs related to the separation in fiscal 2013.

In addition, during fiscal 2012, we incurred net transaction costs associated with acquisitions of $31 million. These costs consist of $20 million of charges included in selling, general and administrative expenses and $17 million of charges in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon acquisition, partially offset by a $6 million gain on the sale of our non-controlling interest in superDimension, which is included in other income, net.

During fiscal 2011, we incurred $32 million of charges related to the sale of acquired inventory that had been written up to fair value upon acquisition, which was included in cost of goods sold. During fiscal 2010, we incurred $91 million of costs associated with acquisitions. These costs consisted of $39 million of charges in cost of goods sold related to the sale of acquired inventory that had been written up to fair value upon acquisition, $39 million of charges included in selling, general and administrative expenses and $13 million of financing fees included in interest expense.

Research and Development Investment

Our research and development expense increased $69 million and $107 million in fiscal 2012 and 2011, respectively. The increase in fiscal 2012 primarily resulted from current year acquisitions, increased spending to support our growth initiatives and entering into the license agreement discussed above. The increase in fiscal 2011 was primarily due to additional spending resulting from acquisitions that occurred during the fourth quarter of fiscal 2010. We expect research and development expenditures to continue to increase over the next several years as a result of our internal research and development initiatives. We intend to focus our research and development investments in those fields that we believe will offer the greatest opportunity

for growth and profitability. We are committed to investing in products that have a demonstrable clinical impact and value to the healthcare system and through which we can benefit from our core competencies and global infrastructure.

Restructuring Initiatives

In fiscal 2011, we launched a restructuring program, designed to improve our cost structure. This program includes actions across all three segments as well as corporate. We expect to incur charges of approximately $275 million under this program as the specific actions required to execute on these initiatives are identified and approved, most of which are expected to be incurred by the end of fiscal 2014. Savings from this program are estimated to be $175 million to $225 million on an annualized basis once the program is completed. As of September 28, 2012, we had incurred $135 million of net restructuring

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and related charges under this program since its inception. During fiscal 2012, 2011 and 2010, we recorded net restructuring and related charges associated with all restructuring programs and acquisitions totaling $104 million, $131 million and $76 million, respectively.

Legal Charges

During fiscal 2012 and 2011, we recorded legal charges of $49 million and $46 million, respectively, related to our indemnification obligations for certain claims pertaining to all known pending and estimated future pelvic mesh product liability claims, net of insurance recoveries. The amount recorded in fiscal 2011 was partially offset by income of $11 million for the reversal of our portion of the remaining reserves that had been established in fiscal 2009 to settle Tyco International securities cases. In addition, during fiscal 2010, we recorded a $33 million charge to settle an antitrust case. These amounts were all included within selling, general and administrative expenses in the consolidated statements of income.

Product Recalls and Discontinuance

During fiscal 2012, net sales of our Duet TRS™ Universal Straight and Articulating Single Use Loading Units (Duet) declined approximately $85 million primarily as a result of recalls. These recalls also led to the discontinuance of the product, which resulted in $18 million of inventory and capital equipment impairments.

Currency Exchange Rates

Our results of operations are influenced by changes in the currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period. The percentage of net sales by major currencies for fiscal 2012 is as follows:

| | | |
|---|---|---|
| U.S. dollar | 58 | % |
| Euro | 15 | |
| Japanese yen | 9 | |
| All other | 18 | |
| | 100 | % |

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Results of Operations
Fiscal Years Ended 2012, 2011 and 2010
The following table presents results of operations, including percentage of net sales:

| | Fiscal Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Millions) | 2012 | | | 2011 | | | 2010 | | |
| Net sales | $11,852 | 100.0 | % | $11,574 | 100.0 | % | $10,429 | 100.0 | % |
| Cost of goods sold | 5,038 | 42.5 | | 4,996 | 43.2 | | 4,624 | 44.3 | |
| Gross profit | 6,814 | 57.5 | | 6,578 | 56.8 | | 5,805 | 55.7 | |
| Selling, general and administrative expenses | 3,686 | 31.1 | | 3,527 | 30.5 | | 3,219 | 30.9 | |
| Research and development expenses | 623 | 5.3 | | 554 | 4.8 | | 447 | 4.3 | |
| Restructuring charges, net | 91 | 0.8 | | 122 | 1.1 | | 76 | 0.7 | |
| Operating income | 2,414 | 20.4 | | 2,375 | 20.5 | | 2,063 | 19.8 | |
| Interest expense | (206) | (1.7) | | (203) | (1.8) | | (199) | (1.9) | |
| Interest income | 16 | 0.1 | | 22 | 0.2 | | 22 | 0.2 | |
| Other income, net | 25 | 0.2 | | 22 | 0.2 | | 40 | 0.4 | |
| Income from continuing operations before income taxes | 2,249 | 19.0 | | 2,216 | 19.1 | | 1,926 | 18.5 | |
| Income tax expense | 347 | 2.9 | | 333 | 2.9 | | 363 | 3.5 | |
| Income from continuing operations | 1,902 | 16.0 | | 1,883 | 16.3 | | 1,563 | 15.0 | |
| Income (loss) from discontinued operations, net of tax | 3 | — | | (15) | (0.1) | | 69 | 0.7 | |
| Net income | $1,905 | 16.1 | | $1,868 | 16.1 | | $1,632 | 15.6 | |

Net sales—Our net sales for fiscal 2012 increased $278 million, or 2.4%, to $11.852 billion, compared with $11.574 billion in fiscal 2011. The increase in net sales was driven by sales growth within our Medical Devices segment, partially offset by unfavorable currency exchange rate fluctuations of $196 million. In addition, the extra selling week in fiscal 2011 had an unfavorable impact on our current fiscal year's net sales growth.

Our net sales for fiscal 2011 increased $1.145 billion, or 11.0%, to $11.574 billion, compared with $10.429 billion in fiscal 2010. Favorable currency exchange rate fluctuations resulted in a $269 million increase to net sales in fiscal 2011. The remaining increase in net sales was driven by sales growth within our Medical Devices segment, largely attributable to the acquisition of ev3 Inc. In addition, the extra selling week in fiscal 2011 had a favorable impact on our fiscal 2011 net sales growth. Additional information regarding our increases in net sales is provided in "Analysis of Operating Results by Segment."

Net sales generated by our businesses in the United States were $6.572 billion, $6.331 billion and $5.725 billion in fiscal 2012, 2011 and 2010, respectively. Our non-U.S. businesses generated net sales of $5.280 billion, $5.243 billion and $4.704 billion in fiscal 2012, 2011 and 2010, respectively. Our businesses outside the United States represented approximately 45% of our net sales in each of fiscal 2012, 2011 and 2010.

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Net sales by geographic area are shown in the following tables:

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth[2] |
|---|---|---|---|---|---|
| U.S. | $6,572 | $6,331 | 4 % | — % | 4 % |
| Other Americas | 725 | 745 | (3) | (6) | 3 |
| Europe | 2,637 | 2,746 | (4) | (7) | 3 |
| Asia-Pacific | 1,918 | 1,752 | 9 | 1 | 8 |
| Net Sales[1] | $11,852 | $11,574 | 2 | (2) | 4 |

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth[2] |
|---|---|---|---|---|---|
| U.S. | $6,331 | $5,725 | 11 % | — % | 11 % |
| Other Americas | 745 | 653 | 14 | 6 | 8 |
| Europe | 2,746 | 2,605 | 5 | 3 | 2 |
| Asia-Pacific | 1,752 | 1,446 | 21 | 10 | 11 |
| Net Sales[1] | $11,574 | $10,429 | 11 | 3 | 8 |

(1) Sales to external customers are reflected in the regions based on the reporting entity that records the transaction. U.S. sales include sales of neurovascular and peripheral products exported to customers outside the United States and invoiced in multiple currencies of approximately $302 million, $281 million and $206 million for fiscal 2012, 2011 and 2010, respectively. Accordingly, these U.S. sales are subject to the effects of changes in foreign currency exchange rates.

(2) Operational growth, a non-GAAP financial measure, measures the change in sales between current and prior year periods using a constant currency, the exchange rate in effect during the applicable prior year period. We have provided this non-GAAP financial measure because we believe it provides meaningful information regarding our results on a consistent and comparable basis for the periods presented. Management uses this non-GAAP financial measure, in addition to GAAP financial measures, to evaluate our operating results. It is also one of the performance metrics that determines management incentive compensation. This non-GAAP financial measure should be considered supplemental to and not a substitute for our reported financial results prepared in accordance with GAAP.

Cost of goods sold—Cost of goods sold was 42.5% of net sales in fiscal 2012, compared with 43.2% of net sales in fiscal 2011. The decrease in cost of goods sold as a percent of net sales in fiscal 2012 was primarily attributable to a more favorable mix of businesses and, to a lesser extent, manufacturing cost reductions.

Cost of goods sold was 43.2% of net sales in fiscal 2011, compared with 44.3% of net sales in fiscal 2010. The decrease in cost of goods sold as a percent of net sales in fiscal 2011 was primarily attributable to a more favorable mix of businesses resulting from fiscal 2010 acquisitions and divestitures, as well as, manufacturing cost reductions. These decreases were partially offset by increased raw materials prices.

Selling, general and administrative expenses—Selling, general and administrative expenses in fiscal 2012 increased $159 million, or 4.5%, to $3.686 billion, compared with $3.527 billion in fiscal 2011. The increase in selling, general and administrative expenses in fiscal 2012 was primarily due to increased selling and marketing expenses resulting from sales force expansion, primarily in the emerging markets, and acquisitions. Separation and transaction costs totaling $56 million in fiscal 2012 also contributed to the increase in selling, general and administrative expenses. We expect selling, general and administrative expenses to continue to increase as a result of our recent acquisitions, planned sales and marketing investments to drive our future growth, and the medical device excise tax, which becomes effective in January 2013. Selling, general and administrative expenses were 31.1% of net sales for fiscal 2012, compared with 30.5% of net sales for fiscal 2011. The increase in selling, general and administrative expenses as a percent of net sales primarily resulted from the extra selling week in fiscal 2011.

Selling, general and administrative expenses for fiscal 2011 increased $308 million, or 9.6%, to $3.527 billion, compared with $3.219 billion in fiscal 2010. The increase in selling, general and administrative expenses for fiscal 2011 was largely due to increased costs, primarily selling and marketing, resulting from prior year acquisitions within our Medical Devices segment. Selling, general and administrative expenses were 30.5% of net sales for fiscal 2011, compared with 30.9% of net sales for

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fiscal 2010. The decrease in selling, general and administrative expenses as a percent of net sales primarily resulted from the extra selling week in fiscal 2011.

Research and development expenses—Research and development expenses increased $69 million, or 12.5%, to $623 million in fiscal 2012, compared with $554 million in fiscal 2011. The increase primarily resulted from increased spending within our Medical Devices segment resulting from current year acquisitions and investments made to support our growth initiatives. In addition, fiscal 2012 includes a $12 million upfront payment made in connection with a license agreement entered into by our Medical Devices segment. During fiscal 2012, we achieved our goal of increasing research and development expenses as a percentage of net sales to within the range of 5% to 6%. As a percentage of our net sales, research and development expenses were 5.3% for fiscal 2012, compared with 4.8% for fiscal 2011.

Research and development expenses increased $107 million, or 23.9%, to $554 million in fiscal 2011, compared with $447 million in fiscal 2010. The increase was primarily due to additional spending within our Medical Devices segment, largely resulting from acquisitions in the fourth quarter of fiscal 2010 and, to a lesser extent, increased spending within our Pharmaceuticals segment. As a percentage of our net sales, research and development expenses were 4.8% for fiscal 2011, compared with 4.3% for fiscal 2010.

Restructuring charges, net—During fiscal 2012, we recorded net restructuring and related charges of $104 million, of which charges of $13 million related to accelerated depreciation and were included in cost of goods sold. The remaining $91 million primarily related to severance and employee benefit costs incurred under our 2011 program.

During fiscal 2011, we recorded net restructuring and related charges of $131 million, of which $9 million related to accelerated depreciation and was included in cost of goods sold. The remaining $122 million primarily related to severance and employee benefit costs incurred under our 2011 and 2009 programs and the cancellation of distributor and supplier agreements associated with prior year acquisitions by our Medical Devices segment. In addition, during fiscal 2011 we reversed $24 million of restructuring reserves, primarily under our 2009 program, $10 million of which resulted from the determination that one of the restructuring actions within our Medical Supplies segment was no longer cost effective.

During fiscal 2010, we recorded net restructuring charges of $76 million primarily related to severance costs within our Medical Supplies and Medical Devices segments.

Operating income—In fiscal 2012, operating income increased $39 million to $2.414 billion, compared with operating income of $2.375 billion in fiscal 2011. The increase in operating income was primarily due to the gross profit resulting from increased sales volume within our Medical Devices segment. This increase was partially offset by a $69 million increase in research and development expenses, increased selling and marketing expenses, primarily resulting from sales force expansion and acquisitions within our Medical Devices segment, and an increase in separation and transaction costs.

In fiscal 2011, operating income increased $312 million to $2.375 billion, compared with operating income of $2.063 billion in fiscal 2010. The increase in operating income was primarily due to increased sales volume within our Medical Devices segment, largely attributable to the prior year acquisition of ev3 and the extra selling week in fiscal 2011. Fiscal 2011 also benefited from the absence of $64 million in charges relating to both acquisition transaction costs and net loss on divestitures incurred in fiscal 2010. These increases in operating income were partially offset by increased costs resulting from acquisitions and $55 million of incremental net restructuring and related charges.

Analysis of Operating Results by Segment

Management measures and evaluates our reportable segments based on segment net sales and operating income. Management excludes corporate expenses from segment operating income. In addition, certain amounts that management considers to be non-recurring or non-operational are excluded from segment operating income because management evaluates the operating results of the segments excluding such items. These items include restructuring and related charges; net charges associated with acquisitions, licensing arrangements and divestitures; separation costs; certain legal charges, net of insurance recoveries; and certain asset impairment charges. Although these amounts are excluded from segment operating income, they are included in reported consolidated operating income and accordingly, are included in our discussion of our consolidated results of operations.

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Net sales by segment are shown in the following tables:

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Medical Devices | $8,111 | $7,829 | 4 % | (2 )% | 6 % |
| Pharmaceuticals | 2,001 | 1,967 | 2 | (1 ) | 3 |
| Medical Supplies | 1,740 | 1,778 | (2 ) | (1 ) | (1 ) |
| | $11,852 | $11,574 | 2 | (2 ) | 4 |

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Medical Devices | $7,829 | $6,715 | 17 % | 4 % | 13 % |
| Pharmaceuticals | 1,967 | 1,991 | (1 ) | 2 | (3 ) |
| Medical Supplies | 1,778 | 1,723 | 3 | — | 3 |
| | $11,574 | $10,429 | 11 | 3 | 8 |

Operating income by segment and as a percentage of segment net sales are shown in the following table:

| (Dollars in Millions) | Fiscal Year 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| Medical Devices | $2,499 | 30.8 % | $2,422 | 30.9 % | $2,097 | 31.2 % |
| Pharmaceuticals | 337 | 16.8 | 318 | 16.2 | 330 | 16.6 |
| Medical Supplies | 214 | 12.3 | 247 | 13.9 | 254 | 14.7 |
| Operating income of reportable segments | 3,050 | 25.7 | 2,987 | 25.8 | 2,681 | 25.7 |
| Unallocated amounts: | | | | | | |
| Corporate expenses | (382 ) | | (414 ) | | (419 ) | |
| Restructuring and related charges, net | (104 ) | | (131 ) | | (76 ) | |
| Net charges associated with acquisitions, licensing arrangements and divestitures | (49 ) | | (32 ) | | (90 ) | |
| Separation costs | (36 ) | | — | | — | |
| Legal charges, net of insurance recoveries and shareholder settlement income | (47 ) | | (35 ) | | (33 ) | |
| Impairments related to product discontinuance | (18 ) | | — | | — | |
| Consolidated operating income | $2,414 | | $2,375 | | $2,063 | |

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Medical Devices

Net sales for Medical Devices by groups of products and by geography for fiscal 2012 compared to fiscal 2011 are as follows:

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Endomechanical Instruments | $2,336 | $2,342 | —% | (2)% | 2% |
| Energy Devices | 1,305 | 1,170 | 12 | (2) | 14 |
| Soft Tissue Repair Products | 882 | 900 | (2) | (3) | 1 |
| Vascular Products | 1,602 | 1,426 | 12 | (1) | 13 |
| Oximetry & Monitoring Products | 867 | 853 | 2 | (1) | 3 |
| Airway & Ventilation Products | 743 | 752 | (1) | (2) | 1 |
| Other Products | 376 | 386 | (3) | (1) | (2) |
| | $8,111 | $7,829 | 4 | (2) | 6 |

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| U.S. | $3,683 | $3,483 | 6% | —% | 6% |
| Non-U.S. | 4,428 | 4,346 | 2 | (3) | 5 |
| | $8,111 | $7,829 | 4 | (2) | 6 |

Net sales for fiscal 2012 increased $282 million, or 4%, to $8.111 billion, compared with $7.829 billion for fiscal 2011. Fiscal 2012 acquisitions contributed $79 million to the increase. The remaining increase in net sales for the segment was driven by Vascular Products and Energy Devices. The increase in sales for Vascular Products was primarily due to increased sales of neurovascular products and, to a much lesser extent, peripheral vascular and chronic venous insufficiency products. The increase in Energy Devices sales primarily resulted from higher sales volume of vessel sealing products, most notably in the United States. Increased sales of stapling devices within Endomechanical Instruments driven by growth for our Tri-Staple™ product were more than offset by the recall and discontinuance of our Duet product and decreased sales of surgical instruments. Fiscal 2012 net sales for the segment were also negatively impacted by the extra selling week in the prior year and a $152 million unfavorable impact of currency exchange fluctuations.

Operating income for fiscal 2012 increased $77 million to $2.499 billion, compared with $2.422 billion for fiscal 2011. Our operating margin was 30.8% for fiscal 2012, compared with 30.9% for fiscal 2011. The increase in our operating income was primarily attributable to increased gross profit on the favorable sales performance for the overall segment discussed above. This increase to operating income was partially offset by an increase in selling and marketing expenses, primarily resulting from sales force expansion in the emerging markets and acquisitions, and an increase in research and development expenses to support our growth initiatives.

Net sales for Medical Devices by groups of products and by geography for fiscal 2011 compared to fiscal 2010 are as follows:

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Endomechanical Instruments | $2,342 | $2,139 | 9% | 3% | 6% |
| Energy Devices | 1,170 | 992 | 18 | 3 | 15 |
| Soft Tissue Repair Products | 900 | 854 | 5 | 3 | 2 |
| Vascular Products | 1,426 | 810 | 76 | 3 | 73 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Oximetry & Monitoring Products | 853 | 755 | 13 | 2 | 11 | |
| Airway & Ventilation Products | 752 | 770 | (2) | 4 | (6) | |
| Other Products | 386 | 395 | (2) | 6 | (8) | |
| | $7,829 | $6,715 | 17 | 4 | 13 | |

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| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| U.S. | $3,483 | $2,839 | 23 % | — % | 23 % |
| Non-U.S. | 4,346 | 3,876 | 12 | 6 | 6 |
| | $7,829 | $6,715 | 17 | 4 | 13 |

Net sales for fiscal 2011 increased $1.114 billion, or 17%, to $7.829 billion, compared with $6.715 billion for fiscal 2010. Favorable currency exchange rate fluctuations positively impacted net sales for the segment by $235 million. The remaining increase in net sales for the segment was driven by increased sales of Vascular Products, Energy Devices, Endomechanical Instruments and Oximetry & Monitoring Products. The increase in Vascular Products sales was primarily due to the acquisition of ev3, which resulted in an additional $542 million in net sales for the segment. The increase in net sales for Energy Devices and Endomechanical Instruments primarily resulted from higher sales volume of vessel sealing products and stapling devices, respectively, largely attributable to sales of new products. Finally, the increase in sales for Oximetry & Monitoring Products was driven by higher sales volume of sensors primarily resulting from the prior year acquisition of Somanetics Corporation. These increases in net sales were somewhat offset by a decrease in sales of Airway & Ventilation Products resulting from strong sales in the prior year due to the H1N1 pandemic. Net sales for fiscal 2011 also benefited from the extra selling week in the fourth quarter, which impacted all product groups.

Operating income for fiscal 2011 increased $325 million to $2.422 billion, compared with $2.097 billion for fiscal 2010. Our operating margin was 30.9% for fiscal 2011, compared with 31.2% for fiscal 2010. The increase in our operating income was primarily attributable to increased gross profit on the favorable sales performance for the overall segment discussed above, partially offset by increased costs related to acquisitions, particularly selling and marketing expenses and, to a lesser extent, research and development expenses.

Pharmaceuticals

Net sales for Pharmaceuticals by groups of products and by geography for fiscal 2012 compared to fiscal 2011 are as follows:

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Specialty Pharmaceuticals | $573 | $494 | 16 % | — % | 16 % |
| Active Pharmaceutical Ingredients | 433 | 416 | 4 | (1) | 5 |
| Contrast Products | 542 | 598 | (9) | (3) | (6) |
| Radiopharmaceuticals | 453 | 459 | (1) | (2) | 1 |
| | $2,001 | $1,967 | 2 | (1) | 3 |

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| U.S. | $1,346 | $1,288 | 5 % | — % | 5 % |
| Non-U.S. | 655 | 679 | (4) | (5) | 1 |
| | $2,001 | $1,967 | 2 | (1) | 3 |

Net sales for fiscal 2012 increased $34 million, or 2%, to $2.001 billion, compared with $1.967 billion for fiscal 2011. This increase was primarily driven by increased sales of our EXALGO® and PENNSAID® branded products within Specialty Pharmaceuticals, higher sales of our generic fentanyl patch within Specialty Pharmaceuticals and higher narcotics sales within Active Pharmaceutical Ingredients. These increases were partially offset by decreased sales of Contrast Products, primarily resulting from lower sales of our Optiray™ contrast agent, the extra selling week in the prior year, unfavorable currency exchange fluctuations of $31 million and, to a lesser extent, decreased sales of

oxycodone products within Specialty Pharmaceuticals.

Operating income for fiscal 2012 increased $19 million to $337 million, compared with $318 million for fiscal 2011. Our operating margin was 16.8% for fiscal 2012, compared with 16.2% for fiscal 2011. The increase in operating income and

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margin was primarily due to favorable product mix resulting from increased sales of our higher margin branded products and, to a lesser extent, favorable pricing. These increases to operating income were partially offset by increases in general and administrative expenses, primarily resulting from higher legal and benefit costs.

Net sales for Pharmaceuticals by groups of products and by geography for fiscal 2011 compared to fiscal 2010 are as follows:

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Specialty Pharmaceuticals | $494 | $473 | 4 % | — % | 4 % |
| Active Pharmaceutical Ingredients | 416 | 395 | 5 | 1 | 4 |
| Contrast Products | 598 | 604 | (1) | 2 | (3) |
| Radiopharmaceuticals | 459 | 519 | (12) | 1 | (13) |
| | $1,967 | $1,991 | (1) | 2 | (3) |

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| U.S. | $1,288 | $1,372 | (6)% | — % | (6)% |
| Non-U.S. | 679 | 619 | 10 | 5 | 5 |
| | $1,967 | $1,991 | (1) | 2 | (3) |

Net sales for fiscal 2011 decreased $24 million, or 1%, to $1.967 billion, compared with $1.991 billion for fiscal 2010. This decrease was driven by a decline in Radiopharmaceuticals net sales resulting from the divestiture of our nuclear pharmacies within the United States during the third quarter of fiscal 2010. This decrease was largely offset by increased sales of generic pharmaceuticals, primarily the fentanyl patch and lozenge, and increased sales of acetaminophen within Active Pharmaceutical Ingredients. In addition, increased sales of EXALGO® and PENNSAID® were more than offset by the decline in sales of our older branded products due to generic competition. Net sales for fiscal 2011 also benefited from the extra selling week in the fourth quarter, which impacted all product groups.

Operating income for fiscal 2011 decreased $12 million to $318 million, compared with $330 million for fiscal 2010. Our operating margin was 16.2% for fiscal 2011, compared with 16.6% for fiscal 2010. The decrease in operating income and margin was primarily due to increased research and development expenses and increased selling and marketing expenses to support our recent product launches, partially offset by decreased legal costs. In addition, the decline in operating income was due to the overall segment sales decline discussed above.

Medical Supplies

Net sales for Medical Supplies by groups of products for fiscal 2012 compared to fiscal 2011 are as follows:

| (Dollars in Millions) | Fiscal Year 2012 | 2011 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Nursing Care Products | $806 | $808 | — % | (1)% | 1 % |
| Medical Surgical Products | 437 | 441 | (1) | (2) | 1 |
| SharpSafety Products | 288 | 308 | (6) | 1 | (7) |
| Original Equipment Manufacturer (OEM) Products | 209 | 221 | (5) | — | (5) |
| | $1,740 | $1,778 | (2) | (1) | (1) |

| | Fiscal Year | | Percentage | Currency | Operational |
|---|---|---|---|---|---|

| (Dollars in Millions) | 2012 | 2011 | Change | Impact | Growth |
|---|---|---|---|---|---|
| U.S. | $1,543 | $1,560 | (1)% | —% | (1)% |
| Non-U.S. | 197 | 218 | (10) | (7) | (3) |
| | $1,740 | $1,778 | (2) | (1) | (1) |

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Net sales for fiscal 2012 decreased $38 million to $1.740 billion, compared with $1.778 billion for fiscal 2011. The decrease in net sales for the segment was primarily driven by the extra selling week in the prior year, as well as, a decline in sales of SharpSafety Products resulting from lower sales of sharps disposals, needles and syringes. The decrease in sales of OEM products and woundcare products within Nursing Care also contributed to the overall decline. These decreases in net sales were partially offset by increased sales of incontinence and enteral feeding products within Nursing Care and higher sales of electrodes within Medical Surgical Products.

Operating income for fiscal 2012 decreased $33 million to $214 million, compared with $247 million for fiscal 2011. Our operating margin was 12.3% for fiscal 2012, compared with 13.9% for fiscal 2011. The decrease in operating income and margin primarily resulted from pricing pressure and, to a much lesser extent, increased freight costs. The decrease in operating income was also attributable to increases in general and administrative expenses, primarily resulting from higher benefit costs.

Net sales for Medical Supplies by groups of products for fiscal 2011 compared to fiscal 2010 are as follows:

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| Nursing Care Products | $808 | $783 | 3 % | — % | 3 % |
| Medical Surgical Products | 441 | 412 | 7 | 1 | 6 |
| SharpSafety Products | 308 | 320 | (4) | — | (4) |
| Original Equipment Manufacturer (OEM) Products | 221 | 208 | 6 | — | 6 |
| | $1,778 | $1,723 | 3 | — | 3 |

| (Dollars in Millions) | Fiscal Year 2011 | 2010 | Percentage Change | Currency Impact | Operational Growth |
|---|---|---|---|---|---|
| U.S. | $1,560 | $1,514 | 3 % | — % | 3 % |
| Non-U.S. | 218 | 209 | 4 | 3 | 1 |
| | $1,778 | $1,723 | 3 | — | 3 |

Net sales for fiscal 2011 increased $55 million to $1.778 billion, compared with $1.723 billion for fiscal 2010. The increase in net sales for the segment was primarily driven by increased sales of Medical Surgical Products largely attributable to sales of a new disposable lead wire system. The increase in sales of OEM products was mostly offset by a decline in sales of SharpSafety Products primarily resulting from stronger sales in the comparative prior year period due to the H1N1 flu pandemic. Net sales for fiscal 2011 also benefited from the extra selling week in the fourth quarter, which impacted all product groups.

Operating income for fiscal 2011 decreased $7 million to $247 million, compared with $254 million for fiscal 2010. Our operating margin was 13.9% for fiscal 2011, compared with 14.7% for fiscal 2010. The decrease in operating income and margin primarily resulted from increased raw material costs, partially offset by the overall segment sales performance discussed above.

Corporate

Corporate expenses were $382 million, $414 million and $419 million for fiscal 2012, 2011 and 2010, respectively. The decrease in corporate expenses in fiscal 2012, compared with fiscal 2011 was primarily due to lower finance departmental costs and decreased legal and environmental expenses. The timing of stock-based compensation expense recognition, and an overall decrease in annual stock-based compensation expense, also contributed to the decrease in corporate expenses in fiscal 2012. These decreases were partially offset by increases in benefit costs.

Non-Operating Items

Interest Expense and Interest Income

During fiscal 2012, 2011 and 2010, interest expense was $206 million, $203 million and $199 million, respectively. The slight increase in interest expense for fiscal 2012, compared with fiscal 2011, primarily resulted from the issuance of $1.25

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billion of debt, partially offset by the $500 million repayment of higher interest rate debt, both of which occurred during the third quarter of fiscal 2012.

During the fourth quarter of fiscal 2010, we issued $1.5 billion in senior notes to finance a portion of the ev3 acquisition, which resulted in an increase in interest expense in fiscal 2011, compared with fiscal 2010. This increase was partially offset by the favorable impact of interest rate swaps entered into in fiscal 2011, the repayment of our $250 million 5.2% senior notes in October 2010 and the absence of $13 million of fees associated with a bridge financing obtained in fiscal 2010 in connection with the acquisition of ev3.

During fiscal 2012, 2011 and 2010, interest income was $16 million, $22 million and $22 million, respectively.

Other Income, net

During fiscal 2012, 2011 and 2010, we recorded other income, net of $25 million, $22 million and $40 million, respectively. Other income, net includes income and corresponding increases to our receivable from Tyco International and TE Connectivity of $30 million, $29 million and $43 million in fiscal 2012, 2011 and 2010, respectively, which reflect 58% of the interest and other income tax payable amounts recorded that are subject to the Tax Sharing Agreement discussed in note 20 to our consolidated financial statements. Other income, net for fiscal 2012 also includes a $9 million loss on early retirement of debt, which is discussed in "Liquidity and Capital Resources—Capitalization," partially offset by a gain on investments.

Income Tax Expense

Income tax expense was $347 million, $333 million and $363 million on income from continuing operations before income taxes of $2.249 billion, $2.216 billion and $1.926 billion for fiscal 2012, 2011 and 2010, respectively. Our effective tax rate was 15.4%, 15.0% and 18.8% for fiscal 2012, 2011 and 2010, respectively.

The increase in the effective tax rates for fiscal 2012, compared with fiscal 2011, primarily resulted from a favorable settlement reached with certain non-U.S. taxing authorities in fiscal 2011, compared to an unfavorable settlement reached with certain non-U.S. taxing authorities in fiscal 2012. The release of certain U.S. and non-U.S. uncertain tax positions due to statute expirations, which occurred in fiscal 2011, also contributed to the increase in the effective tax rates in fiscal 2012. In addition, the expiration of the U.S. research and development credit as of December 31, 2011 and the retroactive re-enactment of the 2010 credit during the first quarter of fiscal 2011, contributed to the increase in the current year effective tax rate. These increases were partially offset by the implementation of tax planning strategies, including the release of certain valuation allowances.

The decrease in the effective tax rate for fiscal 2011, compared with fiscal 2010, primarily resulted from a favorable settlement reached with certain non-U.S. taxing authorities and, to a lesser extent, the release of certain U.S. and non-U.S. uncertain tax positions due to statute expirations. In addition, the decrease in the effective tax rate resulted from an increase in earnings in lower tax jurisdictions, the retroactive reenactment of the U.S. research and development tax credit and the implementation of our tax planning strategies.

Discontinued Operations

Specialty Chemicals business—During fiscal 2010, we sold our Specialty Chemicals business within our Pharmaceuticals segment. We decided to sell this business because its products and customer bases were not aligned with our long-term strategic objectives. This business met the discontinued operations criteria, and accordingly is included in discontinued operations.

We received net cash proceeds of $273 million and recorded a $20 million pre-tax gain on the sale of our Specialty Chemicals business during fiscal 2010. Included within this gain is a $22 million charge associated with an indemnification, which we provided to the purchaser. In addition, we paid $30 million into an escrow account as collateral for this indemnification, of which $25 million remained in other assets on the consolidated balance sheet at September 28, 2012. Additional information regarding this indemnification is discussed in “Liquidity and Capital Resources—Guarantees.”

Plastics, Adhesives, Ludlow Coated Products and A&E Products businesses—During fiscal 2012, we recorded a $12 million tax benefit related to the Plastics, Adhesives, Ludlow Coated Products and A&E Products businesses that were sold in fiscal 2006 prior to our separation from Tyco International. This tax benefit resulted from statute expirations. In addition, during fiscal 2011 and 2010, we recorded a $9 million tax provision and a $20 million tax benefit,

respectively, in discontinued operations. These amounts resulted from adjustments to certain income tax liabilities associated with the Plastics, Adhesives, Ludlow Coated Products and A&E Products businesses.

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Liquidity and Capital Resources

Our ability to fund our capital needs will be affected by our ongoing ability to generate cash from operations and access to the capital markets. We believe, however, that our cash balances and other sources of liquidity, primarily our committed credit facility, will be sufficient to allow us to continue to invest in growth opportunities and fund operations for the foreseeable future.

A summary of our cash flows from operating, investing and financing activities is provided in the following table:

| (Dollars in Millions) | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net cash provided by (used in) continuing: | | | |
| Operating activities | 2,425 | 2,182 | 2,185 |
| Investing activities | (1,678) | (480) | (3,195) |
| Financing activities | (383) | (1,771) | 1,060 |
| Net cash provided by discontinued operations | — | — | 35 |
| Effect of currency exchange rate changes on cash and cash equivalents | (1) | 7 | 13 |
| Net increase (decrease) in cash and cash equivalents | 363 | (62) | 98 |

Operating Activities

Net cash provided by operating activities was $2.425 billion, $2.182 billion and $2.185 billion for fiscal 2012, 2011 and 2010, respectively.

Net cash provided by operating activities of $2.425 billion in fiscal 2012 was primarily attributable to income from continuing operations, as adjusted for depreciation and amortization, partially offset by a net change in working capital of $232 million. The net change in working capital was driven largely by an increase in inventory of $275 million, partially offset by an increase in income taxes payable of $111 million. At the end of June 2012, we collected $248 million from the Spanish government, which related to 2011 and prior invoices. In addition, we made net indemnification payments of $37 million related to pre-separation tax matters under the Tax Sharing Agreement during fiscal 2012. In fiscal 2013, we expect to make net indemnification payments of approximately $23 million under the Tax Sharing Agreement.

Net cash provided by operating activities of $2.182 billion in fiscal 2011 was primarily attributable to income from continuing operations, as adjusted for depreciation and amortization and deferred income taxes, partially offset by an increase of inventory of $203 million and a decrease in income taxes payable of $423 million. The decrease in income taxes payable primarily resulted from a $404 million advance payment that we made to the IRS in connection with the proposed settlements of U.S. tax audits for the years 1997 through 2004 and other non-U.S. audits. We were partially reimbursed by Tyco International and TE Connectivity for this payment under the Tax Sharing Agreement. In addition, we made indemnification payments to Tyco International and TE Connectivity under the Tax Sharing Agreement for tax matters in which they were the primary obligor. The total net payment made, including the advance payment to the IRS, was $248 million.

Net cash provided by operating activities of $2.185 billion in fiscal 2010 was primarily attributable to income from continuing operations, as adjusted for depreciation and amortization and deferred income taxes. An increase of income taxes payable of $312 million also contributed to cash provided by continuing operating activities. These amounts were partially offset by a $200 million decrease in accrued and other current liabilities, largely driven by the payment of prior year legal settlements.

Investing Activities

Net cash used in investing activities was $1.678 billion, $480 million and $3.195 billion in fiscal 2012, 2011 and 2010, respectively.

Acquisitions and Divestitures—During fiscal 2012, we made acquisition-related payments totaling $1.134 billion, of which $327 million was for the acquisition of Oridion; $322 million was for the acquisition of BÂRRX; $243 million was for the acquisition of superDimension; and $242 million was for all other acquisitions.

During fiscal 2010, we made acquisition-related payments totaling $3.012 billion, of which $2.528 billion was for the acquisition of ev3; $291 million was for the acquisition of Somanetics; and $150 million was for the acquisition of Aspect. These amounts were somewhat offset by $263 million of net proceeds from divestitures, primarily related to the sale of our Specialty Chemicals business.

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Capital Spending—Capital expenditures were $526 million, $467 million and $401 million in fiscal 2012, 2011 and 2010, respectively. For the full fiscal year 2013, we expect capital expenditures to be in the range of $550 million to $575 million.

Financing Activities

During fiscal 2012, net cash used in financing activities was $383 million, compared with net cash used in financing activities of $1.771 billion in fiscal 2011 and net cash used in financing activities of $1.060 billion in fiscal 2010.

Debt Issuances and Repayments—As discussed in "Capitalization," during fiscal 2012 we issued debt for net proceeds of approximately $1.24 billion. We used a portion of these proceeds to fund the redemption of all of our outstanding $500 million 5.5% notes due October 2012. In addition, during fiscal 2012, we received net proceeds of $95 million from the issuance of commercial paper.

During fiscal 2011, we used $282 million of cash to repay amounts outstanding under our commercial paper program and paid $250 million upon the maturity of our 5.2% senior notes.

During fiscal 2010, we issued $1.50 billion of debt for net proceeds of $1.489 billion, which we used to finance a portion of our acquisition of ev3. In addition, during fiscal 2010, we received net proceeds of $246 million under our commercial paper program.

Share Repurchases and Option Exercises—We repurchased approximately 17 million shares for $923 million in fiscal 2012, 19 million shares for $950 million in fiscal 2011 and 8 million shares for $325 million in fiscal 2010 under our share buyback programs. We also repurchase shares from certain employees in order to satisfy employee tax withholding requirements in connection with the vesting of restricted shares and to settle certain option exercises. We spent $9 million, $5 million and $6 million to acquire shares in connection with these share-based awards during fiscal 2012, 2011 and 2010, respectively. Share repurchases were somewhat offset by proceeds from options exercises of $241 million, $176 million and $107 million in fiscal 2012, 2011 and 2010, respectively.

Dividend Payments—Dividend payments were $434 million, $396 million and $360 million during fiscal 2012, 2011 and 2010, respectively. We expect our cash dividend payments to increase in fiscal 2013 as a result of the increase in our quarterly dividend rate discussed in "Dividends."

We returned 56%, 62%, and 32% of our operating cash flow to shareholders during fiscal 2012, 2011 and 2010, respectively, through a combination of both dividend payments and share repurchases. During fiscal 2012, 2011 and 2010, free cash flow returned to shareholders was 72%, 79%, and 39%, respectively.

Free cash flow, a non-GAAP measure, represents the cash that we have available to pursue opportunities that we believe enhance shareholder value. Management uses this non-GAAP financial measure, in addition to GAAP financial measures, to evaluate our operating results. It is also one of the performance metrics that determines management incentive compensation. This non-GAAP financial measure should be considered supplemental to and not a substitute for our reported financial results prepared in accordance with GAAP. A reconciliation between net cash provided by operating activities (the most comparable GAAP measure) and free cash flow is as follows:

| (Dollars in Millions) | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net cash provided by operating activities | $2,425 | $2,182 | $2,185 |
| Capital expenditures | (526) | (467) | (401) |
| Free cash flow | $1,899 | $1,715 | $1,784 |

Capitalization

Shareholders’ equity was $10.565 billion, or $22.38 per share, at September 28, 2012, compared with $9.817 billion, or $20.37 per share, at September 30, 2011. The increase in shareholders' equity was primarily due to net income of $1.905 billion and share options exercised of $249 million, partially offset by the repurchase of shares of $932 million and dividends declared of $448 million during fiscal 2012.

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The following table contains several key measures to gauge our financial condition and liquidity at the end of each fiscal year:

| (Dollars in Millions) | 2012 | 2011 |
|---|---|---|
| Cash and cash equivalents | $1,866 | $1,503 |
| Current maturities of long-term debt | 509 | 11 |
| Long-term debt | 4,531 | 4,197 |
| Total debt | 5,040 | 4,208 |
| Shareholders' equity | 10,565 | 9,817 |
| Debt-to-total capital ratio | 32 % | 30 % |

On May 22, 2012, we issued $600 million aggregate principal amount of 1.4% senior notes due May 2015 and $650 million aggregate principal amount of 3.2% senior notes due June 2022. The notes are fully and unconditionally guaranteed by
both Covidien plc and Covidien Ltd. The net proceeds of approximately $1.24 billion were used to fund the redemption of all
of our outstanding $500 million 5.5% senior notes due October 2012 and for general corporate purposes. In connection with the redemption of our senior notes, we recorded a $9 million loss on early retirement of debt in other income, net during fiscal 2012.

We have a $1.50 billion five-year unsecured senior revolving credit facility, which expires in August 2016. In addition, we may increase this facility by up to $500 million to a maximum of $2.00 billion provided certain borrowing conditions are met. We are required to maintain an available unused balance under our $1.50 billion revolving credit facility sufficient to support amounts outstanding under our commercial paper program. We had $210 million and $115 million of commercial paper outstanding at September 28, 2012 and September 30, 2011, respectively. No amount was outstanding under our credit facility at the end of either period.

Our credit facility agreement contains a covenant limiting our ratio of debt to earnings before interest, income taxes, depreciation and amortization. In addition, the agreement contains other customary covenants, none of which we consider restrictive to our operations. We are currently in compliance with all of our debt covenants.

Dividends

On September 20, 2012, our Board of Directors increased our quarterly cash dividend from $0.225 per share to $0.26 per share. The dividend, which totaled $123 million, was paid on November 5, 2012 to shareholders of record on October 11, 2012. The timing, declaration and payment of future dividends to holders of our ordinary shares falls within the discretion of our Board of Directors and will depend upon many factors, including the statutory requirements of Irish law, our earnings and financial condition, the capital requirements of our businesses, industry practice and any other factors the Board of Directors deems relevant.

Share Repurchase Programs

We repurchase our ordinary shares from time to time based on market conditions, our cash flows and net debt level to offset dilution related to equity compensation plans or to utilize excess cash to enhance shareholder value. During fiscal 2011 and 2010, we completed our $1.0 billion share repurchase program and our $300 million share repurchase program, respectively. In August 2011, our Board of Directors authorized a $2.0 billion share repurchase program. As of September 28, 2012, $877 million remained outstanding under this program.

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Commitments and Contingencies

Contractual Obligations

A summary of our contractual obligations and commitments for debt, minimum lease payment obligations under non-cancelable operating leases and other obligations at September 28, 2012 is presented in the following table.

| (Dollars in Millions) | Total | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|---|
| Debt[1] | $7,278 | $701 | $198 | $1,192 | $383 | $172 | $4,632 |
| Capital lease obligations[1] | 53 | 8 | 8 | 8 | 6 | 6 | 17 |
| Operating leases | 484 | 126 | 102 | 79 | 61 | 42 | 74 |
| Purchase obligations[2] | 239 | 168 | 26 | 22 | 22 | — | 1 |
| Contingent consideration | 108 | 41 | 59 | 8 | — | — | — |
| Total contractual cash obligations | $8,162 | $1,044 | $393 | $1,309 | $472 | $220 | $4,724 |

(1) Interest on debt and capital lease obligations are projected for future periods using interest rates in effect as of September 28, 2012. Certain of these projected interest payments may differ in the future based on changes in market interest rates.

(2) Purchase obligations consist of commitments for purchases of goods and services made in the normal course of business to meet operational and capital requirements.

The table above does not include other liabilities of $2.784 billion, primarily consisting of obligations under our pension and postretirement benefit plans, unrecognized tax benefits for uncertain tax positions and related accrued interest and penalties, environmental liabilities, insurable liabilities and obligations under our deferred compensation plan, because the timing of their future cash outflow is uncertain. The most significant of these liabilities are discussed below.

As of September 28, 2012, we had net unfunded pension and postretirement benefit obligations of $290 million and $91 million, respectively. While the timing and amounts of long-term funding requirements for pension and postretirement obligations are uncertain, in fiscal 2013 we expect to make contributions of $77 million and $8 million to our pension and postretirement benefit plans, respectively. Note 16 to our consolidated financial statements provides additional information regarding our retirement plans, including the related assumptions.

We have $1.163 billion of unrecognized tax benefits for uncertain tax positions and $548 million of related accrued interest and penalties. We are unable to reasonably estimate the amount and period in which these liabilities might be paid. Note 6 to our consolidated financial statements provides additional information regarding matters relating to income taxes, including unrecognized tax benefits.

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. These projects relate to a variety of activities, including decontamination and decommissioning of radioactive materials and removal of solvents, metals and other hazardous substances from soil and groundwater. The ultimate cost of cleanup and timing of future cash flows is difficult to predict given uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations and alternative cleanup methods. As of September 28, 2012, we believe that it is probable that we will incur investigation and remedial costs, including asset retirement obligations, of approximately $227 million, of which $19 million is included in accrued and other current liabilities and $208 million is included in other liabilities on our consolidated balance sheet at September 28, 2012. Note 22 to our consolidated financial statements provides additional information regarding environmental matters, including asset retirement obligations.

Legal Proceedings

We are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. We believe that these legal proceedings and claims likely will be resolved over an extended period of time. Although it is

not feasible to predict the outcome of these proceedings, based upon our experience, current information and applicable law, we do not expect that these proceedings will have a material effect on our financial condition. However, one or more of the proceedings could have a material effect on our results of operations or cash flows for a future period. Further information regarding our legal proceedings is provided in note 22 to our consolidated financial statements and in “Item 3—Legal Proceedings.”

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Guarantees

We have guarantee commitments and indemnifications with Tyco International and TE Connectivity, which relate to certain contingent tax liabilities. We assumed and are responsible for 42% of these liabilities. Current and non-current liabilities totaling $613 million and $660 million relating to these guarantees were included on our consolidated balance sheet at September 28, 2012 and September 30, 2011, respectively. During fiscal 2012 and 2011, we made payments totaling $45 million and $55 million, respectively, to Tyco International and TE Connectivity, which represents the 42% reimbursement required pursuant to the Tax Sharing Agreement for applicable tax and interest payments made by Tyco International and TE Connectivity.

In disposing of assets or businesses, we often provide representations, warranties and indemnities to cover various risks, including unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. Except as discussed below, we generally do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we have no reason to believe that these uncertainties would have a material effect on our results of operations, financial condition or cash flows.

In connection with the sale of our Specialty Chemicals business, we provided the purchaser with an indemnification for various risks, including environmental, health, safety, tax and other matters, some of which have an indefinite term. However, the most significant portion of this indemnification relates to environmental, health and safety matters, which has a term of 17 years. A liability of $22 million relating to this indemnification was included on our consolidated balance sheet at both September 28, 2012 and September 30, 2011. The value of the environmental, health and safety guarantee was measured based on the probability-weighted present value of the costs expected to be incurred to address environmental claims proposed under the indemnity. As of September 28, 2012, the maximum future payments we could be required to make under the indemnification provided to the purchaser is $77 million. In addition, we were required to pay $30 million into an escrow account as collateral, of which $25 million remained in other assets on our consolidated balance sheet at September 28, 2012.

We have recorded liabilities for known indemnifications included as part of environmental liabilities. In addition, we are liable for product performance; however in the opinion of management, such obligations will not significantly affect our results of operations, financial condition or cash flows.

We are required to provide the Nuclear Regulatory Commission financial assurance demonstrating our ability to cover the cost of decommissioning our Maryland Heights, Missouri radiopharmaceuticals production facility upon closure. We have provided this financial assurance in the form of a $58 million surety bond. In addition, we had various other outstanding letters of credit and guarantee totaling $207 million as of September 28, 2012.

Income Taxes

At September 28, 2012, we are the primary obligor to the taxing authorities for $1.696 billion of contingent tax liabilities that are recorded on our consolidated balance sheet, of which $1.352 billion relates to periods prior to our separation from Tyco International and which is shared with Tyco International and TE Connectivity pursuant to the Tax Sharing Agreement. However, the actual amounts that we may be required to ultimately accrue or pay under the Tax Sharing Agreement could vary depending upon the outcome of the unresolved tax matters, some of which may not be resolved for several years.

In addition, pursuant to the terms of the Tax Sharing Agreement, we have recorded a receivable from Tyco International and TE Connectivity of $614 million as of September 28, 2012, substantially all of which is non-current. This amount primarily reflects 58% of our contingent tax liabilities that are subject to the Tax Sharing Agreement. If Tyco International and TE Connectivity default on their obligations to us under the Tax Sharing Agreement, however, we would be liable for the entire amount of such liabilities. Additional information regarding the Tax Sharing Agreement is provided in note 20 to our consolidated financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk primarily consist of cash and cash equivalents, derivative financial instruments and accounts receivable. We invest our excess cash in deposits or money

market funds and diversify the concentration of cash among different financial institutions that have at least an A credit rating. Counterparties to our derivative financial instruments are limited to major financial institutions with at least a Moody's and Standard & Poor's long-term debt rating of A/A2. While we do not require collateral or other security to be furnished by the counterparties to our derivative financial instruments, we minimize exposure to credit risk by dealing with a diversified group of major financial institutions and actively monitoring outstanding positions.

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Concentrations of credit risk with respect to trade accounts receivable are generally limited due to our large number of customers and their diversity across many geographic areas. A portion of our trade accounts receivable outside the United States, however, include sales to government-owned or supported healthcare systems in several countries, which are subject to payment delays. Payment is dependent upon the financial stability and creditworthiness of those countries' national economies. Deteriorating credit and economic conditions in parts of Western Europe, particularly in Spain, Italy and Portugal, may continue to increase the average length of time it takes us to collect our accounts receivable in certain regions within these countries.

We routinely evaluate all government receivables for potential collection risks associated with the availability of government funding and reimbursement practices. While we have not incurred significant losses on government receivables, if the financial condition of customers or the countries' healthcare systems continue to deteriorate such that their ability to make payments is uncertain, charges may be required in future periods.

Our aggregate accounts receivable, net of the allowance for doubtful accounts, in Spain, Italy and Portugal and as a percent of our total outstanding accounts receivable at the end of each fiscal year are as follows:

| (Dollars in Millions) | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| Accounts receivable, net in Spain, Italy and Portugal | $391 | | $563 | | $457 | |
| Percentage of total accounts receivable, net | 23 | % | 32 | % | 27 | % |

Net sales to customers in Spain, Italy and Portugal totaled $645 million, $732 million and $690 million for fiscal 2012, 2011 and 2010, respectively. At the end of June 2012, we collected $248 million from the Spanish government, which related to 2011 and prior invoices. As of September 28, 2012, $28 million of the accounts receivable, net in Spain, Italy and Portugal were over 365 days past due.

Contingent Consideration

In connection with certain of our acquisitions, we may be required to pay future consideration that is contingent upon the achievement of certain revenue, regulatory or commercialization based milestones. As of the respective acquisition dates, we recorded contingent liabilities representing the estimated fair value of the contingent consideration we expected to pay to the former shareholders of the acquired businesses. We remeasure these liabilities each reporting period and record changes in the fair value in our consolidated statements of income. Increases or decreases in the fair value of the contingent consideration liability can result from changes in the timing and amount of revenue estimates or changes in the expected probability and timing of achieving regulatory or commercialization milestones, as well as changes in discount rates. During fiscal 2012 and
2011, we recorded expense of $5 million and $4 million, respectively, representing the increases in the estimated fair value of these obligations.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use judgment in making estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The following accounting policies are based on, among other things, judgments and assumptions made by management that include inherent risks and uncertainties. Management's estimates are based on the relevant information available at the end of each period.

Revenue Recognition—We recognize revenue for product sales when title and risk of loss have transferred from us to the buyer, which may be upon shipment or upon delivery to the customer site, based on contract terms or legal requirements in non-U.S. jurisdictions.

We sell products both direct to end user customers and through distributors who resell the products to end user customers. Rebates are provided to certain distributors that sell to end user customers at prices determined in accordance with a contract between us and the end user customer. Provisions for rebates, as well as sales discounts and returns, are accounted for as a reduction of sales when revenue is recognized and are included in the reserve for returns, rebates and sales allowances within accounts receivable trade on our consolidated balance sheets. We estimate

rebates based on sales terms, historical experience and trend analyses. In estimating rebates, we consider the lag time between the point of sale and the payment of the distributor's rebate claim, distributor-specific trend analyses, contractual commitments, including stated rebate rates, and other relevant information. We adjust reserves to reflect differences between estimated and actual experience, and record such adjustment as a reduction of sales in the period of adjustment. Historical adjustments to recorded reserves have not been

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significant and we do not expect significant revisions of these estimates in the future. Rebates charged against gross sales in fiscal 2012, 2011 and 2010 amounted to $3.436 billion, $3.409 billion, and $3.149 billion, respectively.

Intangible Assets—Intangible assets primarily consist of completed technology, customer relationships, trademarks and in-process research and development. We record intangible assets at cost and amortize certain of such assets using the straight-line method over ten to forty years. We review intangible assets for impairment by comparing the fair value of the assets, estimated using an income approach, with their carrying value. If the carrying value exceeds the fair value of the intangible asset, the amount recognized for impairment is equal to the difference between the carrying value of the asset and the present value of future cash flows. We assess the remaining useful life and the recoverability of finite-lived intangible assets whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. Indefinite-lived intangible assets are tested for impairment at least annually.

Goodwill—In performing goodwill assessments, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows, and transactions and market place data. There are inherent uncertainties related to these factors and judgment in applying them to the analysis of goodwill impairment. Since judgment is involved in performing goodwill valuation analyses, there is risk that the carrying value of our goodwill may be overstated or understated. We calculate our goodwill valuations using an income approach based on the present value of future cash flows of each reporting unit. This approach incorporates many assumptions including future growth rates, discount factors and income tax rates. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairment in future periods.

We test goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. We utilize a two-step approach. The first step requires a comparison of the carrying value of the reporting units to the fair value of these units. We estimate the fair value of our reporting units through internal analyses and valuation, using an income approach based on the present value of future cash flows. If the carrying value of a reporting unit exceeds its fair value, we will perform the second step of the goodwill impairment to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill with its carrying value. To determine the implied fair value of goodwill, we allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities represents the implied fair value of goodwill. The results of our annual goodwill impairment test for fiscal 2012 showed that the fair value of each of our reporting units significantly exceeded their respective carrying values.

Contingencies—We are involved, both as a plaintiff and a defendant, in various legal proceedings that arise in the ordinary course of business, including, without limitation, patent infringement, product liability and environmental matters, as further discussed in note 22 to our consolidated financial statements. Accruals recorded for various contingencies including legal proceedings, self-insurance and other claims are based on judgment, the probability of losses and, where applicable, the consideration of opinions of internal and/or external legal counsel and actuarially determined estimates. When a range is established but a best estimate cannot be made, we record the minimum loss contingency amount. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are reevaluated each accounting period, as additional information is available. When we are initially unable to develop a best estimate of loss, we record the minimum amount of loss, which could be zero. As information becomes known, additional loss provision is recorded when either a best estimate can be made or the minimum loss amount is increased. When events result in an expectation of a more favorable outcome than previously expected, our best estimate is changed to a lower amount. We record receivables from third party insurers when we have determined that existing insurance policies will provide reimbursement. In making this determination, we consider applicable deductibles, policy limits and the historical payment experience of the insurance carriers.

Pension and Postretirement Benefits—Our pension expense and obligations are developed from actuarial valuations. Two critical assumptions in determining pension expense and obligations are the discount rate and expected long-term return on plan assets. We evaluate these assumptions at least annually. Other assumptions reflect demographic factors such as retirement, mortality and turnover and are evaluated periodically and updated to reflect our actual experience. Actual results may differ from actuarial assumptions. The discount rate is used to calculate the present value of the

expected future cash flows for benefit obligations under our pension plans. For our U.S. plans, we use a broad population of Moody's AA-rated corporate bonds to determine the discount rate assumption. All bonds are non-callable, denominated in U.S. dollars and have a minimum amount outstanding of $250 million. This population of bonds was used to generate a yield curve and associated spot rate curve, to discount the projected benefit payments for the U.S. plans. The discount rate is the single level rate that produces the same result as the spot rate curve. For our non-U.S. plans, the discount rate is generally determined by reviewing country and region specific government and corporate bond interest rates. A decrease in the discount rate increases the present value of pension benefit obligations and increases pension expense. A 50 basis point decrease in the discount rate would increase our present

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value of pension obligations by approximately $72 million. We consider the current and expected asset allocations of our pension plans, as well as historical and expected long-term rates of return on those types of plan assets, in determining the expected long-term return on plan assets. A 50 basis point decrease in the expected long-term return on plan assets would increase our annual pension expense by approximately $3 million.

Guarantees—We have guarantee commitments and indemnifications with Tyco International and TE Connectivity, which relate to certain contingent tax liabilities. These arrangements were valued upon separation from Tyco International using appraisals and a liability related to these guarantees was recorded. Each reporting period, we evaluate the potential loss which we believe is probable. To the extent such potential loss exceeds the amount of the liability recorded on our consolidated balance sheet, an adjustment is recorded to increase the liability to the amount of such potential loss. To date, this guarantee has not been amortized into income because there has been no predictable pattern of performance. As a result, the liability generally will be reduced upon release from our obligations, which may not occur for some years, or, as payments are made to indemnified parties. We consider the impact of such payments in our periodic evaluation of the sufficiency of the liability.

In addition, we have, from time to time, provided guarantees and indemnifications to unrelated parties. These guarantees have not been material to our consolidated financial statements. The most significant of these guarantees relates to an indemnification, which we provided to the purchaser of our Specialty Chemicals business, primarily related to environmental, health, safety, tax and other matters. As of September 28, 2012, we have a liability of $22 million on our consolidated balance sheet related to this indemnification; however, we could be required to make payments of up to $77 million. We periodically reassess our exposure and potential loss under these arrangements, and, in the event that an increase in the fair value of the guarantee occurs, a charge to income will be required.

Income Taxes—In determining income for financial statement purposes, we must make estimates and judgments. These estimates and judgments affect the calculation of certain tax liabilities and the determination of the recoverability of certain of the deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future state, federal and international pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant
judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses.

We determine whether it is more likely than not that a tax position will be sustained upon examination. The tax benefit of any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the uncertainty. To the extent a full benefit is not realized on the uncertain tax position, an income tax liability is established. We adjust these liabilities as a result of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. A significant portion of our potential tax liabilities are recorded in non-current income taxes payable on our consolidated balance sheets as payment is not expected within one year.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes, however, which would have a material effect on our results of operations, financial condition or cash flows.

We have recorded significant valuation allowances in certain jurisdictions, which we intend to maintain until it appears to be more likely than not that some or all of those deferred tax assets will be realized. Our valuation allowances for deferred tax assets of $5.708 billion and $6.060 billion at September 28, 2012 and September 30, 2011, respectively, relate principally to the uncertainty of the utilization of certain deferred tax assets, primarily tax loss and

credit carryforwards in various jurisdictions. Included in the valuation allowance at September 28, 2012 and September 30, 2011 is $5.405 billion and $5.679 billion, respectively, substantially all of which represents a full valuation allowance against certain non-U.S. net operating losses recorded in fiscal 2008 as a result of the receipt of a favorable tax ruling. It is highly unlikely that any of this net operating loss will be utilized.

We believe that we will generate sufficient future taxable income in the appropriate jurisdictions to realize the tax benefits related to the net deferred tax assets on our consolidated balance sheets. However, any reduction in future taxable income, including any future restructuring activities, may require that we record an additional valuation allowance against our

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deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in such period and could have a significant impact on our future earnings. Our income tax expense recorded in the future may also be reduced to the extent of decreases in our valuation allowances.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued an amendment to goodwill impairment testing. This amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We are required to comply with this amendment beginning in the first quarter of fiscal 2013.

In July 2012, the FASB issued an amendment related to testing indefinite-lived intangible assets for impairment. This amendment provides companies with the option to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If the company concludes that it is more likely than not that the asset is impaired, it is required to determine the fair value of the intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying value. If the company concludes otherwise, no further quantitative assessment is required. We are required to comply with this amendment beginning in the first quarter of fiscal 2013.

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this report that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "should" or the negative of these terms or expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements.

The risk factors discussed in "Risk Factors" could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material effect on our business. We expressly disclaim any obligation to update these forward-looking statements other than as required by law.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk associated with changes in currency exchange rates, interest rates and commodity prices. In order to manage the volatility to our more significant market risks, we enter into derivative financial instruments such as forward currency exchange contracts.

Foreign Currency Exposures

Foreign currency risk arises from our investments in affiliates and subsidiaries owned and operated in foreign countries. Such risk is also a result of transactions with customers in countries outside the United States. We use foreign currency exchange forward and option contracts on accounts and notes receivable, accounts payable, intercompany loan balances and forecasted transactions denominated in certain foreign currencies. Based on a sensitivity analysis of our existing contracts, a 10% appreciation of the U.S. dollar from market rates would increase the unrealized value of contracts on our consolidated balance sheet by $54 million and $44 million as of September 28, 2012 and September 30, 2011, respectively. A 10% depreciation of the U.S. dollar would decrease the unrealized value of contracts on our consolidated balance sheet by $65 million and $54 million as of September 28, 2012 and September 30, 2011, respectively. However, such gains or losses on these contracts would ultimately be offset by the gains or losses on the revaluation or settlement of the underlying transactions.

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Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and schedule specified by this Item, together with the report thereon of Deloitte & Touche LLP, are presented following Item 15 of this report:

Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income for fiscal years ended September 28, 2012, September 30, 2011 and September 24, 2010

Consolidated Statements of Comprehensive Income for fiscal years ended September 28, 2012, September 30, 2011 and September 24, 2010

Consolidated Balance Sheets at September 28, 2012 and September 30, 2011

Consolidated Statements of Shareholders' Equity for fiscal years ended September 28, 2012, September 30, 2011 and September 24, 2010

Consolidated Statements of Cash Flows for fiscal years ended September 28, 2012, September 30, 2011 and September 24, 2010

Notes to Consolidated Financial Statements

Financial Statement Schedule:

Schedule II—Valuation and Qualifying Accounts

All other financial statements and schedules have been omitted since the information required to be submitted has been included in the consolidated financial statements and related notes or because they are either not applicable or not required under the rules of Regulation S-X.

Information on quarterly results of operations is set forth in note 24 to our consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) or 15d-15(f)) as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of that date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Exchange Act Rules 13a-15(f) and 15d-15(f). Our 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 accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

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- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

- 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.

Management assessed the effectiveness of our internal control over financial reporting as of September 28, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on our assessment, we believe that our internal controls over financial reporting were effective as of September 28, 2012.

Our internal control over financial reporting as of September 28, 2012 has been audited by Deloitte & Touche LLP, the independent registered public accounting firm that audited and reported on the consolidated financial statements included in this Annual Report on Form 10-K. Their report is also included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 28, 2012 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Information concerning Directors, including committees of our Board of Directors, may be found under the captions "Proposal One—Election of Directors," "Board of Directors and Board Committees," and "Corporate Governance," in our definitive proxy statement for our 2013 Annual General Meeting of Shareholders (the "2013 Proxy Statement"). Such information is incorporated herein by reference. Information regarding our executive officers is included at the end of Part 1 of this Annual Report on Form 10-K. The information in the 2013 Proxy Statement set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference. Information regarding shareholder communications with our Board of Directors may be found under the caption "Corporate Governance" in our 2013 Proxy statement and is incorporated herein by reference.

Code of Ethics

We have adopted the Covidien Guide to Business Conduct, which applies to all employees, officers and directors of Covidien. Our Guide to Business Conduct meets the requirements of a "code of ethics" as defined by Item 406 of Regulation S-K and applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as well as all other employees, as indicated above. Our Guide to Business Conduct also meets the requirements of a code of business conduct and ethics under the listing standards of the New York Stock Exchange, Inc. Our Guide to Business Conduct is posted on our website at www.covidien.com under the heading "Investor Relations—Corporate Governance." We will also provide a copy of our Guide to Business Conduct to shareholders upon request. We intend to disclose any amendments to our Guide to Business Conduct, as well as any waivers for executive officers or directors, on our website.

Item 11. Executive Compensation

Information concerning executive compensation may be found under the captions "Compensation of Executive Officers" and "Compensation of Non-Employee Directors" in our 2013 Proxy Statement. Such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in our 2013 Proxy Statement set forth under the captions "Equity Compensation Plan Information" and "Security Ownership of Management and Certain Beneficial Owners" is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information in our 2013 Proxy Statement set forth under the captions "Transactions with Related Persons" and "Corporate Governance—Independence of Nominees for Director" is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information in our 2013 Proxy Statement set forth under the captions "Proposal Two—Appointment of Independent Auditors and Authorization of the Audit Committee to Set Their Remuneration," "Audit and Audit Committee Matters" is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) and (2) See Item 8—Consolidated Financial Statements and Supplementary Data.

(3) Exhibit Index:

| Exhibit Number | Exhibit |
|---|---|
| 2.1 | Separation and Distribution Agreement by and among Tyco International Ltd., Covidien Ltd., and Tyco Electronics Ltd., dated as of June 29, 2007 (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). |
| 3.1 | Memorandum and Articles of Association of Covidien plc, as amended (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on March 16, 2012). |
| 3.2 | Certificate of Incorporation of Covidien plc (Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on June 5, 2009). |
| 4.1(a) | Indenture by and among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee), dated as of October 22, 2007 (Incorporated by reference to Exhibit 4.1(a) to the Registrant's Current Report on Form 8-K filed on October 22, 2007). |
| 4.1(b) | First Supplemental Indenture by and among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee), dated as of October 22, 2007 (Incorporated by reference to Exhibit 4.1(b) to the Registrant's Current Report on Form 8-K filed on October 22, 2007). |
| 4.1(c) | Second Supplemental Indenture by and among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee), dated as of October 22, 2007 (Incorporated by reference to Exhibit 4.1(c) to the Registrant's Current Report on Form 8-K filed on October 22, 2007). |
| 4.1(d) | Third Supplemental Indenture by and among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee), dated as of October 22, 2007 (Incorporated by reference to Exhibit 4.1(d) to the Registrant's Current Report on Form 8-K filed on October 22, 2007). |
| 4.1(e) | Fourth Supplemental Indenture by and among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee), dated as of October 22, 2007 (Incorporated by reference to Exhibit 4.1(e) to the Registrant's Current Report on Form 8-K filed on October 22, 2007). |
| 4.1(f) | Fifth Supplemental Indenture by and among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor), Covidien plc (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee), dated June 4, 2009 (Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 5, 2009). |
| 4.1(g) | Sixth Supplemental Indenture, dated as of June 28, 2010, among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor), Covidien plc (as Guarantor) and Deutsche Bank Trust Company |

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|---|---|
| | Americas (as Trustee) (Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 28, 2010). |
| 4.1(h) | Seventh Supplemental Indenture, dated as of May 30, 2012, among Covidien International Finance S.A. (as Issuer), Covidien Ltd. (as Guarantor), Covidien plc (as Guarantor) and Deutsche Bank Trust Company Americas (as Trustee) (Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on May 30, 2012). |

No other instruments defining the rights of holders of long-term debt are filed since the total amount of securities authorized under any such instrument does not exceed 10% of the total assets of the Registrant on a consolidated basis. The Company agrees to furnish a copy of such instruments to the SEC upon request.

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| Exhibit Number | Exhibit |
|---|---|
| 10.1 | Tax Sharing Agreement by and among Tyco International Ltd., Covidien Ltd., and Tyco Electronics Ltd., dated as of June 29, 2007 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). |
| 10.2 | FY09 Grant U.S. Option Terms and Conditions (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 25, 2008).(1) |
| 10.3 | FY09 Grant U.S. Restricted Stock Unit Terms and Conditions (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 25, 2008).(1) |
| 10.4 | Form of Non-Competition, Non-Solicitation, and Confidentiality Agreement for executive officers and certain key employees, other than Richard J. Meelia (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on January 29, 2009).(1) |
| 10.5 | Covidien 2007 Stock and Incentive Plan (as amended and restated) (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 5, 2009).(1) |
| 10.6 | Covidien Employee Stock Purchase Plan (as amended and restated) (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 5, 2009).(1) |
| 10.7 | Deed Poll of Assumption relating to Covidien Ltd. Employee Equity Plans, dated June 4, 2009 (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on June 5, 2009).(1) |
| 10.8 | Director Grant Restricted Stock Unit Terms and Conditions (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 23, 2009).(1) |
| 10.9 | Founders' Grant Standard Option Terms and Conditions (Incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on July 5, 2007).(1) |
| 10.10 | Covidien Severance Plan for U.S. Officers and Executives, as amended and restated (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on April 30, 2010).(1) |
| 10.11 | Amended and Restated Covidien Change in Control Severance Plan for Certain U.S. Officers and Executives (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 6, 2011).(1) |
| 10.12 | Covidien Supplemental Savings and Retirement Plan, as amended and restated (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on January 26, 2010).(1) |
| 10.13 | Founders' Grant Standard Option Terms and Conditions for Directors (Incorporated by reference to Exhibit 10.13 to the Registrant's Current Report on Form 8-K filed on July 5, 2007).(1) |
| 10.14 | Form of Deed of Indemnification for Directors and Secretary of Covidien plc (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on June 5, 2009). |

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|---|---|
| 10.15 | Five-Year Senior Credit Agreement among Covidien International Finance S.A., Covidien plc, the lenders party thereto and Citibank, N.A., as administrative agent, dated as of August 9, 2011 (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on August 15, 2011). |
| 10.16 | Form of Terms and Conditions of Option Award (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on January 26, 2010).[1] |
| 10.17 | Form of Terms and Conditions of Restricted Unit Award (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on January 26, 2010).[1] |
| 10.18 | Form of Terms and Conditions of Performance Unit Award (Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on January 26, 2010).[1] |
| 10.19 | Form of Terms and Conditions of Performance Unit Award FY11-FY13 Asia Growth Incentive (Incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K filed on November 22, 2011).[1] [2] |
| 10.20 | Letter Agreement, dated as of February 9, 2012, by and between the Registrant and Mark Trudeau (filed herewith).[1] [3] |
| 10.21 | Non-Competition, Non-Solicitation, and Confidentiality Agreement, dated as of February 3, 2012, by and between the Company and Mark Trudeau (filed herewith).[1] |

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| Exhibit Number | Exhibit |
|---|---|
| 21.1 | Subsidiaries of the registrant (filed herewith). |
| 23.1 | Consent of Deloitte and Touche LLP (filed herewith). |
| 24.1 | Power of Attorney (included on signature page hereto). |
| 31.1 | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 | Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 101 | The following materials from the Covidien plc Annual Report on Form 10-K for the fiscal year ended September 28, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Shareholders' Equity (v) the Consolidated and Statements of Cash Flows and (vi) related notes. |

(1) Management contract or compensatory plan.

(2) Confidential treatment granted as to certain terms in this agreement; these terms have been omitted from this filing and filed separately with the Securities and Exchange Commission.

(3) Confidential treatment requested as to certain terms in this agreement; these terms have been omitted from this filing and filed separately with the Securities and Exchange Commission.

(b) See Item 15(a)(3) above.

(c) See Item 15(a)(2) above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COVIDIEN PUBLIC LIMITED COMPANY

By: /S/ RICHARD G. BROWN, JR.
Richard G. Brown, Jr.
Vice President, Chief Accounting Officer
and Corporate Controller
(Principal Accounting Officer)

By: /S/ CHARLES J. DOCKENDORFF
Charles J. Dockendorff
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: November 15, 2012

We, the undersigned officers and directors of Covidien plc, hereby severally constitute and appoint John H. Masterson to sign for us and in our names in the capacities indicated below, any and all amendments to the report on Form 10-K filed herewith, and to file the same, with all exhibits thereto and other documents in connection therewith, in each case, with the Securities and Exchange Commission, and generally to do all such things in our names and on our behalf in our capacities consistent with the provisions of the Securities Act of 1934, as amended, and all requirements of the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|---|
| /S/ JOSÉ E. ALMEIDA<br>José E. Almeida | Chairman, President and Chief Executive Officer<br>(Principal Executive Officer) | November 15, 2012 |
| /S/ CHARLES J. DOCKENDORFF<br>Charles J. Dockendorff | Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) | November 15, 2012 |
| /S/ RICHARD G. BROWN, JR.<br>Richard G. Brown, Jr. | Vice President, Chief Accounting Officer and Corporate Controller<br>(Principal Accounting Officer) | November 15, 2012 |
| /S/ JOY A. AMUNDSON<br>Joy A. Amundson | Director | November 15, 2012 |
| /S/ CRAIG ARNOLD<br>Craig Arnold | Director | November 15, 2012 |
| /S/ ROBERT H. BRUST | Director | November 15, 2012 |

Robert H. Brust

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| Name | Title | Date |
|---|---|---|
| /S/ JOHN M. CONNORS, JR.<br>John M. Connors, Jr. | Director | November 15, 2012 |
| /S/ CHRISTOPHER J. COUGHLIN<br>Christopher J. Coughlin | Director | November 15, 2012 |
| /S/ TIMOTHY M. DONAHUE<br>Timothy M. Donahue | Director | November 15, 2012 |
| /S/ RANDALL J. HOGAN, III<br>Randall J. Hogan, III | Director | November 15, 2012 |
| /S/ MARTIN D. MADAUS<br>Martin D. Madaus | Director | November 15, 2012 |
| /S/ DENNIS H. REILLEY<br>Dennis H. Reilley | Director | November 15, 2012 |
| /S/ JOSEPH A. ZACCAGNINO<br>Joseph A. Zaccagnino | Director | November 15, 2012 |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Covidien plc:

We have audited the accompanying consolidated balance sheets of Covidien plc and subsidiaries (collectively the "Company") as of September 28, 2012 and September 30, 2011 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended September 28, 2012. Our audits also included the financial statement schedule listed in the Index at Item 8. We also have audited the Company's internal control over financial reporting as of September 28, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits 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 the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 28, 2012 and September 30, 2011, and the results of its operations and its cash flows for each of the three fiscal years in the period ended September 28, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2012, based

on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in note 1 to the consolidated financial statements, in 2012, the Company changed its presentation of comprehensive income to conform to new authoritative guidance issued by the Financial Accounting Standards Board.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

November 15, 2012

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COVIDIEN PLC
CONSOLIDATED STATEMENTS OF INCOME
Fiscal Years Ended September 28, 2012, September 30, 2011 and September 24, 2010
(in millions, except per share data)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net sales | $11,852 | $11,574 | $10,429 |
| Cost of goods sold | 5,038 | 4,996 | 4,624 |
| Gross profit | 6,814 | 6,578 | 5,805 |
| Selling, general and administrative expenses | 3,686 | 3,527 | 3,219 |
| Research and development expenses | 623 | 554 | 447 |
| Restructuring charges, net | 91 | 122 | 76 |
| Operating income | 2,414 | 2,375 | 2,063 |
| Interest expense | (206) | (203) | (199) |
| Interest income | 16 | 22 | 22 |
| Other income, net | 25 | 22 | 40 |
| Income from continuing operations before income taxes | 2,249 | 2,216 | 1,926 |
| Income tax expense | 347 | 333 | 363 |
| Income from continuing operations | 1,902 | 1,883 | 1,563 |
| Income (loss) from discontinued operations, net of tax | 3 | (15) | 69 |
| Net income | $1,905 | $1,868 | $1,632 |
| Basic earnings per share: | | | |
| Income from continuing operations | $3.96 | $3.82 | $3.13 |
| Income (loss) from discontinued operations | 0.01 | (0.03) | 0.14 |
| Net income | 3.96 | 3.79 | 3.26 |
| Diluted earnings per share: | | | |
| Income from continuing operations | $3.92 | $3.79 | $3.10 |
| Income (loss) from discontinued operations | 0.01 | (0.03) | 0.14 |
| Net income | 3.92 | 3.76 | 3.24 |
| Weighted-average number of shares outstanding: | | | |
| Basic | 481 | 493 | 500 |
| Diluted | 486 | 497 | 504 |
| Cash dividends declared per ordinary share | $0.94 | $0.83 | $0.74 |

See Notes to Consolidated Financial Statements.

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COVIDIEN PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Fiscal Years Ended September 28, 2012, September 30, 2011 and September 24, 2010
(in millions)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net income | $1,905 | $1,868 | $1,632 |
| Other comprehensive (loss) income, net of tax | | | |
| Foreign currency translation adjustments | (93) | 20 | (150) |
| Unrecognized (loss) gain on benefit plans | (24) | 21 | (30) |
| Unrecognized gain on derivatives | 4 | 7 | 1 |
| Total other comprehensive (loss) income, net of tax | (113) | 48 | (179) |
| Comprehensive income | $1,792 | $1,916 | $1,453 |

See Notes to Consolidated Financial Statements.

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COVIDIEN PLC
CONSOLIDATED BALANCE SHEETS
At September 28, 2012 and September 30, 2011
(in millions, except share data)

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $1,866 | $1,503 |
| Accounts receivable trade, less allowance for doubtful accounts of $40 and $39 | 1,702 | 1,744 |
| Inventories | 1,772 | 1,513 |
| Prepaid expenses and other current assets | 342 | 488 |
| Deferred income taxes | 590 | 525 |
| Total current assets | 6,272 | 5,773 |
| Property, plant and equipment, net | 2,872 | 2,705 |
| Goodwill | 8,542 | 7,683 |
| Intangible assets, net | 3,085 | 2,764 |
| Due from former parent and affiliate | 609 | 583 |
| Other assets | 877 | 866 |
| Total Assets | $22,257 | $20,374 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | $509 | $11 |
| Accounts payable | 589 | 576 |
| Accrued and other current liabilities | 1,814 | 1,813 |
| Total current liabilities | 2,912 | 2,400 |
| Long-term debt | 4,531 | 4,197 |
| Income taxes payable | 1,696 | 1,629 |
| Guaranteed contingent tax liabilities | 585 | 555 |
| Deferred income taxes | 828 | 745 |
| Other liabilities | 1,140 | 1,031 |
| Total Liabilities | 11,692 | 10,557 |
| Commitments and contingencies (note 22) | | |
| Shareholders' Equity: | | |
| Preference shares, $0.20 par value, 125,000,000 authorized; none issued | — | — |
| Ordinary shares, $0.20 par value, 1,000,000,000 authorized; 520,943,253 and 513,786,482 issued | 104 | 103 |
| Ordinary shares held in treasury at cost; 48,774,997 and 31,828,437 | (2,368) | (1,436) |
| Additional paid-in capital | 7,179 | 6,844 |
| Retained earnings | 5,365 | 3,908 |
| Accumulated other comprehensive income | 285 | 398 |
| Total Shareholders' Equity | 10,565 | 9,817 |
| Total Liabilities and Shareholders' Equity | $22,257 | $20,374 |

See Notes to Consolidated Financial Statements.

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COVIDIEN PLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Fiscal Years Ended September 28, 2012, September 30, 2011 and September 24, 2010
(in millions)

| | Ordinary Shares | | Treasury Shares | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Number | Par Value | Number | Amount | | | | |
| Balance at Balance at September 25, 2009 | 503 | $101 | (4) | $(155) | $ 6,344 | $1,182 | $ 529 | $ 8,001 |
| Net income | — | — | — | — | — | 1,632 | — | 1,632 |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (179) | (179) |
| Vesting of restricted shares | 1 | — | — | — | — | — | — | — |
| Dividends declared | — | — | — | — | — | (370) | — | (370) |
| Repurchase of shares | — | — | (8) | (331) | — | — | — | (331) |
| Share options exercised | 3 | — | — | 2 | 110 | — | — | 112 |
| Share-based compensation | — | — | — | — | 91 | — | — | 91 |
| Adjustments to income taxes assumed upon separation from Tyco International | — | — | — | — | 18 | — | — | 18 |
| Balance at Balance at September 24, 2010 | 507 | 101 | (12) | (484) | 6,563 | 2,444 | 350 | 8,974 |
| Net income | — | — | — | — | — | 1,868 | — | 1,868 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 48 | 48 |
| Vesting of restricted shares | 1 | — | — | — | — | — | — | — |
| Dividends declared | — | — | — | — | — | (404) | — | (404) |
| Repurchase of shares | — | — | (19) | (955) | — | — | — | (955) |
| Share options exercised | 5 | 2 | — | 3 | 182 | — | — | 187 |
| Share-based compensation | — | — | — | — | 99 | — | — | 99 |
| Issuance and transfer of shares to treasury | 1 | — | (1) | — | — | — | — | — |
| Balance at Balance at September 30, 2011 | 514 | 103 | (32) | (1,436) | 6,844 | 3,908 | 398 | 9,817 |
| Net income | — | — | — | — | — | 1,905 | — | 1,905 |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (113) | (113) |
| Vesting of restricted shares | 1 | — | — | — | — | — | — | — |
| Dividends declared | — | — | — | — | — | (448) | — | (448) |
| Repurchase of shares | — | — | (17) | (932) | — | — | — | (932) |
| Share options exercised | 6 | 1 | — | — | 248 | — | — | 249 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Share-based compensation | — | — | — | — | 87 | — | — | 87 |
| Balance at Balance at September 28, 2012 | 521 | $104 | (49) | $(2,368) | $ 7,179 | $5,365 | $ 285 | $ 10,565 |

See Notes to Consolidated Financial Statements.

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COVIDIEN PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal Years Ended September 28, 2012, September 30, 2011 and September 24, 2010
(in millions)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net income | $1,905 | $1,868 | $1,632 |
| (Income) loss from discontinued operations, net of tax | (3) | 15 | (69) |
| Income from continuing operations | 1,902 | 1,883 | 1,563 |
| Adjustments to reconcile net cash provided by continuing operating activities: | | | |
| Depreciation and amortization | 633 | 599 | 489 |
| Share-based compensation | 87 | 99 | 89 |
| Deferred income taxes | (54) | 100 | (162) |
| Provision for losses on accounts receivable and inventory | 50 | 73 | 76 |
| (Gain) loss on divestitures, net | — | (11) | 25 |
| Other non-cash items | 39 | 19 | 51 |
| Changes in assets and liabilities, net of the effects of acquisitions and divestitures: | | | |
| Accounts receivable, net | 24 | (9) | (7) |
| Inventories | (275) | (203) | (49) |
| Accounts payable | 2 | (13) | 68 |
| Income taxes | 111 | (423) | 312 |
| Accrued and other liabilities | (32) | 69 | (200) |
| Other | (62) | (1) | (70) |
| Net cash provided by continuing operating activities | 2,425 | 2,182 | 2,185 |
| Cash Flows From Investing Activities: | | | |
| Capital expenditures | (526) | (467) | (401) |
| Acquisition-related payments, net of cash acquired | (1,134) | (13) | (3,012) |
| Acquisition of licenses and technology | (52) | (6) | (70) |
| Divestitures, net of cash retained by businesses sold | — | 8 | 263 |
| Sale of investments | 31 | 17 | 54 |
| Decrease (increase) in restricted cash | 10 | (2) | (29) |
| Other | (7) | (17) | — |
| Net cash used in continuing investing activities | (1,678) | (480) | (3,195) |
| Cash Flows From Financing Activities: | | | |
| Net issuance (repayment) of commercial paper | 95 | (282) | 246 |
| Issuance of debt | 1,240 | — | 1,489 |
| Repayment of debt | (557) | (258) | (88) |
| Dividends paid | (434) | (396) | (360) |
| Repurchase of shares | (932) | (955) | (331) |
| Proceeds from exercise of share options | 241 | 176 | 107 |
| Payment of contingent consideration | (47) | (71) | — |
| Other | 11 | 15 | (3) |
| Net cash (used in) provided by continuing financing activities | (383) | (1,771) | 1,060 |
| Discontinued Operations: | | | |
| Net cash provided by discontinued operating activities | — | — | 46 |
| Net cash used in discontinued investing activities | — | — | (11) |

| | | | |
|---|---|---|---|
| Net cash provided by discontinued operations | — | — | 35 |
| Effect of currency rate changes on cash | (1) | 7 | 13 |
| Net increase (decrease) in cash and cash equivalents | 363 | (62) | 98 |
| Cash and cash equivalents at beginning of year | 1,503 | 1,565 | 1,467 |
| Cash and cash equivalents at end of year | $1,866 | $1,503 | $1,565 |
| Supplementary Cash Flow Information: | | | |
| Interest paid | $210 | $209 | $175 |
| Income taxes paid, net of refunds | $278 | $675 | $240 |

See Notes to Consolidated Financial Statements.

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COVIDIEN PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Basis of Presentation and Summary of Significant Accounting Policies
Basis of Presentation—The accompanying financial statements reflect the consolidated operations of Covidien plc, a company incorporated in Ireland, and its subsidiaries. The consolidated financial statements have been prepared in United States dollars, in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results may differ from those estimates.
Separation from Tyco International Ltd—Effective June 29, 2007, Covidien became the parent company owning the former healthcare businesses of Tyco International Ltd. On June 29, 2007, Tyco International distributed all of its shares of Covidien, as well as its shares of its former electronics businesses (TE Connectivity Ltd.), to Tyco International shareholders.
Fiscal Year—The Company reports its results based on a “52-53 week” year ending on the last Friday of September. Fiscal 2012 and 2010 consisted of 52 weeks and ended on September 28, 2012 and September 24, 2010, respectively. Fiscal 2011 ended on September 30, 2011 and consisted of 53 weeks. The additional week in fiscal 2011 has been reflected in the Company’s fourth quarter.
Principles of Consolidation—The Company consolidates entities in which it owns or controls more than fifty percent of the voting shares or has the ability to control through similar rights. All intercompany transactions have been eliminated. The results of entities acquired or disposed of are included in the consolidated financial statements from the effective date of acquisition or up to the date of disposal.
Revenue Recognition—The Company recognizes revenue for product sales when title and risk of loss have transferred from the Company to the buyer, which may be upon shipment or upon delivery to the customer site, based on contract terms or legal requirements in non-U.S. jurisdictions.
Customers may also require the Company to maintain consignment inventory at the customer’s location. The Company recognizes revenues and costs associated with consignment inventory upon the notification of usage by the customer.
The Company sells products both direct to end user customers and through distributors who resell the products to end user customers. Rebates are provided to certain distributors that sell to end user customers at prices determined in accordance with a contract between the Company and the end user customer. Provisions for rebates, as well as sales discounts and returns, are accounted for as a reduction of sales when revenue is recognized and are included in the reserve for returns, rebates and sales allowances within accounts receivable trade on the consolidated balance sheets. Rebates are estimated based on sales terms, historical experience and trend analyses. In estimating rebates, the Company considers the lag time between the point of sale and the payment of the distributor’s rebate claim, distributor-specific sales trend analyses, contractual commitments, including stated rebate rates, and other relevant information. The Company adjusts reserves to reflect differences between estimated and actual experience, and records such adjustment as a reduction of sales in the period of adjustment. Rebates charged against gross sales amounted to $3.436 billion, $3.409 billion and $3.149 billion in fiscal 2012, 2011 and 2010, respectively.
In certain circumstances, the Company enters into arrangements in which it provides multiple deliverables to its customers. Agreements with multiple deliverables are divided into separate units of accounting. Total revenue is first allocated among the deliverables based upon their relative fair values. Revenue is then recognized for each deliverable in accordance with the principles described above. Fair values are determined based on the prices at which the individual deliverables are regularly sold to other third parties.
Taxes collected from customers relating to product sales and remitted to governmental authorities are accounted for on a net basis. Accordingly, such taxes are excluded from both net sales and expenses.
Shipping and Handling Costs—Shipping and handling costs are included in cost of goods sold.
Research and Development—Internal research and development costs are expensed as incurred. Research and development expenses include salary and benefits, allocated overhead and occupancy costs, clinical trial and related clinical manufacturing costs, contract services and other costs.

Amounts related to research and development collaborations with third parties are expensed as incurred up to the point of regulatory approval. Third-party costs, including certain licensing related payments, subsequent to regulatory approval are

capitalized and amortized over the estimated useful life of the related product. Amounts capitalized for such costs are included in intangible assets, net of accumulated amortization.

Advertising—Advertising costs are expensed when incurred. Advertising expense was $64 million, $67 million and $65 million in fiscal 2012, 2011 and 2010, respectively, and is included in selling, general and administrative expenses.

Currency Translation—For the Company's non-U.S. subsidiaries that transact in a functional currency other than U.S. dollars and do not operate in highly inflationary environments, assets and liabilities are translated into U.S. dollars using year-end exchange rates. Revenues and expenses are translated at the average exchange rates in effect during the related month. The net effect of these translation adjustments is shown in the consolidated financial statements as a component of accumulated other comprehensive income within shareholders' equity. For subsidiaries operating in highly inflationary environments or where the functional currency is different from local currency, non-monetary assets and liabilities are translated at the rate of exchange in effect on the date the assets were acquired, while monetary assets and liabilities are translated at year-end exchange rates. Translation adjustments of these subsidiaries are included in net income. Gains and losses resulting from foreign currency transactions are also included in net income.

Cash and Cash Equivalents—The Company considers all highly liquid investments purchased with maturities of three months or less from the time of purchase to be cash equivalents.

Allowance for Doubtful Accounts—The allowance for doubtful accounts receivable reflects the best estimate of losses inherent in the Company's accounts receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other available evidence. Accounts receivable are written off when management determines they are uncollectible.

Inventories—Inventories are recorded at the lower of cost or market value, primarily using the first-in, first-out convention. The Company reduces the carrying value of inventories for those items that are potentially excess, obsolete or slow-moving based on changes in customer demand, technology developments or other economic factors.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while routine maintenance and repairs are expensed as incurred. Depreciation for property, plant and equipment assets, other than land and construction in progress, is based upon the following estimated useful lives, using the straight-line method:

| | | | |
|---|---|---|---|
| Buildings and related improvements | 2 | to | 40 years |
| Machinery and equipment | 2 | to | 20 years |

The Company capitalizes certain computer software and development costs incurred in connection with developing or obtaining software for internal use. These costs are included in machinery and equipment and are amortized over the estimated useful lives of the software.

Upon retirement or other disposal of property, plant and equipment, the cost and related amount of accumulated depreciation are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is included in net income.

The Company assesses the recoverability of assets using undiscounted cash flows whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. If an asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value of the asset and the present value of future cash flows or other reasonable estimate of fair value.

Business Combinations—Amounts paid for acquisitions are allocated to the tangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The Company then allocates the purchase price in excess of net tangible assets acquired to identifiable intangible assets, including purchased research and development. The fair value of identifiable intangible assets is based on detailed valuations that use information and assumptions provided by management. The Company allocates any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill.

The Company’s purchased research and development represents the estimated fair value as of the acquisition date of in-process projects that have not reached technological feasibility. The primary basis for determining technological feasibility of these projects is obtaining regulatory approval.

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COVIDIEN PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The valuation of in-process research and development (IPR&D) is determined using the discounted cash flow method. In determining the value of IPR&D, the Company considers, among other factors, appraisals, the stage of completion of the projects, the technological feasibility of the projects, whether the projects have an alternative future use and the estimated residual cash flows that could be generated from the various projects and technologies over their respective projected economic lives. The discount rate used is determined at the time of acquisition and includes a rate of return which accounts for the time value of money, as well as risk factors that reflect the economic risk that the cash flows projected may not be realized.

The value attributable to IPR&D projects at the time of acquisition is capitalized as an indefinite-lived intangible asset and tested for impairment until the project is completed or abandoned. Upon completion of the project, the indefinite-lived intangible asset is then accounted for as a finite-lived intangible asset and amortized on a straight-line basis over its estimated useful life. If the project is abandoned, the indefinite-lived intangible asset is charged to expense.

Goodwill and Other Intangible Assets—Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to assets and liabilities assumed in a business combination. The Company tests goodwill for impairment during the fourth quarter of each year, or more frequently if impairment indicators arise. The Company utilizes a two-step approach. The first step requires a comparison of the carrying value of the reporting units to the fair value of these units. The Company estimates the fair value of its reporting units through internal analyses and valuation, utilizing an income approach based on the present value of future cash flows. If the carrying value of a reporting unit exceeds its fair value, the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit’s goodwill with its carrying value. To determine the implied fair value of goodwill, the Company allocates the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the value of a reporting unit over the amounts assigned to its assets and liabilities represents the implied fair value of goodwill.

Intangible assets acquired in a business combination are recorded at fair value, while intangible assets acquired in other transactions are recorded at cost. Intangible assets with finite useful lives are amortized using the straight-line method over the following estimated useful lives of the assets:

| | | | |
|---|---|---|---|
| Completed technology | 5 | to | 25 years |
| Customer relationships | 3 | to | 30 years |
| Other | 3 | to | 40 years |

Amortization expense related to completed technology and certain other intangible assets is included in cost of goods sold, while amortization expense related to intangible assets that contribute to the Company's ability to sell, market and distribute products is included in selling, general and administrative expenses. The Company reviews intangible assets for impairment by comparing the fair value of the assets, estimated using an income approach, with their carrying value. If the carrying value exceeds the fair value of the intangible asset, the amount recognized for impairment is equal to the difference between the carrying value of the asset and the present value of future cash flows. The Company assesses the remaining useful life and the recoverability of finite-lived intangible assets whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. Indefinite-lived intangible assets are tested for impairment at least annually.

Costs Associated with Exit Activities—The Company accrues employee termination costs associated with ongoing benefit arrangements, which includes benefits provided as part of the Company’s domestic severance policy or that are provided in accordance with international statutory requirements, if the obligation is attributed to prior services rendered, the rights to the benefits have vested and the payment is probable and the amount can be reasonably estimated. The Company generally records employee termination benefits that represent a one-time benefit into expense over the future service period, if any. In addition, in conjunction with an exit activity, the Company may offer

voluntary termination benefits to employees. These benefits are recorded when the employee accepts the termination benefits and the amount can be reasonably estimated. Other costs associated with exit activities may include distributor cancellation fees, costs related to leased facilities to be abandoned or subleased and asset impairments.
Environmental Costs—The Company is subject to laws and regulations relating to protecting the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. The Company discounts environmental liabilities using a risk-free rate of return when the obligation is fixed or reasonably determinable. The impact of the discount was not material in any period presented.

Asset Retirement Obligations—The Company establishes asset retirement obligations for certain assets at the time they are installed. The fair values of these obligations are recorded as liabilities, discounted to present value. The costs associated with these liabilities are also capitalized as part of the related assets and depreciated. The recorded liabilities are accreted to the future value of the estimated retirement costs. The accretion of the liability and the depreciation of the capitalized cost are recognized over the estimated useful lives of the assets.

Guaranteed Tax Liabilities—The Company has guarantee commitments and indemnifications with Tyco International and TE Connectivity, which relate to certain contingent tax liabilities. These arrangements were valued upon separation from Tyco International using appraisals and a liability related to these guarantees was recorded. Each reporting period, the Company evaluates the potential loss which it believes is probable. To the extent such potential loss exceeds the amount of the liability recorded on the consolidated balance sheet, an adjustment is recorded to increase the liability to the amount of such potential loss. To date, this guarantee has not been amortized into income because there has been no predictable pattern of performance. As a result, the liability generally will be reduced upon the Company's release from its obligations, which may not occur for some years, or, as payments are made to indemnified parties. The impact of such payments is considered in the periodic evaluation of the sufficiency of the liability.

Income Taxes—Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book and tax bases of assets and liabilities and operating loss carryforwards, using tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination. The tax benefit of any tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the uncertainty. To the extent a full benefit is not expected to be realized on the uncertain tax position, an income tax liability is established. Interest and penalties on income tax obligations, including uncertain tax positions, are included in income tax expense.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across the Company's global operations. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from current estimates of the tax liabilities. If the Company's estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities may result in income tax benefits being recognized in the period when it is determined that the liabilities are no longer necessary. A significant portion of these potential tax liabilities are recorded in non-current income taxes payable on the consolidated balance sheets as payment is not expected within one year.

Recently Adopted Accounting Pronouncements—In May 2011, the Financial Accounting Standards Board (FASB) updated the accounting guidance related to fair value measurements. This amendment results in convergence of fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. The Company adopted this amendment in fiscal 2012. The required disclosures regarding fair value measurements are presented in note 15.

In December and June 2011, the FASB issued an amendment to the requirements for the presentation of comprehensive income. Under this amendment, the Company can present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company early adopted this amendment in fiscal 2012 and elected to present this information in two separate statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. Acquisitions and License Agreement

CNS Therapeutics, Inc.—On October 1, 2012, the Company's Pharmaceuticals segment acquired all of the outstanding equity of CNS Therapeutics, Inc., a pharmaceuticals company focused on developing and commercializing products for site-specific administration to the central nervous system to treat neurological disorders and chronic pain, for approximately $100 million. The acquisition of CNS Therapeutics complements and expands the Company's branded product portfolio.

Fiscal 2012 Acquisitions

MindFrame, Inc.—On July 2, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of MindFrame, Inc., a designer and manufacturer of devices designed to optimize rapid perfusion and clot removal in the treatment of patients suffering from ischemic stroke, for total consideration of $72 million. The total consideration was comprised of a cash payment of $70 million (net of cash acquired of $4 million) and debt assumed of $2 million, which was subsequently repaid. The acquisition of MindFrame broadens the Company's product offerings for the treatment of acute ischemic stroke.

Oridion Systems Ltd.—On June 26, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of Oridion Systems Ltd. (Oridion), a developer of patient monitoring systems, for a cash payment of $327 million (net of cash acquired of $10 million). The acquisition of Oridion complements the Company's existing product portfolio of pulse oximeters and monitoring products.

superDimension, Ltd.—On May 15, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of superDimension, Ltd., a developer of minimally invasive interventional pulmonology devices, for total consideration of $286 million. The total consideration was comprised of an upfront cash payment of $243 million (net of cash acquired of $8 million), debt assumed of $21 million, which was subsequently repaid, and the fair value of contingent consideration of $22 million. Note 15 provides additional information regarding the contingent consideration. The acquisition of superDimension allows the Company to deliver more comprehensive solutions in the evaluation and treatment of lung disease.

Newport Medical Instruments, Inc.—On May 1, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of Newport Medical Instruments, Inc. (Newport), a designer and manufacturer of ventilators, for total consideration of $101 million. The total consideration was comprised of a cash payment of $92 million (net of cash acquired of $2 million) and debt assumed of $9 million, which was subsequently repaid. The acquisition of Newport complements the Company's existing portfolio of acute care and home care ventilation solutions and broadens the Company's ventilation platforms.

Maya Medical—On April 20, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of Maya Medical (Maya), a developer of a treatment for hypertension, for total consideration of $106 million. The total consideration was comprised of an upfront cash payment of $49 million, debt assumed of $10 million, which was subsequently repaid, and the fair value of contingent consideration of $47 million. Note 15 provides additional information regarding the contingent consideration. The acquisition of Maya expands the Company's ability to treat vascular diseases by allowing it to enter the hypertension market.

BÂRRX Medical, Inc.—On January 5, 2012, the Company's Medical Devices segment acquired all of the outstanding equity of BÂRRX Medical, Inc. (BÂRRX), a developer of bipolar radiofrequency ablation devices used in the treatment of Barrett's esophagus syndrome, for total consideration of $393 million. The total purchase consideration was comprised of an upfront cash payment of $322 million (net of cash acquired of $16 million) and the fair value of contingent consideration of $71 million, of which $50 million was paid during fiscal 2012. Note 15 provides additional information regarding the contingent consideration. The acquisition of BÂRRX expands the Company's ability to treat gastrointestinal diseases.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value Allocation of Assets Acquired and Liabilities Assumed—The following amounts represent the fair value of the identifiable assets acquired and liabilities assumed:

| (Dollars in millions) | Oridion | superDimension | BÂRRX | All Other | Total |
|---|---|---|---|---|---|
| Deferred tax assets (current) | $1 | $ 26 | $28 | $8 | $63 |
| Other current assets[1] | 64 | 20 | 28 | 38 | 150 |
| Intangible assets | 142 | 84 | 139 | 127 | 492 |
| Goodwill (non-tax deductible) | 178 | 237 | 264 | 193 | 872 |
| Other assets | 7 | 2 | 2 | 8 | 19 |
| Total assets acquired | 392 | 369 | 461 | 374 | 1,596 |
| Contingent consideration (current) | — | 11 | 56 | 20 | 87 |
| Other current liabilities | 16 | 50 | 6 | 30 | 102 |
| Contingent consideration (non-current) | — | 11 | 15 | 40 | 66 |
| Deferred tax liabilities (non-current) | 37 | 18 | 46 | 26 | 127 |
| Other liabilities | 2 | 28 | | | |