

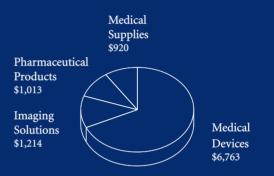
COVIDIEN LTD.

With 2008 sales of nearly \$10 billion, Covidien is a leading global healthcare products company that creates innovative medical solutions for better patient outcomes and delivers value through clinical leadership and excellence. Covidien manufactures, distributes and services a diverse range of industry-leading product lines in four segments: Medical Devices, Imaging Solutions, Pharmaceutical Products and Medical Supplies. Covidien has more than 41,000 employees worldwide in 59 countries, and its products are sold in over 140 countries. Please visit www.covidien.com to learn more about our business.





2008 SALES BY BUSINESS SEGMENT (dollars in millions)



Change vs. 2007

COVIDIEN LTD. 2008 FINANCIAL OVERVIEW (dollars in millions, except per share amounts)

| Net Sales | \$ 9,910 | + 11% |
|--|----------|------------|
| Gross Margin | 53.6% | + 1.6 pts. |
| Adjusted Operating Income* | \$ 2,087 | + 9% |
| Adjusted Earnings per Share** | \$ 2.70 | + 3% |
| Net Debt | \$ 1,797 | - 44% |
| Adjusted Cash Flow from Continuing Operations*** | \$ 1,848 | - 12% |

- * 2008 Adjusted Operating Income, a non-GAAP number, excludes the following charges: \$77 million for restructuring; \$42 million for shareholder settlements, net of insurance recoveries; and \$22 million for in-process R&D. Including the foregoing items, 2008 GAAP Operating Income was \$1,946 million.
- ** 2008 Adjusted Earnings per Share, a non-GAAP number, excludes the following items: (\$0.38) from the impact of the tax sharing agreement; \$0.12 for restructuring; \$0.08 for shareholder settlements, net of insurance recoveries; \$0.04 for in-process R&D; and (\$0.02) for tax matters. Excluding the foregoing items, 2008 GAAP Earnings per Share were \$2.86.
- *** 2008 Adjusted Cash Flow from Continuing Operations, a non-GAAP number, excludes \$1,257 million for class action settlement. Including the foregoing item, 2008 GAAP Cash Flow from Continuing Operations was \$591 million.

EXECUTIVE LEADERSHIP TEAM

(opposite page)

SEATED (L - R): Eric A. Kraus, Senior Vice President, Corporate Communications and Public Affairs; José E. Almeida, Senior Vice President and President, Medical Devices; Richard J. Meelia, Chairman, President and Chief Executive Officer; Amy A. McBride-Wendell, Senior Vice President, Strategy and Business Development STANDING(L - R): James C. Clemmer, President, Medical Supplies; Charles J. Dockendorff, Executive Vice President and Chief Financial Officer; John H. Masterson, Senior Vice President and General Counsel; Timothy R. Wright, Senior Vice President and President, Pharmaceutical Products and Imaging Solutions; James M. Muse, Senior Vice President, Global Supply Chain; Karen A. Quinn-Quintin, Senior Vice President, Human Resources



Dear Shareholders:

As we entered 2008, our goal was to build an independent Covidien into a leadership position in the global healthcare products industry.

Now that we have completed our first full year as a public company, I am very pleased to report that we have made good progress toward achieving this goal.

We delivered on all of our key objectives for fiscal 2008. We accelerated growth in our higher margin franchises; improved gross profit margin; invested incrementally in selling, marketing and research and development; grew our business more rapidly outside the United States than within; and made several portfolio moves that strengthen our Company.

Our financial results for 2008 exceeded our expectations. Net sales climbed 11%, as we benefited from favorable foreign exchange, higher volume and several successful new products. On a reported basis, three of our four business segments registered double-digit sales gains. Importantly, excluding foreign exchange, operational growth was 7% — our strongest performance in several years. Gross margin rose 1.6 percentage points, with favorable mix and foreign exchange, restructuring savings and cost-cutting initiatives more than offsetting

cost hikes for raw materials. Our operating margin was on target, as higher gross profit funded increased growth-driving investments in selling, marketing and research and development.

We also continued to reinvest our strong cash flow into the business, strengthening our balance sheet. Since separation in mid-2007, we have lowered our net debt by more than \$1.9 billion and added over \$1.2 billion to stockholders' equity. We remain committed to maintaining a robust financial position that will allow us to make the necessary investments to grow our business in an increasingly competitive marketplace.

Our new products pipeline remains stronger than ever. During the year, we launched a record number of new products, all designed to solve specific medical problems and meet customer needs. These new products included LigaSure Advance, AbsorbaTack, Parietex ProGrip mesh and oxycodone extended release tablets. Reflecting our increased focus on innovation, research and development spending grew more than 30% in 2008, and we are committed to additional increases in the next few years, with a goal to spend 4% to 5% of net sales.

1

We made good progress in 2008 executing on our plans from several earlier acquisitions, including Floreane, Airox and Confluent. These businesses all registered above-average growth rates and contributed importantly to our results. In addition, we made several key acquisitions during the year, adding technologies and capabilities that will help drive our long-term growth. We expanded our hernia repair portfolio by acquiring Tissue Science Laboratories, a U.K.-based developer of biologic mesh. In respiratory, our acquisition of signal processing technology from CardioDigital will strengthen our oximetry and monitoring business.

Overall, however, we were disappointed in the pace of activity and the number of acquisitions we made in 2008. While acquisitions are typically opportunistic, we intend to vigorously pursue those opportunities that will leverage our global footprint, enlarge our geographic presence and facilitate our participation in adjacent product categories to accelerate growth.

I noted in last year's letter to you our plans to streamline and strengthen our portfolio, divesting or de-emphasizing businesses that no longer fit our growth plans. During 2008, we successfully divested our Retail Products and European incontinence businesses and approved the sale of the Specialty Chemicals business. We will use the proceeds from future divestitures to make additional growth-driving investments. With these moves, Covidien's portfolio of businesses is now positioned exclusively in healthcare products.

We continued to develop and strengthen our field sales presence around the world in 2008. These incremental investments in our sales force, as well as in our marketing team, enhanced the core capabilities needed for aggressive business expansion. For example, we have created specialized sales teams in the U.S. and abroad

to address specific needs in fast-growing areas of healthcare, such as bariatrics and hernia repair.

While our results for 2008 were strong, we still face both internal and external challenges. Internally, we must become more competitive in respiratory, particularly in monitoring and ventilation, and we have increased spending to accelerate innovation in this business. In imaging, we must improve profitability. Finally, we need to deploy our strong cash flow more effectively to increase shareholder value. Over time, we will look for new ways to return cash to shareholders, consistent with maintaining a strong financial position.

Externally, the recent upheaval in worldwide financial markets has created a number of challenges for global companies like Covidien. Fortunately, our Company has been somewhat insulated from the most troubling aspects of the crisis. We believe that we currently have no material exposure to the financial services meltdown, and our strong balance sheet has limited the impact of the credit crunch to date.

The two areas that are of some concern to us are a reduction in capital spending by hospitals and a decline in elective surgery procedures. Fortunately, less than 5% of our sales are capital items, so we believe that the slowdown in this segment of hospital purchases will have minimal impact on us. We also have relatively limited exposure to elective surgical procedures. Covidien's broad product portfolio is used in a wide range of healthcare settings and consists primarily of consumable products. While no company is completely immune to swings in economic cycles, we believe our product and geographic diversity is protective in today's uncertain marketplace.

The dramatic shift in foreign exchange rates at the end of our fiscal year will likely dampen our reported

"The excellent results we achieved in 2008 would not have been possible without the dedication and hard work of our more than 41,000 employees around the globe."

growth rates in fiscal 2009. As I write this letter, we expect a substantial negative impact on both our top and bottom lines. The strengthening of the U.S. dollar not only lowers the value of non-U.S. sales and income, as reported, but also increases the cost of products manufactured in the U.S. and sold abroad. This is a significant consideration for Covidien, since most of our manufacturing operations are located in the U.S. As we move through fiscal 2009, we will continue with our program of transactional hedging, looking to mitigate the exchange rate impacts, although exchange rate movements themselves are beyond our control.

I can assure you that Covidien leadership will be focused on the critical success factors that we can control. These include internal growth activities, innovation initiatives, cost reduction programs, manufacturing efficiencies and business development and licensing efforts, to name a few.

At the end of the fiscal year, I was honored to succeed Dennis Reilley as Chairman of the Board of Directors. Dennis's leadership guided us through the separation and our first year as an independent company, and the Company benefited from his able counsel.

The excellent results we achieved in 2008 would not have been possible without the dedication and hard work of our more than 41,000 employees around the globe. Since becoming an independent company,

we've been very successful at attracting top-quality talent to Covidien, strengthening our management team and developing a strong bench of next-generation leaders. We will continue to rely on our outstanding workforce to provide innovative healthcare solutions to our customers and to achieve steady progress toward our goal to become the leading healthcare products company in the world.

Sincerely,

Richard I. Meelia

Rich Meelia

Chairman, President and Chief Executive Officer January 22, 2009





Covidien Ltd. 131 Front Street Hamilton, HM 12 Bermuda

Tel: (441) 298-2480 Fax: (441) 298-2501

January 22, 2009

Dear Shareholder,

You are cordially invited to attend the 2009 Annual General Meeting of Shareholders of Covidien Ltd., which will be held on Wednesday, March 18, 2009, at 9:00 a.m., local time, at the Conrad Dublin Hotel, Earlsfort Terrace, Dublin 2, Ireland. Details of the business to be presented at the meeting can be found in the Notice of Annual General Meeting and Proxy Statement. We hope you are planning to attend the meeting. Your vote is important. Whether or not you are able to attend, I encourage you to vote your proxy as soon as possible so that your shares will be represented at the meeting.

On behalf of the Board of Directors and the management of Covidien, I extend our appreciation for your continued support.

Yours sincerely,

Richard J. Meelia

Chairman, President and Chief Executive Officer

Richard & Meetia

COVIDIEN LTD.

NOTICE OF 2009 ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD MARCH 18, 2009

NOTICE IS HEREBY GIVEN that the 2009 Annual General Meeting of Shareholders of Covidien Ltd. will be held on March 18, 2009, at 9:00 a.m., local time, at the Conrad Dublin Hotel, Earlsfort Terrace, Dublin 2, Ireland for the following purposes:

- 1. To elect the Board of Directors;
- 2. To approve the amended and restated Covidien Ltd. 2007 Stock and Incentive Plan;
- 3. To appoint Deloitte & Touche LLP as the independent auditors and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration; and
- 4. To consider and act on such other business as may properly come before the meeting or any adjournment thereof.

During the meeting, management also will present Covidien's audited consolidated financial statements for the fiscal year ended September 26, 2008.

The Securities and Exchange Commission recently enacted rules which allow us to furnish proxy materials to shareholders electronically through the Internet. Although Bermuda law does not allow us to furnish proxy materials through the Internet to our registered holders without explicit consent, we are able to furnish our proxy materials electronically to shareholders who hold their shares in "street name." The Internet availability of our proxy materials affords us an opportunity to reduce costs, to provide shareholders the information they need and to reduce the environmental impact of our Annual Meeting. On or about January 22, 2009, we will mail to these street holders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our Proxy Statement and Annual Report and how to vote online. The notice also contains instructions on how these holders can request a paper copy of these documents if they desire.

If you hold your shares in your own name, unless you have specifically requested electronic delivery, you will continue to receive paper copies of our Proxy Statement and Annual Report and should vote by completing, signing and dating the proxy card and returning it in the enclosed postage pre-paid envelope or voting via the Internet. This Notice of Annual General Meeting, the Proxy Statement and enclosed proxy card are first being sent to registered holders on or around January 22, 2009.

Holders of record of Covidien common shares on January 6, 2009 are entitled to notice of, and to attend and vote at, the Annual General Meeting and any adjournment or postponement thereof. Covidien shareholders of record who attend the meeting may vote their common shares personally at the meeting, even if they have sent in proxies.

By Order of the Board of Directors,

John W. Kapples Secretary

January 22, 2009

This Proxy Statement, our Annual Report on Form 10-K for the year ended September 26, 2008 and our Annual Report to Shareholders are available to shareholders of record as of January 6, 2009 at www. proxyvote.com. These materials are also available in the Investor Relations section of our website at www.covidien.com.

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COVIDIEN

131 Front Street Hamilton, HM 12 Bermuda

GENERAL INFORMATION

Questions and Answers About Proxy Materials, Voting, Attending the Meeting and Other General Information

Why did I receive this Proxy Statement?

We have sent this Notice of Annual General Meeting and Proxy Statement, together with the enclosed proxy card, because our Board of Directors is soliciting your proxy to vote at the Annual General Meeting of Covidien Shareholders on March 18, 2009. This Proxy Statement contains information about the items being voted on at the Annual General Meeting and important information about Covidien. Our 2008 Annual Report to Shareholders, including our Form 10-K for the fiscal year ended September 26, 2008, which includes our audited consolidated financial statements for the fiscal year ended September 26, 2008, is enclosed with these materials.

To whom are you sending this Proxy Statement?

We sent these proxy materials, on or about January 22, 2009, to each person who is registered as a holder of our common shares in our register of shareholders (such owners are often referred to as "holders of record" or "registered holders") as of the close of business on January 6, 2009, the record date for the Annual General Meeting. Any Covidien shareholder as of the record date who does not receive a copy of our Annual Report and this Proxy Statement, together with the enclosed proxy card, may obtain a copy at the Annual General Meeting or by contacting us at (441) 298-2480.

We are making this Proxy Statement and related proxy materials available on the Internet to shareholders whose shares are held by banks, brokerage firms or other nominees (such shareholders are often referred to as "beneficial owners" or "street name holders") pursuant to new rules of the Securities and Exchange Commission that allow us to do so. These rules remove the requirement for public companies to automatically send shareholders a full, paper-copy set of proxy materials and allow us instead to deliver to our shareholders a "Notice of Internet Availability of Proxy Materials" and to provide online access to the documents. Although Bermuda law does not allow us to furnish proxy materials through the Internet to our registered holders without explicit consent, we are able to furnish our proxy materials electronically to shareholders who hold their shares in "street name." The Internet availability of our proxy materials affords us an opportunity to reduce costs, to provide shareholders the information they need and to reduce the environmental impact of our Annual Meeting. On or about January 22, 2009, we will mail to these street name holders a Notice of Internet Availability of Proxy Materials containing

instructions on how to access our Proxy Statement and Annual Report and how to vote online. The notice also contains instructions on how these holders can request a paper copy of these documents if they desire.

Who is entitled to vote?

Each holder of record of our common shares on January 6, 2009, the record date for the Annual General Meeting, is entitled to attend and vote at the Annual General Meeting.

How many votes do I have?

Every holder of a common share on the record date will be entitled to one vote per share for each director to be elected at the Annual General Meeting and to one vote per share on each other matter presented at the Annual General Meeting. On January 6, 2009, there were 503,886,531 common shares outstanding and entitled to vote at the Annual General Meeting.

What proposals are being presented at the Annual General Meeting?

We intend to present proposals numbered one, two and three for shareholder consideration and voting at the Annual General Meeting. These proposals are for:

- 1. Election of the Board of Directors
- Approval of the amended and restated Covidien Ltd. 2007 Stock and Incentive Plan
- 3. Appointment of Deloitte & Touche LLP as the independent auditors and authorization of the Audit Committee of the Board to set the auditors' remuneration

Other than matters incident to the conduct of the Annual General Meeting, we do not know of any business or proposals to be considered at the Annual General Meeting other than those set forth in this Proxy Statement.

How do I attend the Annual General Meeting?

All shareholders are invited to attend the Annual General Meeting. For admission to the Annual General Meeting, shareholders of record should bring picture identification to the Registered Shareholders check-in area, where their ownership will be verified. Those who have beneficial ownership of common shares held by a bank, brokerage firm or other nominee should come to the Beneficial Owners check-in area. To be admitted, beneficial owners must bring picture identification, as well as proof from their banks or brokers that they owned Covidien common shares on January 6, 2009, the record date for the Annual General Meeting. Registration will begin at 8:30 a.m., local time, and the Annual General Meeting will begin at 9:00 a.m., local time. For directions to the Annual General Meeting, please call us at (441) 298-2480.

How do I vote?

Registered shareholders may submit their proxies:

- over the Internet; or
- by completing and returning the enclosed proxy card.

If you are a street name holder, please review the information forwarded by your bank, broker or other holder of record to see which options are available to you. You may also vote in person at the Annual General Meeting. If you hold your common shares in street name, in order to vote in person at the Annual General Meeting, you must have a proxy, executed in your favor, from the record holder of your shares.

Even if you plan to be present at the Annual General Meeting, we encourage you to complete and mail the enclosed card or use the Internet to direct the voting of your common shares by proxy.

What if I return my proxy or voting instruction card but do not indicate how my shares should be voted?

All shares entitled to vote and represented by properly executed proxies received prior to the meeting and not revoked will be voted in accordance with your instructions. If you return your proxy card but do not indicate how your shares should be voted on a matter, the shares represented by your proxy will be voted: "FOR" the election of all nominees to the Board of Directors named on the proxy card; "FOR" proposals two and three; and at the discretion of the proxy holders with respect to any other matter which may properly come before the Annual General Meeting.

Under the current rules of the New York Stock Exchange (the "NYSE"), if you hold your shares in street name, your broker may be entitled to vote your shares on the election of directors and selection of independent auditors (including authorizing the Audit Committee to set the auditors' remuneration) even if you do not provide voting instructions to your broker. Your broker may not, however, vote your shares on the approval of the amended and restated 2007 Stock and Incentive Plan without instructions from you.

May I change or revoke my proxy after I have submitted it?

You may revoke your proxy at any time before it is exercised by timely delivery of a properly signed, later-dated proxy (including an Internet proxy) or by voting in person at the meeting. You may also notify our Secretary in writing before the Annual General Meeting that you are revoking your proxy. If you hold your shares in street name, please follow the procedures required by your bank, broker or nominee to revoke a proxy. You should contact that firm directly for more information on these procedures.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of a majority of the common shares outstanding and entitled to vote at the Annual General Meeting constitutes a quorum for the conduct of business.

What vote is required in order to approve each proposal?

The affirmative vote of a majority of the common shares represented and voting at the Annual General Meeting is required for the election of each director, approval of the amended and restated 2007 Stock and Incentive Plan and the appointment of our independent auditors and authorization of the Audit Committee of the Board of Directors to set the auditors' remuneration.

Broker non-votes and Abstentions. Broker non-votes occur when brokers, banks or other nominees holding shares in street name return proxies, but do not indicate a vote for (or against) a proposal because they do not have discretionary voting authority with respect to that proposal and they have not received instructions as to how to vote on the proposal. Broker non-votes, as well as common shares which abstain from voting on any proposal, are not included in the determination of the common shares voting on such proposal, but are counted for quorum purposes.

How will voting on any other business be conducted?

Other than matters incident to the conduct of the Annual General Meeting, we do not know of any business or proposals to be considered at the Annual General Meeting other than those set forth in this Proxy Statement. If any other business is proposed and properly presented at the Annual General Meeting, the proxies received from our shareholders give the proxy holders the authority to vote on the matter at their discretion.

Who will count the votes?

Broadridge Financial Solutions, Inc. will act as the inspector of election and will tabulate the votes.

Who will pay the costs of soliciting the proxies?

We will pay the costs of soliciting proxies. Proxies may be solicited on behalf of Covidien by directors, officers or employees of Covidien in person or by telephone, facsimile or other electronic means. We have retained D. F. King & Co., Inc. to assist in solicitation of proxies and have agreed to pay D. F. King \$14,000, plus out-of-pocket expenses, for these services. As required by the SEC and the NYSE, we also will reimburse brokerage firms and other custodians, nominees and fiduciaries, upon request, for their reasonable expenses incurred in sending proxies and proxy materials to beneficial owners of our common stock.

What if I am a registered holder, but I would like to receive my proxy materials electronically rather than through the mail?

If you are a registered holder and you would like to receive proxy materials electronically through the Internet, please follow the instructions on your proxy card or on-line to consent to electronic delivery of the proxy material for our 2010 Annual General Meeting. Even if you consent to electronic delivery, you can always request a printed copy of the proxy materials.

This proxy statement and our 2008 Annual Report are also available on our web site at *www.covidien.com* under the heading "Investor Relations."

Who is your transfer agent?

Our transfer agent is BNY Mellon Shareowner Services. All communications concerning accounts of shareholders of record, including address changes, name changes, inquiries as to requirements to transfer Covidien stock and similar issues, can be handled by calling toll-free 1-866-210-6572 (U.S.) or +1-201-680-6578 (outside the U.S.) or by accessing Mellon's web site at www.bnymellon.com/shareowner/isd.

Where can I find more information about Covidien?

For other Covidien information, you can visit our web site at *www.covidien.com*. We make our web site content available for information purposes only. It should not be relied upon for investment purposes, and it is not incorporated by reference into this proxy statement.

CORPORATE GOVERNANCE

Our Board of Directors believes that good governance requires not only an effective set of specific practices, but also a culture of responsibility throughout an organization, and governance at Covidien is intended to achieve both. The Board also believes that good governance ultimately depends on the quality of an organization's leadership, and it is committed to recruiting and retaining directors and officers of proven leadership ability and personal integrity.

Corporate Governance Guidelines

The Board has adopted governance guidelines which are designed to assist the Company and the Board in implementing effective corporate governance practices. The governance guidelines, which are reviewed annually by the Nominating and Governance Committee, address, among other things:

- director responsibilities;
- composition and selection of the Board, including qualification standards and independence guidelines;
- majority voting for directors;
- the role of an independent Lead Director;
- Board committee establishment, structure and guidelines;
- officer and director stock ownership requirements;
- meetings of non-employee directors;
- director orientation and continuing education;
- Board access to management and independent advisors;
- communication with directors;
- Board and committee self-evaluations;
- succession planning and management development review;
- CEO performance review;
- ethics and conflicts of interest; and
- policy on shareholder rights plans.

The governance guidelines are posted on our web site at *www.covidien.com*. We will also provide a copy of the governance guidelines to shareholders upon request.

Independence of Nominees for Director

As noted above, the governance guidelines include criteria adopted by the Board to assist it in making determinations regarding the independence of its members. The criteria, summarized below, are consistent with the NYSE listing standards regarding director independence. To be considered independent, the Board must determine that a director does not have a material relationship, directly or indirectly, with Covidien. In assessing independence, the Board considers all relevant facts and circumstances. In particular, when assessing the materiality of a director's relationship with the Company, the Board considers the issue not just from the standpoint of the director, but also from that of the persons or organizations with which the director has an affiliation. A director will not be considered independent if he or she:

- is, or has been within the last three years, an employee of Covidien;
- has an immediate family member who is, or has been within the last three years, an executive officer of Covidien;

- is a current partner or employee of our auditor;
- has an immediate family member who is a current partner of our auditor or who is an employee of our auditor and personally works on our audit;
- has been, or has an immediate family member who has been, within the last three years, a partner
 or employee of our auditor who personally worked on our audit during that time;
- is, or an immediate family member is, or has been within the last three years, employed as an executive officer of a public company that has or had on the compensation committee of its Board an executive officer of Covidien (during the same period of time);
- has, or has an immediate family member who has, received more than \$120,000 in direct compensation from Covidien, other than director and committee fees, in any twelve month period within the last three years;
- is a current employee, or has an immediate family member who is a current executive officer, of a company that has made payments to, or received payments from, Covidien for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues; or
- is, or his or her spouse is, an executive officer, director or trustee of a charitable organization to which Covidien's contributions, not including our matching of charitable contributions by employees, exceed, in any single year within the last three fiscal years, the greater of \$1 million or 2% of such organization's total charitable receipts during that year.

The Board has considered the independence of its members in light of these independence criteria. In connection with its independence considerations, the Board has reviewed Covidien's relationships with organizations with which our directors are affiliated and has determined that such relationships, other than that with Tyco International Ltd. ("Tyco International"), were established in the ordinary course of business and are not material to us, any of the organizations involved, or our directors. Based on these considerations, the Board has determined that each of our directors and each of the director nominees, other than Richard J. Meelia, our Chief Executive Officer and Chairman of the Board, and Christopher J. Coughlin, the Chief Financial Officer of Tyco International, satisfies the criteria and is independent. These independent directors and director nominees are: Craig Arnold, Robert H. Brust, John M. Connors, Jr., Timothy M. Donahue, Kathy J. Herbert, Randall J. Hogan, III, Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino. Each independent director is expected to notify the chair of the Nominating and Governance Committee, as soon as reasonably practicable, of changes in his or her personal circumstances that may affect the Board's evaluation of his or her independence.

Director Nominations Process

The Nominating and Governance Committee is responsible for developing the general criteria, subject to approval by the full Board, for use in identifying, evaluating and selecting qualified candidates for election or re-election to the Board. The Nominating and Governance Committee periodically reviews with the Board the appropriate skills and characteristics required of Board members in the context of the current make up of the Board. Final approval of director candidates is determined by the full Board, and invitations to join the Board are extended by the Chairman of the Board on behalf of the entire Board.

The Nominating and Governance Committee, in accordance with the Board's governance guidelines, seeks to create a Board that is strong in its collective knowledge and has a diversity of skills and experience with respect to accounting and finance, management and leadership, vision and strategy, business operations, business judgment, industry knowledge, corporate governance and global markets. When the Committee reviews a potential new candidate, the Committee looks specifically at the candidate's qualifications in light of the needs of the Board and the Company at that time, given the then current mix of director attributes.

As described in our Corporate Governance Guidelines:

directors should be individuals of the highest ethical character and integrity;

- directors should have demonstrated management ability at senior levels in successful
 organizations, including as the chief executive officer of a public company or as the leader of a
 large, multifaceted organization, including government, educational and other non-profit
 organizations;
- each director should have the ability to provide wise, informed and thoughtful counsel to senior management on a range of issues and be able to express independent opinions, while at the same time working as a member of a team;
- directors should be free from any conflict of interest or business or personal relationship that would interfere with the duty of loyalty owed to the Company; and
- directors should be independent of any particular constituency and be able to represent all shareholders of the Company.

The Committee assesses independence and also ensures that the members of the Board as a group maintain the requisite qualifications under NYSE listing standards for populating the Audit, Compensation and Human Resources and Nominating and Governance Committees. Directors may not serve on more than four public company boards of directors (including Covidien) or, if the director is employed as CEO of a publicly traded company, no more than three public company boards of directors (including Covidien). No person may stand for election as a director after reaching age 72.

As provided in its charter, the Nominating and Governance Committee will consider nominations submitted by shareholders. To recommend a nominee, a shareholder should write to our Secretary at Covidien's registered address, 131 Front Street, Hamilton HM 12, Bermuda. Any such recommendation must include:

- the name and address of the candidate;
- a brief biographical description, including his or her occupation for at least the last five years, and a statement of the qualifications of the candidate, taking into account the qualification requirements set forth above; and
- the candidate's signed consent to serve as a director if elected and to be named in the proxy statement.

The recommendation must also include documentary evidence of ownership of Covidien common shares if the shareholder is a beneficial owner, as well as the date the shares were acquired, as required by the Company's Bye-Laws.

To be considered by the Nominating and Governance Committee for nomination and inclusion in the Company's proxy statement for the 2010 Annual General Meeting, shareholder recommendations for director must be received by our Secretary no later than September 24, 2009. Once the Secretary receives the recommendation, we will deliver a questionnaire to the candidate requesting additional information about the candidate's independence, qualifications and other information that would assist the Nominating and Governance Committee in evaluating the candidate, as well as certain information that must be disclosed about the candidate in the Company's proxy statement, if nominated. Candidates must complete and return the questionnaire within the time frame provided to be considered for nomination by the Nominating and Governance Committee.

The Nominating and Governance Committee also receives suggestions for director candidates from Board members and, in its discretion, may also employ a third-party search firm to assist in identifying candidates for director. All 11 of our nominees for director are current members of the Board. In evaluating candidates for director, the Committee uses the guidelines described above, and evaluates shareholder candidates in the same manner as candidates proposed from all other sources. Based on the Nominating and Governance Committee's evaluation of the current directors, each nominee was recommended for re-election.

Majority Vote for Election of Directors

Directors are elected by the affirmative vote of a majority of the votes cast by shareholders at the Annual General Meeting and serve for one-year terms. Any nominee for director who does not receive a majority of the votes cast is not elected to the Board.

Executive Sessions

Non-employee directors meet in executive session, without members of management present, at each regularly scheduled Board meeting and at such other times as may be deemed appropriate. These executive sessions may include a discussion with the Chief Executive Officer.

Chairman of the Board and Lead Director

From June 2007 through September 2008, the positions of Chairman of the Board and Chief Executive Officer were held by separate people, due in part to the fact that the Company was a newly independent stand-alone public company, no longer part of a conglomerate, and also to the fact that the Board was newly constituted and unfamiliar with the Chief Executive Officer. In September 2008, after the Company had completed one full fiscal year as an independent Company, the Board reassessed this structure. Based in part on the strong governance structure laid down by the non-executive Chairman, the Chief Executive Officer's performance during the Company's first full fiscal year as a stand-alone public company, the Board's increasing familiarity and comfort with the Chief Executive Officer and the potential efficiencies of having the Chief Executive Officer also serve in the role of Chairman of the Board, the Board decided to revise its structure. The Board appointed Mr. Donahue as Independent Lead Director and appointed Mr. Meelia, our Chief Executive Officer, as the Chairman of the Board.

Code of Ethics

We have adopted the Covidien Guide to Business Conduct, which applies to all of our employees, officers and directors. The Guide to Business Conduct meets the requirements of a "code of ethics" as defined by SEC regulations and applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as well as all other employees, as indicated above. The Guide to Business Conduct also meets the requirements of a code of business conduct and ethics under the listing standards of the NYSE. The Guide to Business Conduct is posted on our web site at www.covidien.com under the heading "Investor Relations—Corporate Governance." We will also provide a copy of the Guide to Business Conduct to shareholders upon request. We disclose any material amendments to the Guide to Business Conduct, as well as any waivers for executive officers or directors, on our web site.

Transactions with Related Persons

On June 30, 2007, our Board of Directors adopted written policies and procedures providing for the review and approval or ratification by the Nominating and Governance Committee of certain transactions or relationships involving Covidien and its directors, executive officers, certain shareholders and their affiliates. Transactions subject to this review and approval or ratification include any transaction, arrangement or relationship or series of transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which (i) the aggregate amount involved will or may be expected to exceed \$100,000 in any calendar year, (ii) the Company is a participant, and (iii) any related party has or will have a direct or indirect material interest. In determining whether to approve or ratify these interested transactions, the Nominating and Governance Committee will take into account, among other factors it deems appropriate, whether the interested transaction is on terms no more favorable to the affiliated third-party than terms generally available to an unaffiliated third-party under the same or similar circumstances, as well as the extent of the related party's interest in the transaction.

Until our separation from Tyco International on June 29, 2007, we constituted the healthcare business of Tyco International. In connection with the separation, we entered into various agreements with Tyco International, including a Separation and Distribution Agreement and a Tax Sharing Agreement. These

agreements, which we have filed with the SEC, are described in more detail in our Annual Report on Form 10-K for the fiscal year ended September 26, 2008, and in other documents we have filed with the SEC. During fiscal 2008, we purchased, in the normal course of business, approximately \$4.3 million of goods and services from Tyco International, primarily related to valves and controls. Christopher J. Coughlin, a member of our Board of Directors, is the Executive Vice President and Chief Financial Officer of Tyco International.

During fiscal 2008, we purchased, in the normal course of business, approximately \$1.3 million of goods and services from Sprint Nextel Corporation and its affiliates. These goods and services were primarily related to telecommunications equipment and services. Robert H. Brust, a member of our Board of Directors, is the Chief Financial Officer of Sprint Nextel.

During fiscal 2008, we purchased, in the normal course of business, approximately \$1.3 million of goods and services from Pentair, Inc. and its affiliates. These goods and services were primarily related to filters, metals and molded components. Randall J. Hogan, a member of our Board of Directors, is the Chairman and Chief Executive Officer of Pentair, Inc.

Bryan C. Hanson, the brother-in-law of José Almeida, our Senior Vice President and President of our Medical Devices segment, is President of the Energy-based Devices business unit within our Medical Devices segment. In fiscal 2008, Mr. Hanson earned total cash compensation of approximately \$895,000 and, in connection with existing restricted stock unit awards, was credited with dividend equivalent units having a value of approximately \$9,000. His compensation was commensurate with that of his peers.

FMR LLC owns more than 5% of our outstanding shares of common stock. In fiscal 2008, we paid various affiliates of FMR LLC approximately \$3.4 million, primarily for services as administrator of our Employee Stock Purchase Plan, Retirement Savings and Investment Plan and Supplemental Savings and Retirement Plan. We expect that this relationship will continue for the foreseeable future.

Communications with the Board of Directors

The Board has established a process for shareholders to communicate with members of the Board. If you have a concern, question or complaint regarding our compliance with any policy or law, or would otherwise like to contact the Board, you can reach the Board via email at <code>board.directors@covidien.com</code>. A direct link to this email address can be found on our web site at <code>www.covidien.com</code> under the heading "Investor Relations—Corporate Governance." You may also submit communications in writing to a special address or by phone to a toll-free number that are published on our web site at <code>www.covidien.com</code> under the heading "Contact Us—Ombudsman." Inquiries may be submitted anonymously and confidentially.

All concerns and inquiries are received and reviewed promptly by our Ombudsman. Any concerns relating to accounting, internal controls or audit matters are sent directly to the Chair of the Audit Committee. All concerns will be addressed by the Ombudsman, with assistance from the Office of the General Counsel as necessary, unless otherwise instructed by the Audit Committee or the Lead Director. The status of all outstanding concerns addressed to the Chairman of the Board, the Lead Director, the non-employee directors or the Audit Committee will be reported to the Lead Director and the Chair of the Audit Committee on a quarterly basis. The Lead Director or the Audit Committee may determine that certain matters should be presented to the full Board and may direct the retention of outside counsel or other advisors in connection with any concern addressed to them. Our Guide to Business Conduct prohibits any employee from retaliating against anyone for raising or helping to resolve an integrity question.

BOARD OF DIRECTORS AND BOARD COMMITTEES

General

Our business, property and affairs are managed under the direction of the Board of Directors, which currently is comprised of 11 members. Directors are kept informed of our business through discussions with the Independent Lead Director, the Chairman of the Board and Chief Executive Officer and other officers, by reviewing materials provided to them, and by participating in meetings of the Board and its committees. The Chairman of the Board provides leadership to the Board and works with the Board to define its structure and activities in the fulfillment of its responsibilities. In conjunction with the Lead Director, the Chairman of the Board sets the Board agendas with Board and management input, facilitates communication among directors, works with the Lead Director to provide an appropriate information flow to the Board and presides at meetings of the Board of Directors and shareholders. The Lead Director works with the Chairman of the Board and Chief Executive Officer and other Board members to provide strong, independent oversight of the Company's management and affairs. Among other things, the Lead Director approves Board meeting agendas as well as the quality, quantity and timeliness of information sent to the Board, serves as the principal liaison between the Chairman of the Board and the independent directors and chairs an executive session of the independent directors at each regularly scheduled Board meeting. A more detailed description of the roles and responsibilities of the Chairman of the Board and of the Lead Director is set forth in our Corporate Governance Guidelines.

During our 2008 fiscal year, the Board held nine meetings. In fiscal 2008, all of our directors attended over 75% of the total of all meetings of the Board and the committees on which they served. Our Corporate Governance Guidelines provide that Board members are expected to attend each Annual General Meeting; all of our Board members attended our 2008 Annual General Meeting.

Board Committees

The Board has a separately designated Audit Committee established in accordance with the Securities Exchange Act of 1934, as well as a Compensation and Human Resources Committee, a Nominating and Governance Committee and a Compliance Committee. Assignments to, and chairs of, the committees are recommended by the Nominating and Governance Committee and selected by the Board. The committees report on their activities to the Board at each regular Board meeting. Membership on each committee other than the Compliance Committee is limited to independent, non-employee directors. A majority of the members of the Compliance Committee are independent. Each of these committees operates under a charter approved by the Board of Directors. The charters are posted on our web site at www.covidien.com, and we will provide a copy of the charters to shareholders upon request.

The table below provides membership information for the Board and each committee as of the date of this proxy statement.

| | Audit Committee | Compensation and Human Resources Committee | Nominating and Governance Committee | Compliance Committee |
|---|--------------------|--|---|-------------------------|
| Independent Directors | | | | |
| Craig Arnold | X | | | |
| Robert H. Brust | Chair | | | |
| John M. Connors, Jr. | | X | | |
| Timothy M. Donahue ¹ | | Chair | | |
| Kathy J. Herbert | | X | | |
| Randall J. Hogan, III | X | | | |
| Dennis H. Reilley | | | X | X |
| Tadataka Yamada | | | X | X |
| Joseph A. Zaccagnino | | | Chair | X |
| Other Directors | | | | |
| Christopher J. Coughlin | | | | Chair |
| Richard J. Meelia ² | | | | |
| Number of Meetings Held in Fiscal 2008 | 11 | 7 | 5 | 4 |

¹ Lead Director

Audit Committee

The Audit Committee monitors the integrity of our financial statements, the independence and qualifications of the independent auditors, the performance of our internal auditors and independent auditors, our compliance with legal and regulatory requirements and the effectiveness of our internal controls. The Audit Committee is also responsible for selecting, retaining (subject to shareholder approval), evaluating, setting the remuneration of and, if appropriate, recommending the termination of our independent auditors. The members of the Audit Committee are Craig Arnold, Robert H. Brust and Randall J. Hogan, III, each of whom is independent under SEC rules and NYSE listing standards applicable to audit committee members. Mr. Brust is the Chair of the Audit Committee. The Board has determined that Mr. Brust and Mr. Hogan are audit committee financial experts. The Audit Committee held eleven meetings during fiscal 2008.

Compensation and Human Resources Committee

The Compensation and Human Resources Committee reviews and approves compensation and benefits policies and objectives, determines whether our officers and employees are compensated according to these objectives and carries out the Board's responsibilities relating to the compensation of our executives. The members of the Compensation and Human Resources Committee are John M. Connors, Jr., Timothy M. Donahue and Kathy J. Herbert, each of whom is independent under NYSE listing standards. Mr. Donahue is the Chair of the Compensation and Human Resources Committee. The Compensation and Human Resources Committee held seven meetings during fiscal 2008.

Nominating and Governance Committee

The Nominating and Governance Committee is responsible for identifying individuals qualified to become Board members, recommending to the Board the director nominees for election at the Annual

² Chairman of the Board

General Meeting, developing and recommending to the Board a set of corporate governance guidelines, and playing a general leadership role in our corporate governance. The Nominating and Governance Committee also reviews the succession planning process relating to the Chief Executive Officer and the Company's other senior executive officers, as well as the Company's management development process. The members of the Nominating and Governance Committee are Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino, each of whom is independent under NYSE listing standards. Mr. Reilley served as the Chair of the Nominating and Governance Committee until October 2008, when Mr. Zaccagnino took over as Chair. The Nominating and Governance Committee held five meetings during fiscal 2008.

Compliance Committee

The Compliance Committee, which was formed in November 2007, was created by the Board of Directors to assist the Board in fulfilling its oversight responsibility with respect to regulatory, healthcare compliance, government affairs and public policy issues that affect the Company. The members of Compliance Committee are Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino, each of whom is independent under NYSE listing standards, and Christopher J. Coughlin. Mr. Reilley served as the Chair of the Compliance Committee until October 2008, when Mr. Coughlin took over as Chair. The Compliance Committee held four meetings during fiscal 2008.

COMPENSATION OF NON-EMPLOYEE DIRECTORS

In fiscal 2007, the Board of Directors approved a compensation structure for non-employee directors consisting of an annual cash retainer, supplemental cash retainers for Audit Committee members, Committee Chairs and the non-executive Chairman of the Board and equity awards. In November 2008, the Board of Directors approved a supplemental cash retainer for the Lead Director.

Cash Retainers

Board Members. Each non-employee Director receives an annual cash retainer of \$85,000.

Committee Chairs and Audit Committee Members. Each Committee Chair receives a supplemental annual cash retainer of \$10,000 and each member of the Audit Committee (including the Chair) receives a supplemental annual cash retainer of \$5,000.

Non-Executive Chairman of the Board. In fiscal 2008, the non-executive Chairman of the Board received a supplemental annual cash retainer of \$85,000.

Lead Director. We did not have a Lead Director in fiscal 2008. In fiscal 2009, however, we do have a Lead Director, who we expect will receive a supplemental annual cash retainer of \$25,000 for his services.

Equity Awards

Restricted Stock Units. At our 2008 Annual General Meeting, each non-employee director received an annual grant of restricted stock units with a value of \$120,000 and the non-executive Chairman of the Board received a supplemental grant of restricted stock units with a value of \$120,000. All of these fiscal 2008 awards vest on the date of the Company's 2009 Annual General Meeting. Restricted stock units also accrue dividend equivalent units until the restricted stock units vest and shares are issued. Going forward, we expect that each non-employee director will receive an annual grant of restricted stock units on or around the date of each Annual General Meeting.

Non-Qualified Stock Options. Although each non-employee director received a one-time award of stock options in fiscal 2007 at the time of separation, no option awards were granted to non-employee directors in fiscal 2008. The compensation table below, however, includes a value in the stock awards column. This value represents the amount of the fiscal 2007 award that we expensed in our fiscal 2008 financial statements.

General

Directors are reimbursed for reasonable out-of-pocket expenses incurred in attending Board, Board committee, and shareholder meetings and are also permitted to use the corporate aircraft to travel to and from meetings. In fiscal 2008, the Board held one meeting as a retreat and spousal attendance was requested. In connection with this meeting, the Company provided travel, lodging and entertainment for directors and their spouses. Directors were taxed on any imputed income attributable to spousal attendance at this meeting and did not receive tax assistance from the Company with respect to these amounts. Directors are eligible to participate in Covidien's Matching Gift Program for contributions made to charitable organizations. In addition, directors from time to time may make use of tickets to various sporting events provided by the Company. For the year ended September 26, 2008, the aggregate incremental cost to the Company of these expenses was substantially less than \$10,000 per director.

The following table provides information concerning the compensation paid by us to each of our non-employee directors for the fiscal year ended September 26, 2008 as well as amounts expensed in our financial statements for fiscal 2007 stock option awards. Richard J. Meelia, our President, Chief Executive Officer and Chairman of the Board of Directors, is not included in this table as he is an employee of the Company and thus receives no compensation for his service as a director. The compensation received by Mr. Meelia as an officer of the Company is shown in the Summary Compensation Table on page 32.

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards ¹ (\$) | Option Awards ¹ (\$) | Total (\$) |
|-------------------------|--|--------------------------------------|---------------------------------------|---------------|
| (A) | (B) | (C) | (D) | (E) |
| Craig Arnold | \$90,0002 | \$123,696 | \$37,873 | \$251,569 |
| Robert H. Brust | \$100,0003 | \$123,696 | \$37,873 | \$261,569 |
| John M. Connors, Jr | \$85,0004 | \$123,696 | \$37,873 | \$246,569 |
| Christopher J. Coughlin | \$85,0004 | \$123,696 | \$37,873 | \$246,569 |
| Timothy M. Donahue | \$95,0005 | \$123,696 | \$37,873 | \$256,569 |
| Kathy J. Herbert | \$85,0004 | \$123,696 | \$37,873 | \$246,569 |
| Randall J. Hogan, III | \$90,0002 | \$123,696 | \$37,873 | \$251,569 |
| Dennis H. Reilley | \$190,0006 | \$247,155 | \$37,873 | \$475,028 |
| Tadataka Yamada | \$85,0004 | \$123,696 | \$37,873 | \$246,569 |
| Joseph A. Zaccagnino | \$85,0004 | \$123,696 | \$37,873 | \$246,569 |

2008 Director Compensation Table

- The amounts in columns (C) and (D) reflect the dollar amount recognized for financial statement reporting purposes for our 2008 fiscal year (excluding forfeiture assumptions), in accordance with Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), of restricted stock unit and stock option awards held by our directors, including awards that were made in fiscal 2007. For information on the assumptions used in calculating these amounts pursuant to SFAS 123R, see Note 15 to the Consolidated and Combined Financial Statements included in our Annual Reports on Form 10-K for the years ended September 26, 2008 and September 28, 2007. These amounts reflect our accounting expense for these awards and do not necessarily correspond to the actual value that will be recognized by each director, which will likely vary based on a number of factors, including our financial performance, stock price fluctuations and applicable vesting.
 - The grant date fair value of the restricted stock unit awards granted in fiscal 2008, computed in accordance with SFAS 123R is \$120,115 for each director other than Mr. Reilley, for whom the grant date fair value of the restricted stock unit awards granted in fiscal 2008 is \$239,789.
 - As of September 26, 2008, each director, other than Mr. Reilley, had 2,737 restricted stock units (including dividend equivalent units) outstanding, and Mr. Reilley had 5,464 restricted stock units (including dividend equivalent units) outstanding.

- As of September 26, 2008, each non-employee director held options to purchase 9,600 common shares received as compensation for serving on our board.
- ² Cash fees include annual retainer of \$85,000 and Audit Committee member retainer of \$5,000.
- ³ Cash fees include annual retainer of \$85,000, Audit Committee member retainer of \$5,000 and Audit Committee Chair retainer of \$10,000.
- ⁴ Cash fees consist of annual retainer of \$85,000.
- ⁵ Cash fees include annual retainer of \$85,000 and Compensation and Human Resources Committee Chair retainer of \$10,000.
- ⁶ Cash fees include annual retainer of \$85,000, Chairman of the Board supplemental retainer of \$85,000, Nominating and Governance Committee Chair retainer of \$10,000 and Compliance Committee Chair retainer of \$10,000.

PROPOSAL NUMBER ONE: ELECTION OF DIRECTORS

Upon the recommendation of the Nominating and Governance Committee, the Board has nominated for election at the 2009 Annual General Meeting a slate of 11 nominees, all of whom are currently serving on the Board. The nominees are Richard J. Meelia, Craig Arnold, Robert H. Brust, John M. Connors, Jr., Christopher J. Coughlin, Timothy M. Donahue, Kathy J. Herbert, Randall J. Hogan, III, Dennis H. Reilley, Tadataka Yamada and Joseph A. Zaccagnino. Biographical information regarding each of the 11 nominees is set forth below. The election of directors will take place at the Annual General Meeting. In order to be elected as a director, each nominee must receive the affirmative vote of a majority of the votes cast by the holders of common shares represented at the Annual General Meeting in person or by proxy. Shareholders are entitled to one vote per share for each of the 11 nominees. Covidien is not aware of any reason why any of the nominees will not be able to serve if elected. Each of the directors elected will serve until the 2010 Annual General Meeting and until their successors, if any, are elected and qualified.

Current Directors Nominated for Re-Election

Craig Arnold



Mr. Arnold, age 48, joined our Board of Directors immediately following our separation from Tyco International. Mr. Arnold is Chief Executive Officer, Fluid Power Group of Eaton Corporation, a diversified industrial manufacturer. From 2000 to 2008 he served as Senior Vice President of Eaton Corporation and President of the Fluid Power Group of Eaton Corporation. Prior to joining Eaton, Mr. Arnold was employed in a series of progressively more responsible positions at General Electric Company from 1983 to 2000.

Robert H. Brust



Mr. Brust, age 65, joined our Board of Directors just prior to our separation from Tyco International. Mr. Brust has been the Chief Financial Officer of Sprint Nextel Corporation, a wireless and wireline communications company, since May 2008. From February 2007 to May 2008, Mr. Brust was retired. From January 2000 to February 2007, Mr. Brust served as Executive Vice President of Eastman Kodak Company, a provider of photographic products and services, and, from January 2000 to November 2006, he also served as Chief Financial Officer of Kodak. Prior to joining Kodak, Mr. Brust was Senior Vice President and Chief Financial Officer of Unisys Corporation from 1997 to 1999. He also worked in a variety of financial and financial management positions at General Electric Company from 1965 to 1997.

John M. Connors, Jr.



Mr. Connors, age 66, joined our Board of Directors immediately following our separation from Tyco International. Since 2006, Mr. Connors has served as Chairman Emeritus of Hill, Holliday, Connors, Cosmopulos, Inc., a full-service advertising agency that is part of The Interpublic Group of Companies, Inc. From 2003 to 2006, Mr. Connors served as Chairman of Hill, Holliday, and from 1968 to 2003 he was Chairman, President and Chief Executive Officer of Hill, Holliday. Mr. Connors is also a director of Hasbro, Inc.

Christopher J. Coughlin



Mr. Coughlin, age 56, joined our Board of Directors immediately following our separation from Tyco International. Mr. Coughlin has been Executive Vice President and Chief Financial Officer of Tyco International, a global provider of security products and services, fire protection and detection products and services, valves and controls, and other industrial products, since March 2005. Prior to joining Tyco International, Mr. Coughlin served as Chief Operating Officer of The Interpublic Group of Companies, Inc. from June 2003 to December 2004. He joined Interpublic from Pharmacia Corporation, where he was Chief Financial Officer from 1998 to 2003. Previously, he held the position of Executive Vice President and Chief Financial Officer of Nabisco Holdings, where he also served as President of Nabisco International. Mr. Coughlin also serves as a director of The Dun & Bradstreet Corporation.

Timothy M. Donahue



Mr. Donahue, age 59, joined our Board of Directors immediately following our separation from Tyco International. Mr. Donahue served as Chairman of Sprint Nextel Corporation, a wireless and wireline communications company, from 2005 to 2006. He was the Chief Executive Officer of Nextel Communications, Inc. from 1999 until August 2005, and the President of Nextel from 1996 until August 2005. Mr. Donahue is also a director of Eastman Kodak Company, NVR, Inc. and Tyco International Ltd.

Kathy J. Herbert



Ms. Herbert, age 55, joined our Board of Directors immediately following our separation from Tyco International. From 2001 to 2006, Ms. Herbert served as Executive Vice President, Human Resources, of Albertson's, Inc., an operator of supermarkets, combination food-drug stores and drug stores located in the United States. Prior to joining Albertson's, she had been with Jewel Osco since 1969 in a variety of positions, most recently Vice President, Human Resources.

Randall J. Hogan, III



Mr. Hogan, age 53, joined our Board of Directors immediately following our separation from Tyco International. Mr. Hogan has served as Chairman and Chief Executive Officer of Pentair, Inc., an industrial manufacturing company, since 2002. From 2001 to 2002, he was President and Chief Executive Officer and from 1999 to 2001, President and Chief Operating Officer, of Pentair. Prior to joining Pentair, he was President of United Technologies' Carrier Transicold Division. Before that, he was with the Pratt & Whitney division of United Technologies, General Electric Company and McKinsey & Company.

Richard J. Meelia



Mr. Meelia, age 59, has served as the Chairman of our Board of Directors since October of 2008. He served on our Board of Directors and has been our President and Chief Executive Officer following our separation from Tyco International in June 2007. From January 2006 through the separation, Mr. Meelia was the Chief Executive Officer of Tyco Healthcare and from 1995 through the separation, Mr. Meelia was also the President of Tyco Healthcare. Mr. Meelia is also a director of Haemonetics Corporation.

Dennis H. Reilley



Mr. Reilley, age 55, joined our Board of Directors immediately following our separation from Tyco International and served as the Chairman of our Board of Directors until October 2008. From 2000 to April 2007, Mr. Reilley served as Chairman of Praxair, Inc., a supplier of industrial gases and high-performance surface coatings, and also served as Chief Executive Officer of Praxair from 2000 to December 2006. Prior to joining Praxair, Mr. Reilley held many key positions at DuPont from 1989 to 1998 when he was named Chief Operating Officer. Earlier in his career he held various managerial positions at Conoco. Mr. Reilley is also a director of H.J. Heinz Company, Marathon Oil Corporation and The Dow Chemical Company.

Tadataka Yamada



Dr. Yamada, age 63, joined our Board of Directors immediately following our separation from Tyco International. Dr. Yamada has served as President of the Global Health Program of the Bill & Melinda Gates Foundation since June 2006. From 2000 to 2006, Dr. Yamada was Chairman of Research and Development for GlaxoSmithKline Inc. and prior to that, he held research and development positions at SmithKline Beecham. Prior to joining SmithKline Beecham, Dr. Yamada was Chairman of the Department of Internal Medicine at the University of Michigan Medical School and Physician-in-Chief of the University of Michigan Medical Center.

Joseph A. Zaccagnino



Mr. Zaccagnino, age 62, joined our Board of Directors immediately following our separation from Tyco International. Mr. Zaccagnino served as President and Chief Executive Officer of Yale-New Haven Health System and its flagship Yale-New Haven Hospital, the primary teaching hospital affiliate of the Yale University School of Medicine, from 1991 until his retirement in 2005. He previously served the Yale-New Haven Health System and Yale-New Haven Hospital as Executive Vice President and Chief Operating Officer from 1978 to 1991 and in other senior executive positions from 1970 to 1978. Mr. Zaccagnino is a director of NewAlliance Bancshares, Inc. and is the former Chairman of the Board of VHA, Inc., a 2,500 member healthcare organization cooperative.

The Board recommends that shareholders vote FOR the election of all 11 nominees for Director.

COMPENSATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Executive Compensation Philosophy

Our executive compensation philosophy is based on the following core principles:

- Compensation should be based on a total rewards perspective, with an explicit role for each
 element of compensation and considering each element with a view to the aggregate value and
 effect of all other elements.
- We should pay competitively, but not excessively, in order to attract and retain talented executive officers who can achieve our long-term strategic goals and create shareholder value, offering total rewards that are generally within the 50th-75th percentile range based on a review of peer companies in the medical devices and pharmaceutical industries and, as appropriate, general industry and which are fair and reasonable in light of the executive officer's responsibilities, experience and performance.
- Compensation should support our business strategy in the areas of customer focus, globalization, high-performance and innovation and our talent strategy, including differentiating to recognize individual performance through merit increases and individual adjustments to equity grant levels, standardizing pay levels and programs across the Company to facilitate cross-Company career progression, using equity grants to signal potential and nurture career commitment, recognizing the occasional need to pay at upper limits of market data to attract or retain key talent and emphasizing pay-for-performance through annual and long-term incentive plans rather than entitlements through perquisites and retirement benefits.
- Our reward elements should be balanced, providing a mix of incentive plans that balances shortand long-term objectives, provides potential upside for over-achieving financial targets (capped at a market-competitive degree of leverage) with downside risk for missing performance targets and balances retention with reward for delivering stellar shareholder returns.
- Compensation goals and practices should be transparent and easy to communicate, both internally and externally, with clear and consistent communication of our total rewards philosophy to executives, limitations on the number of separate compensation plans/programs we provide, minimization of the number of performance metrics per plan, continuity in plan design, alignment of executive programs across the Company and enhancement of the motivational value of compensation by regular communication of progress against goals.
- Compensation should support effective governance. We hold Company officers to stock ownership guidelines to promote long-term ownership, long-term shareholder perspective and responsible practices; we cap cash rewards to limit windfalls; we encourage simplicity and transparency in plan designs; we establish clear processes for administering equity and employee benefit plans; and, in assessing the contributions of a particular executive officer, the Compensation and Human Resources Committee (the "Compensation Committee") looks not only to results-oriented performance, but also to how those results were achieved—whether the decisions and actions leading to the results were consistent with the values of the Company—and the long-term impact of these decisions.

Operating within these principles, the Compensation Committee's goal in setting compensation is to provide a compensation package that attracts, motivates and retains executive talent and rewards executive officers for superior Company and individual performance.

How We Determine Compensation

Compensation Committee Role and Input from Management

The Compensation Committee is responsible for the Company's executive compensation strategies, structure, policies and programs and must specifically approve compensation actions relating to our key executives, which include our "Section 16" executive officers and, at the beginning of our 2008 fiscal year, any other employee whose base salary was equal to or in excess of \$350,000. In July 2008, the Compensation Committee reviewed the number of key executives who satisfied the \$350,000 base salary requirement and noted that the number of executives who met this requirement varied significantly throughout the year and from year-to-year, primarily due to foreign exchange rate fluctuations. After considering the matter, the Compensation Committee decided to eliminate this fixed dollar level in favor of a position-based determination in order to provide some consistency from year-to-year in those employees being reviewed by the Compensation Committee. Accordingly, the Compensation Committee amended its policy to provide that, in addition to our "Section 16" executive officers, the Compensation Committee will review and approve compensation actions relating to any employee who is in career band one and who is either the president of a segment or global business unit or comparable non-United States position or a direct report to the Chief Executive Officer, irrespective of the employee's base salary level. The Compensation Committee also reviews and approves actions related to other aspects of compensation that affect employees below the key executive level, including size of bonus pools, annual incentive plan performance goals, equity award design, equity value ranges and share pools.

The Compensation Committee relies on input from our Chief Executive Officer and our Senior Vice President of Human Resources in setting each key executive officer's performance objectives, evaluating the actual performance of each key executive (other than the Chief Executive Officer) against those objectives and recommending appropriate salary and incentive awards. The Chief Executive Officer and Senior Vice President of Human Resources participate in Compensation Committee meetings, at the request of the Compensation Committee, to provide background information and explanations supporting compensation recommendations. In addition, the Compensation Committee relies on information from its independent consultant and on information that the Company obtains from other external data providers.

When setting and assessing the overall compensation of each named executive officer, one of the factors the Compensation Committee considers is the executive's individual performance. Our Chief Executive Officer conducts annual performance evaluations of each named executive officer, which he discusses in detail with the Compensation Committee, and the Compensation Committee conducts an annual performance evaluation of the Chief Executive Officer.

Covidien also utilizes a career band structure to facilitate its efforts to (i) increase control over compensation and benefit programs and costs, (ii) align our programs with market practices, and (iii) provide internal pay equity across all of our businesses. Each of our employees has been assigned to one of eight career category bands, based on job description. Eligibility parameters for long-term incentive compensation and eligibility for participation in certain benefit programs are based on career bands. All of our named executive officers are in the same career band.

Compensation Consultants

The Compensation Committee utilizes the services of independent compensation consultants from time to time and has the sole authority to retain, compensate and terminate any such compensation consultants. In June 2007, the Compensation Committee engaged Steven Hall & Partners as its independent compensation consultant. Steven Hall & Partners reports directly to the Compensation Committee and does not provide services to, or on behalf of, any other part of our business. Steven Hall reviews Compensation Committee materials, attends Compensation Committee meetings, assists the Compensation Committee with program design, provides advice to the Compensation Committee from time to time as compensation issues arise, reviews existing compensation programs to ensure consistency with the Company's

compensation philosophy and with current market practices and provides recommendations on certain specific aspects of our compensation programs. The Compensation Committee also reviews reports, from time to time, of other compensation consultants such as Towers Perrin and Watson Wyatt Worldwide.

Peer Group Review

When reviewing compensation programs for the named executive officers, the Compensation Committee considers the compensation practices of specific peer companies whose annual revenues are generally within the range of one-half to two times our annual revenues, as well as compensation data from general industry published surveys. In selecting the peer group to be considered in setting 2008 compensation, the Compensation Committee considered various factors relating to similarly-situated medical device and pharmaceutical companies, including revenue, net income, and market capitalization. The Compensation Committee approved the following specific peer group for purposes of setting 2008 compensation:

- Baxter International Inc.
- Becton, Dickinson & Company
- Boston Scientific Corporation
- Bristol-Myers Squibb Company
- Eli Lilly and Company
- Medtronic, Inc.

- Schering-Plough Corporation
- St. Jude Medical, Inc.
- Stryker Corporation
- Thermo Fisher Scientific, Inc.
- Zimmer Holdings, Inc.

In March 2008, the Compensation Committee reviewed the existing peer group with the assistance of its compensation consultant. The Compensation Committee noted that the existing peer group included three large proprietary pharmaceutical companies and, in order to mitigate the heavy weighting of these companies, decided to eliminate Eli Lilly from the peer group going forward. We believe that this refined peer group represents our primary competitors for capital, executive talent and, in some cases, business. The Compensation Committee reviews this peer group on an on-going basis and modifies it as circumstances warrant.

Total Rewards and Use of Tally Sheets

As noted above, the Compensation Committee approaches compensation from a total rewards perspective, considering each element of compensation with a view to the aggregate value and effect of all other elements. In setting compensation for each named executive officer, the Compensation Committee reviews each named executive officer's total annual compensation from the previous two years, including the various elements described below. The Compensation Committee uses individual tally sheets prepared by our human resources department and the Compensation Committee's compensation consultant as a presentation format to facilitate this review. The tally sheets identify the value of each pay element, including base salary, annual incentive bonus, sign-on or other cash payments, long-term incentives, equity holdings and employee benefit programs. Options on the tally sheets are valued using the Black-Scholes option pricing model at their grant date value. Restricted stock units are valued at grant date. The tally sheets also reflect current stock ownership as well the value of termination and change-in-control payments under the various potential termination and change-in-control scenarios contemplated in our equity compensation plan, our severance plan, our change-in-control severance plan and, in the case of our Chief Executive Officer, his employment agreement.

In November 2007, the Compensation Committee also reviewed the competitiveness of the overall package of total rewards offered to our Section 16 officers, as well as to executives with base salaries over \$350,000. This review was based on Steven Hall & Partners' study of the base salary, annual cash incentive and long-term incentive compensation levels, Towers Perrin's study of the retirement programs,

Watson Wyatt's March 2007 review of the Company's perquisite program and input from the Company's human resources department. The results of the Compensation Committee's review of the overall executive compensation program were as follows:

| COMPENSATION ELEMENT | COMPARISON TO PEERS |
|--|--|
| Base Salary | At Market (between 50th and 75th percentile)(1) |
| Total Cash Compensation (base salary and annual cash incentive) | At Market (between 50th and 75th percentile)(1) |
| Total Direct Compensation (base salary, annual cash incentive and long-term incentive) | At Market (between 50th and 75th percentile)(1) |
| Perquisites | Below Market |
| Retirement Programs | Below Market |
| Severance Benefits | Below Market, but market expected to adjust to our level over time |
| Change-in-Control Protection | Below Market, but market expected to adjust to our level over time |

These results are based on a study by Steven Hall & Partners, which utilized proxy data from the Company's compensation peer group relating to chief executive officer, chief financial officer, general counsel and group head positions, a Watson Wyatt 2007/2008 survey report on top management compensation, three confidential survey sources and general industry as well as medical devices, pharmaceutical and biotechnology industry data for all corporate positions of companies with a revenue scope of approximately \$10 billion, where available and as appropriate.

Elements of Compensation

Our compensation program for named executive officers has four major components, all of which are designed to work together to drive a complementary set of behaviors and outcomes.

- Base salary. Base salary is intended to reflect the market value of the named executive officer's role, with differentiation for individual capability.
- Annual incentive compensation. Annual incentive compensation in the form of a marketcompetitive, performance-based cash bonus is designed to focus our executives on pre-set
 objectives each year and drive specific behaviors that foster short-term and long-term growth and
 profitability.
- Long-term incentive awards. Long-term incentive compensation, generally consisting of time-vested non-qualified stock options and restricted stock units, is designed to recognize executives for their contributions to the Company and highlight the strategic significance of each named executive officer's role, to promote retention and to align the interests of named executive officers with the interests of our stockholders in long-term growth and stock performance, rewarding executives for shareholder value creation. Although these grants are generally made annually, we did not award any annual long-term incentive grants to the named executive officers in fiscal 2008 due to the grants that were made off-cycle in July 2007 in connection with our separation, which we refer to as our founders' grants. In fiscal 2009, the Compensation Committee resumed its annual grant cycle and granted a mix of stock options, restricted stock units with time-based vesting and restricted stock units with performance-based vesting.
- Employee benefit programs offered to the named executive officers include:
 - health and welfare benefits which are generally consistent with those offered to our broad employee base;
 - o retirement benefits consisting of a defined contribution 401(k) plan and a non-qualified deferred compensation plan;

- o an executive physical and, for our Chief Executive Officer, additional health and welfare benefits and the limited personal use of corporate aircraft; and
- change in control and severance benefits designed to provide income security to our named executive officers and to facilitate our ability to attract and retain executives as we compete for talent in a marketplace in which such protections are standard practice.

In determining compensation packages for our named executive officers, the Compensation Committee seeks to strike a balance between fixed and variable compensation and between short- and long-term compensation. We believe that making a significant portion of our named executive officers' compensation variable and long-term supports our pay-for-performance executive compensation philosophy. We also emphasize stock-based compensation to allow those most accountable for our long-term success to acquire and hold Covidien stock.

Base Salary

Base salaries are paid in order to provide a fixed component of compensation for the named executive officers. Each named executive officer's base salary is designed to be competitive with comparable positions in peer group companies, with adjustments made for the complexity and unique challenges of the position and the individual skills, experience, background and performance of the executive. The Compensation Committee has established as the target for the base salaries of our named executive officers a range of 50th to 75th percentile of base salary compensation paid to executives in comparable positions at our peer group companies and based on general industry published surveys. In setting base salaries for calendar year 2008, the Compensation Committee reviewed, among other things, a summary prepared by Steven Hall & Partners which detailed each named executive officer's then current 2007 base salary compared to market. In recognition of the termination of the Company's perquisite program, effective for the 2008 fiscal year, the Compensation Committee authorized a one-time seven percent (7%) increase in each named executive officer's base salary as in effect on the last day of our 2007 fiscal year. In the comparison prepared by Steven Hall & Partners, this one-time increase was included in the 2007 base salary number rather than just in the 2008 base salary number in order to highlight the percentage change in salary without regard to what is essentially a perquisite pay-out rather than a merit increase in base salary. In November 2007, the Compensation Committee approved base salary increases, which became effective December 24, 2007, as follows:

| Executive Officer | 2007 Base Salary(1)(2) | 2008 Base Salary ⁽²⁾ | % Change |
|--------------------------|------------------------|---------------------------------|----------|
| Richard J. Meelia | \$1,070,000 | \$1,123,500 | 5.0% |
| Charles J. Dockendorff | \$583,200 | \$618,100 | 6.0% |
| José E. Almeida | \$572,500 | \$601,100 | 5.0% |
| John H. Masterson | \$454,800 | \$500,200 | 10.0% |
| Timothy R. Wright | \$524,300 | \$545,300 | 4.0% |

- (1) As noted above, includes the one-time 7% 2007 base salary perquisite increase, effective on the first day of fiscal 2008.
- (2) The Compensation Committee sets base salaries on a calendar year basis. Accordingly, the base salary amounts noted in this table, which represent calendar year base salaries, differ from the base salary amounts set forth in the Summary Compensation Table because the Summary Compensation Table includes amounts actually earned during our fiscal year, from September to September.

The salary increases were based on a consideration of individual performance, assessment of the value of the individual to Covidien and a comparison to market data as well as recognition by the Compensation Committee of the Company's success in its first full fiscal year operating as an independent public company. Individual performance, other than for Mr. Meelia, was measured through performance evaluations performed by Mr. Meelia and discussed with the Compensation Committee. Mr. Meelia also

discussed with the Compensation Committee the value to the Company of each of the named executive officers. Mr. Meelia's individual performance was based on an evaluation performed by the Compensation Committee, which also discussed his value to the Company.

All named executive officers, other than Messrs. Dockendorff and Masterson, received base salary increases in the 3% to 5% range. Mr. Meelia was at the top of the 3% to 5% range, and Messrs. Dockendorff and Masterson were above the 3% to 5% range due, in part, to an effort to bring them closer to market compensation. As noted in last year's proxy statement, Messrs. Meelia, Dockendorff and Masterson were all below the 50th percentile peer group compensation level for base salary in fiscal 2007. All three executives were also below the 50th percentile peer group compensation level for total cash compensation (base salary plus annual cash incentive compensation) in fiscal 2007. Accordingly, for fiscal 2008, the Compensation Committee approved higher increases for these three individuals, bringing all three above the 50th percentile peer group. Following the base salary increases for fiscal 2008, all named executive officers are between the range of 50th to 75th percentile of base salary compensation paid to executives in comparable positions at our peer group companies and based on general industry published surveys.

The Compensation Committee reviews the base salary payable to our named executive officers on an annual basis. The Compensation Committee will adjust base salaries in the future as it deems appropriate based on various factors, including the role and performance of the named executive officers, market compensation-levels and internal compensation equity considerations.

Annual Incentive Compensation

Annual incentive compensation supports the Compensation Committee's pay-for-performance philosophy and aligns individual goals with Company goals. Under the annual incentive plan, which is an element of our 2007 Stock and Incentive Plan, employees are eligible for annual incentive cash bonus awards based on the Company's attainment of specific pre-established performance metrics at fiscal year-end. The annual incentive plan is generally structured as follows, with changes made from year to year to reflect changing business needs and competitive circumstances:

- At the beginning of each fiscal year, the Compensation Committee establishes performance
 measures and goals, which include the financial metrics being assessed, as well as minimum
 thresholds required to earn an award and target and maximum performance scores.
- Also at the beginning of each fiscal year, the Compensation Committee sets individual payout
 targets for each executive, expressed as a percentage of base salary. In general, the Compensation
 Committee will establish the individual payout targets for each named executive officer each
 year based on the executive's level of responsibility and upon an examination of compensation
 information from our peer group and published industry surveys.
- After the close of each fiscal year, the Committee receives a report from management regarding Company, sector and business unit performance against the pre-established performance goals. The named executive officers receive an award based on their individual payout target percentage and the Company and/or sector's performance relative to the specific performance goal, as certified by the Committee.

Setting Annual Performance Metrics. Typically, there are three categories of performance metrics utilized in the annual incentive plan. The first two are Core Financial Metrics, which, for the named executive officers in fiscal 2008, were sales growth and net income. Sales growth means the total change in net trade sales for fiscal year 2008 in US dollars divided by fiscal year 2007 net trade sales, calculated using fiscal 2007 foreign exchange rates, and net income is the net income of the Company from its audited financial statements. The third category measures one or two Strategic Focus Metrics. For fiscal 2008, the Strategic Focus Metric applicable to the named executive officers at the corporate level was cash flow and the strategic focus metric applicable to the named executive officers at the sector level was operating income. For these purposes, cash flow means free cash flow, which is income from continuing operations

minus capital expenditures and excluding cash changes from investing or financing activities. Operating income is the operating income of the Company from its audited financial statements. Each performance metric represents part of the total annual incentive bonus award calculation, with the sales growth metric accounting for 40% of the performance score and the other two metrics accounting for 30% each.

Minimum Performance Requirement. In addition to setting performance metrics and targets, at the beginning of each fiscal year, the Compensation Committee also establishes a minimum annual performance requirement for participation in the annual incentive plan. In fiscal 2008, the minimum threshold required to earn an award was, for named executive officers at the corporate level, 75% of target net income and, for the named executive officers at the sector level, 75% of target sector operating income.

Calculating Performance Scores. If the minimum threshold for participation is met, then a performance score for each performance metric is determined and the overall performance score is calculated. For the two Core Financial Metrics, thresholds and maximums are set, which, for fiscal 2008, were as follows:

| Metric | Threshold | Maximum |
|--------------|-----------------|-----------------|
| Sales Growth | 2% below target | 2% above target |
| Net Income | 85% of target | 115% of target |

For each Core Financial Metric, the performance score would be 0 if performance is below the threshold and up to 200% if performance is at or above the maximum level. For Strategic Focus Metrics, no thresholds or maximums are set—only targets, which are either achieved or missed. If the target is missed, the performance score for the Strategic Focus Metric is 0. If the target is achieved, the performance score for the Strategic Focus Metric is 100. In addition, if the Strategic Focus Metric target is achieved and the performance score for sales growth is greater than 100%, then the score for the Strategic Focus Metric will be increased to the same score as the sales growth.

The table below summarizes the performance measures, weights, targets and actual results used to determine the fiscal 2008 annual incentive payouts to our named executive officers, three of whom are corporate officers and two of whom, José Almeida and Timothy Wright, are sector officers. Performance bonus payouts for fiscal 2008 were approved in November 2008 by our Compensation Committee.

Fiscal 2008 Annual Incentive Compensation Design Summary

| Executive Officer | Performance Metric(1) | Weight | Performance Target | Actual Performance ⁽¹⁾ |
|---|------------------------------------|--------|-----------------------|--------------------------------------|
| | | | (dollars | in millions) |
| Richard J. Meelia Charles J. Dockendorff | Sales Growth (Covidien Ltd.) | 40% | 6.0% | 7.2% |
| John H. Masterson | Net Income (Covidien Ltd.) | 30% | \$1,222 | \$1,373 |
| | Cash Flow (Covidien Ltd.) | 30% | \$1,142 | \$1,465 |
| José E. Almeida | Sales Growth (Medical Devices) | 40% | 6.3% | 6.9% |
| | Net Income (Covidien Ltd.) | 30% | \$1,222 | \$1,373 |
| | Operating Income (Medical Devices) | 30% | \$1,874 | \$1,947 |
| Timothy R. Wright | Sales Growth (Pharma/Imaging) | 40% | 8.0% | 10.0% |
| | Net Income (Covidien Ltd.) | 30% | \$1,222 | \$1,373 |
| | Operating Income (Pharma/Imaging) | 30% | \$ 439 | \$ 450 |

⁽¹⁾ For compensation purposes, the actual sales growth, net income and operating income were adjusted to exclude the effects of events which the Compensation Committee deemed did not reflect the performance of the named executive officers. The categories of special items were identified at the time the performance measure was approved at the beginning of the fiscal year and generally include charges and gains relating to divestitures, restructurings and other income or charges that may mask the underlying operating results and/or business trends of the Company or business segment, as applicable. For fiscal 2008, net income and operating income calculations excluded restructuring charges, impairment charges, in-process research and development charges, shareholder litigation charges and pro-forma operating income from acquisitions not budgeted. Net income also excluded certain legacy tax matters. Sales growth excluded the pro-forma sales base from acquisitions not budgeted, and free cash flow excluded the impact of any new acquisitions not budgeted.

The table below sets forth the fiscal 2008 payout target percentages, as well as the threshold, target, maximum and actual bonus payments for each of our named executive officers. In setting the target percentages for fiscal 2008, the Compensation Committee considered the Company's performance in fiscal 2007 as well as each individual executive's contribution to that performance. The Compensation Committee reviewed the target percentages applicable in fiscal 2007 and also took into account the day-to-day responsibilities of each named executive officer. The Compensation Committee determined that the 2007 post-separation bonus target percentages remained appropriate in light of peer group data and overall compensation of each executive officer.

The actual bonus payments are also reported in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table and the threshold, target and maximum bonus payments are also reported in the "Estimated Future Payouts Under Non-Equity Incentive Plan Awards" column of the Grants of Plan-Based Awards table.

Fiscal Year 2008 Performance Bonus Summary

| Executive Officer | Target Percentages | Threshold | Target | Maximum | Actual |
|--------------------------|-----------------------|-----------|-------------|-------------|-------------|
| Richard J. Meelia | 120% | \$674,100 | \$1,348,200 | \$2,696,400 | \$2,244,672 |
| Charles J. Dockendorff | 85% | \$262,693 | \$525,385 | \$1,050,770 | \$874,735 |
| José E. Almeida | 80% | \$240,440 | \$480,880 | \$961,760 | \$706,787 |
| John H. Masterson | 75% | \$187,575 | \$375,150 | \$750,300 | \$624,602 |
| Timothy R. Wright | 80% | \$218,120 | \$436,240 | \$872,480 | \$848,247 |

The performance bonus payments for fiscal 2008 were not adjusted for individual qualitative performance assessments.

Long-Term Incentive Awards

The Compensation Committee uses annual long-term incentive compensation to deliver competitive compensation that recognizes employees for their contributions to the Company and aligns named executive officers with shareholders in focusing on long-term growth and stock performance. The Compensation Committee has determined that annual long-term incentive compensation awards for our named executive officers should have a value that falls at the high end of the 50th to 75th percentile range of our peer group. The Compensation Committee believes this level of award is important to signify the strategic significance of the named executive officer's role. The Compensation Committee also believes that compensating through annual long-term incentive compensation furthers the link between compensation and corporate performance.

Although we expect to issue annual equity grants in the first quarter of each fiscal year going forward, we issued our founders' grants on July 2, 2007, in connection with the separation and commencement of operations as an independent company. As is typical in a spin-off situation such as ours, these awards had a value of approximately two times the intended post-separation annual grant value for each executive officer. This increased value was intended to acknowledge the significant efforts of the named executive officers in connection with the separation, to continue to motivate and retain the named executive officers after separation, to compensate for shortfalls in our retirement and other plans, as compared to benefits offered by companies in our peer group, and to reflect the fact that the Compensation Committee would not issue another equity grant as part of the annual grant cycle until our 2009 fiscal year. Accordingly, we did not issue any annual grants in the first quarter of fiscal 2008.

Recognizing that long-term incentives are generally the most significant element of total remuneration at the senior level and also acknowledging that long-term incentives are a crucial part of the "total rewards" compensation package that the Company offers, during fiscal 2008 the Compensation Committee completed a review of the Company's long-term incentive structure. The Compensation Committee examined a number of potential long-term incentive vehicles for the annual grants to be made in the first quarter of fiscal 2009 and going forward, considering the pros and cons of each. The Compensation Committee also considered the proportion of long term incentive value to be ascribed to vehicles with time-based vesting versus vehicles with performance-based vesting. The Compensation Committee observed that seven of the ten reporting companies in its revised compensation peer group offer performance-based long-term incentive vehicles, nine out of ten offer stock options and seven out of ten offer time-based restricted stock/restricted stock units. The Compensation Committee also considered the fact that half of the companies in the compensation peer group use three or more vehicles. Ultimately, the Compensation

Committee determined that each grant would be comprised of stock options (50%), restricted stock units with time-based vesting (25%) and restricted stock units with performance-based vesting (25%). The Compensation Committee determined that total shareholder return over a three-year period would be an appropriate metric for the performance units.

Other Benefits

Retirement Benefits

We maintain various retirement plans to assist our named executive officers with retirement income planning and increase the attractiveness of employment with us. After reviewing an internal study from July 2007 as well as a Towers Perrin study from November 2007, the Compensation Committee determined that the benefits offered through these retirement plans do not provide competitive benefits when compared with peer companies, in part because many of these peer companies offer defined benefit pension plans, which we do not.

For our named executive officers, we currently provide:

- a defined contribution 401(k) plan, the Covidien Retirement Savings and Investment Plan, that is available to all eligible United States employees; and
- a non-qualified deferred compensation plan, the Covidien Supplemental Savings and Retirement Plan, in which executive officers and other senior employees may participate.

Retirement Savings Plan. Under the Retirement Savings Plan, we generally match five dollars (\$5.00) for every one dollar (\$1.00) the named executive officer contributes up to the first one percent (1%) of the executive officer's eligible pay. Named executive officers credited with more than 10 years of service under the Retirement Savings Plan are entitled to an increased matching contribution. With respect to four named executive officers (Messrs. Meelia, Dockendorff, Almeida and Masterson), who have been credited with more than 10 years of service under the Retirement Savings Plan, we match six dollars (\$6.00) for every one dollar (\$1.00) the named executive officer contributes up to the first two percent (2%) of the executive officer's eligible pay. Named executive officers are fully vested in Company matching contributions under the Retirement Savings Plan upon completion of three years of service.

Supplemental Savings Plan. Under the Supplemental Savings Plan, named executive officers may defer up to 50% of their base salary and 100% of their annual bonus. We provide matching credits based on the named executive officer's deferred base salary and bonus at the same rate such officer is eligible to receive matching contributions under the Retirement Savings Plan and Company credits on any cash compensation (i.e., base and bonus) that the named executive officer earns during a calendar year in excess of applicable IRS limits (\$225,000 for 2007 and \$230,000 for 2008). Named executive officers are fully vested in matching and Company credits (including earnings on such credits) upon completion of three years of service. The Supplemental Savings Plan is a non-qualified deferred compensation plan that is maintained as an unfunded "top-hat" plan and is designed to comply with Section 409A of the Internal Revenue Code. Amounts credited to the Supplemental Savings Plan as named executive officer deferrals or Company credits may also be credited with earnings (or losses) based upon investment selections made by each officer from investments that generally mirror investments offered under the Retirement Savings Plan. Named executive officers may elect whether they will receive a distribution of their Supplemental Savings Plan account balances upon termination of employment or at a specified date. Distributions can be made in a lump sum or in up to 15 annual installments.

Health and Welfare Benefits

As part of our overall total compensation offering, our health and welfare benefits are intended to be competitive with peer companies. Other than the additional benefits, as described below, which are provided to Mr. Meelia, the health and welfare benefits we provide to the named executive officers, which include medical, dental, prescription drug, life insurance (including supplemental life insurance), accidental

death and dismemberment, business travel accident, personal and family accident, flexible spending accounts, short- and long-term disability coverage and the employee assistance program, are offered to all of our eligible United States-based employees.

In addition, in fiscal 2007, the Compensation Committee reviewed certain benefits provided to Mr. Meelia pre-separation and approved continuation of these benefits for Mr. Meelia. As described in the notes to the All Other Compensation Table, these benefits, which continued in fiscal 2008, include variable universal life insurance, supplemental long-term disability insurance, excess disability insurance and, for Mr. Meelia and his spouse, long-term care.

Perquisites and Other Benefits

Perquisites. In fiscal 2007, the Compensation Committee reviewed the existing perquisite program, which was established pre-separation, and concluded that the program was inconsistent with our executive compensation philosophy going forward. Accordingly, the Compensation Committee terminated the perquisite program, effective at the end of our 2007 fiscal year, but determined that it was in the Company's and the executives' best interests to establish an executive physical program, which offers comprehensive and coordinated annual physical examinations at a nominal cost to the Company. In recognition of the termination of the perquisite program (which provided for an allowance equal to ten percent (10%) of the executive's base salary), effective for the 2008 fiscal year, the Compensation Committee authorized a one-time seven percent (7%) increase in each named executive officer's base salary as in effect on the last day of our 2007 fiscal year.

Other than the additional health and welfare benefits which we provide to our Chief Executive Officer, as noted above, the limited use of corporate aircraft noted below, and our executive physical program, we do not provide our named executive officers with any perquisites. The Compensation Committee believes that the emphasis on performance-based compensation, rather than on entitlements such as perquisites, is consistent with its compensation philosophy.

Airplane Usage. In fiscal 2007, the Compensation Committee determined that it was important to establish a corporate aircraft policy due to the security and efficiency benefits that such a policy provides to a company. Under the policy, our Chief Executive Officer is permitted to use our corporate aircraft for personal travel, up to sixty (60) hours per fiscal year. Unless otherwise approved by the Chairman of the Compensation Committee or the Chief Executive Officer, other named executive officers are permitted to use the corporate aircraft for personal travel only if such use is at no incremental cost to the Company. Pursuant to current income tax rules applicable to personal use of aircraft, the Company imputes income to the named executive officer for amounts based on the Standard Industry Fare Level rates set by the Civil Aeronautics Division of the Department of Transportation. This imputed income amount is included in a named executive officer's earnings at the end of the year and reported as W-2 income to the Internal Revenue Service. The Company does not provide tax assistance with respect to this imputed income.

Employee Stock Purchase Plan

We maintain a broad-based employee stock purchase plan which provides eligible employees, including our executive officers, with the opportunity to purchase Company shares. Eligible employees authorize payroll deductions to be made for the purchase of Company shares. The Company provides a fifteen percent (15%) matching contribution on up to \$25,000 of an employee's payroll deductions in any calendar year. All shares are purchased on the open market by a designated broker. Messrs. Meelia and Masterson participated in the employee stock purchase plan in 2008.

Severance and Change in Control Benefits

The Compensation Committee determined that providing severance and change in control benefits to all of our named executive officers is appropriate, given the fact that these are standard benefits provided by peer companies and also given the need to ensure continuity of management in the event of an actual or

threatened change in control. Accordingly, in fiscal 2007, the Compensation Committee adopted a severance plan, the Covidien Ltd. Severance Plan for U.S. Officers and Executives, and a change in control plan, the Covidien Ltd. Change in Control Severance Plan for Certain U.S. Officers and Executives.

Under the severance plan, benefits are payable to any named executive officer (other than our Chief Executive Officer, who has an employment agreement which provides for certain severance benefits) upon an involuntary termination of employment for any reason other than cause, permanent disability or death. Benefits are generally payable for 18 months following termination of employment.

Under the change in control plan, benefits are payable to any named executive officer upon an involuntary termination of employment or good reason resignation that occurs during a period shortly before and continuing after a change in control. Benefits are generally payable for 24 months following termination of employment (36 months for our Chief Executive Officer). The Compensation Committee believes that it is important to provide named executive officers with protection in the event that their employment is terminated in connection with a change in control or their position is modified in such a way as to diminish their compensation, authority or responsibilities. Maintaining a double trigger for payment of change in control benefits helps to provide that protection while simultaneously precluding the named executive officer from receiving benefits solely due to a change in control.

Employment Agreement with Richard J. Meelia

On December 29, 2006, Tyco International entered into an executive employment agreement with Mr. Meelia that provided for Mr. Meelia to continue serving as the Chief Executive Officer of the healthcare business of Tyco International until completion of the separation and to serve as the Company's Chief Executive Officer post-separation. This employment agreement, which was amended on November 21, 2008 to reflect our separation from Tyco International, to make changes related to Section 409A of the Internal Revenue Code and to make other miscellaneous clarifications to language in the agreement, is described in more detail following the executive compensation tables below.

Executive Officer Share Retention and Ownership Guidelines

In 2007, the Compensation Committee determined that it was in the best interests of the Company for all named executive officers to have meaningful actual share ownership positions in Covidien in order to reinforce the alignment of management and shareholder interests. Accordingly, the Compensation Committee adopted share retention and ownership guidelines for named executive officers. Under these guidelines, named executive officers were expected to retain 75% of the net after-tax shares realized under equity-based compensation awards until they achieved and continued to maintain a significant ownership position, expressed as a multiple of base salary as follows:

Chief Executive Officer 5 times base salary
Other Named Executive Officers 3 times base salary

After achieving the applicable share ownership level, named executive officers were expected to retain at least 50% of their net after-tax shares for one year. Shares held directly by the named executive officer, restricted stock, restricted stock units, deferred stock, deferred stock units and shares held indirectly through the Covidien Stock Fund (an employer stock fund that currently is a frozen investment in the Retirement Savings Plan) are included in determining a named executive officer's share ownership. Shares underlying stock options that have not been exercised and unvested performance shares or units are not included in the calculation.

In July 2008, the Compensation Committee reviewed the share retention and ownership guidelines and determined that the 75% and 50% net share retention requirements were administratively burdensome and unnecessarily complex, making it difficult for covered executives to readily assess their positions with respect to the guidelines. The Compensation Committee also considered a Towers Perrin survey which indicated that, while 74% of the companies in the Standard & Poor's 500 index have share ownership guidelines, only 24% use retention percentages. The survey further indicated that, of those companies that have established a period of time to achieve compliance with the ownership guidelines, 74% use 5 years.

Accordingly, in order to simplify the share ownership guidelines, the Committee elected to eliminate the 75% and 50% net share retention requirements and instead require executives to achieve the requisite ownership position within five years of first becoming subject to the share ownership guidelines.

Each of the named executive officers has achieved shareholdings in excess of the applicable multiple set forth above.

Tax Considerations

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, limits to \$1 million the tax deduction available to public companies for annual compensation that is paid to covered employees (generally, the named executive officers other than the Chief Financial Officer), unless the compensation qualifies as performance-based or is otherwise exempt from Section 162(m). In evaluating compensation programs applicable to our named executive officers (including the 2007 Stock and Incentive Plan, under which our named executive officers receive annual incentive bonuses, stock options and restricted stock units), the Compensation Committee considers the potential impact on the Company of Section 162(m). The Compensation Committee generally intends to maximize deductibility of compensation under Section 162(m) to the extent consistent with our overall compensation program objectives, while also maintaining maximum flexibility in the design of our compensation programs and in making appropriate payments to named executive officers.

Section 409A Compliance

We have designed our compensation programs and awards to named executive officers to comply with Section 409A of the Internal Revenue Code. However, certain options granted by Tyco International in 2002, which were converted upon our separation, had an exercise price that was less than the fair market value of the underlying stock on the measurement date of the stock option. Accordingly, our Compensation Committee authorized us to take certain actions with respect to stock options to avoid the potential imposition of additional income tax liability under Section 409A, as permitted by regulations promulgated by the United States Treasury Department. Pursuant to the authority granted under the Company's 2007 Stock and Incentive Plan, in November 2007, the Compensation Committee authorized the Company to take the necessary actions permitted under the plan to:

- amend existing option awards to increase the exercise price of a portion of the stock options granted by Tyco International on February 5, 2002, to \$40.05, the closing price of the Company's common stock on December 3, 2007; and
- pay to each holder of these affected options an amount equal to the amount by which the aggregate increased exercise price of the affected options held by the holder exceeds the aggregate exercise price of the affected options before such increase. Such amount was paid on January 11, 2008, in the form of restricted stock units that fully vested on January 23, 2008.

Charles J. Dockendorff, our Executive Vice President and Chief Financial Officer, was affected by this increase in exercise price with respect to options to purchase 26,133 shares of common stock at a pre-increase exercise price of \$30.4016 per share. The aggregate value of the restricted stock units we distributed to Mr. Dockendorff in January 2008 in connection with the increase in exercise price was \$252,142.

John H. Masterson, our Senior Vice President and General Counsel, was affected by this increase in exercise price with respect to options to purchase 10,453 shares of common stock at a pre-increase exercise price of \$30.4016 per share. The aggregate value of the restricted stock units we distributed to Mr. Masterson in January 2008 in connection with the increase in exercise price was \$100,872.

Compensation Committee Report on Executive Compensation

The Compensation Committee is responsible for the oversight of the Company's compensation programs on behalf of the Board of Directors. In fulfilling these responsibilities, the Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 26, 2008, and Proxy Statement for the 2009 Annual Meeting of Shareholders, each of which will be filed with the Securities and Exchange Commission.

Compensation and Human Resources Committee

Timothy M. Donahue, Chairman John M. Connors, Jr. Kathy J. Herbert

Executive Compensation Tables

Summary Compensation

The information included in the Summary Compensation Table below reflects compensation earned by our chief executive officer, chief financial officer and the three other most highly compensated executive officers in fiscal 2008 and fiscal 2007. We refer to these five individuals collectively as our "named executive officers." For a more complete understanding of the table, please read the narrative disclosures that follow the table.

SUMMARY COMPENSATION TABLE

| Name and Principal Position (A) | Fiscal Year (B) | Salary (\$) (C) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) (G) | Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$) (H) | All Other Compensation (\$) | Total (\$) (J) |
|---|-----------------------|------------------------|-------------------------|--------------------------|---|---|-----------------------------------|----------------------------|
| Richard J. Meelia | 2008 | \$1,111,154 | \$6,560,259 | \$6,345,970 | \$2,244,672 | \$4,090 | \$703,729 | \$16,969,874 |
| | 2007 | \$905,163 | \$3,170,889 | \$2,602,223 | \$1,248,644 | \$5,431 | \$5,334,680 | \$13,267,030 |
| Charles J. Dockendorff Executive Vice President and Chief Financial Officer | 2008 2007 | \$610,035 \$511,844 | \$825,193 \$619,840 | \$943,689 \$571,888 | \$874,735 \$550,387 | ¹ \$2,740 | \$118,795 \$95,580 | \$3,372,447 \$2,352,279 |
| José E. Almeida Senior Vice President and President, Medical Devices | 2008 | \$594,488 | \$772,679 | \$764,707 | \$706,787 | ¹ | \$111,813 | \$2,950,474 |
| | 2007 | \$535,000 | \$588,923 | \$544,935 | \$514,002 | \$65 | \$123,002 | \$2,305,927 |
| John H. Masterson Senior Vice President and General Counsel | 2008 | \$489,711 | \$545,032 | \$588,743 | \$624,602 | 1 | \$85,683 | \$2,333,771 |
| | 2007 | \$387,826 | \$416,211 | \$382,103 | \$378,707 | \$534 | \$70,357 | \$1,635,738 |
| Timothy R. Wright | 2008 | \$540,454 | \$314,173 | \$309,279 | \$848,247 | | \$105,940 | \$2,118,093 |

The present value of the accumulated benefit decreased for this executive officer. See "Change in Pension Value and Non-Qualified Deferred Compensation Earnings (Column H)" note below for more information.

The discussion below sets forth a description of the elements of compensation reported in the columns of the Summary Compensation Table. As described in our Proxy Statement on Schedule 14A filed with the SEC on January 24, 2008, a portion of the compensation paid in 2007 was paid by Tyco International, from whom we separated in June 2007.

Stock Awards (Column E) This column represents the dollar amount recognized for financial statement reporting purposes for our 2008 and 2007 fiscal years (excluding forfeiture assumptions), in accordance with SFAS 123R, for restricted stock and restricted stock unit awards held by each of our named executive officers. These amounts reflect our accounting expense for these awards and do not correspond to the actual value that may be recognized by the named executive officers, which may be higher or lower based on a number of factors, including the Company's performance, stock price fluctuations and applicable vesting. For additional information relating to restricted stock unit awards, see the "Compensation Discussion and Analysis" beginning on page 18 of this Proxy Statement.

In connection with our separation from Tyco International in June 2007, a number of outstanding Tyco International equity awards were converted to awards for Covidien shares. We refer to these awards as "converted restricted stock awards," "converted restricted stock unit awards," or "converted stock option awards," as applicable, throughout the narrative disclosures that accompany the executive compensation tables.

Amounts listed in Column E include converted restricted stock awards, converted restricted stock unit awards, restricted stock unit awards that we issued in fiscal year 2007 as part of our founders' grant and, for Messrs. Dockendorff and Masterson, restricted stock unit awards that we issued in fiscal year 2008 to avoid potential imposition of additional tax liability under Section 409A of the Internal Revenue Code.

Option Awards (Column F) This column represents the dollar amount recognized for financial statement reporting purposes for our 2008 and 2007 fiscal years (excluding forfeiture assumptions), in accordance with SFAS 123R, for option awards held by each of our named executive officers. For information on the assumptions used in calculating these amounts pursuant to SFAS 123R, see Note 15 to the Consolidated and Combined Financial Statements included in our Annual Reports on Form 10-K for the years ended September 26, 2008 and September 28, 2007. These amounts reflect our accounting expense for these awards and do not necessarily correspond to the actual value that may be recognized by the named executive officers, which may be higher or lower based on a number of factors, including the Company's performance, stock price fluctuations and applicable vesting. For additional information relating to option awards, see the "Compensation Discussion and Analysis" section beginning on page 18 of this Proxy Statement. The amounts in this column reflect both converted stock option awards and stock options we granted in fiscal year 2007 as part of our founders' grant.

Non-Equity Incentive Plan Compensation (Column G) The amounts reported in Column G represent annual incentive cash bonuses paid to the named executive officers in December 2008 for performance in fiscal 2008 and in December 2007 for performance in fiscal 2007 under our Annual Incentive Plan. Although paid under our Annual Incentive Plan, payouts for fiscal 2007 were based on performance measures established by Tyco International before separation.

Change in Pension Value and Non-Qualified Deferred Compensation Earnings (Column H)

The amounts reported in Column H are attributable to the change in the actuarial present value of the accumulated benefit under the frozen Kendall Pension Plan at September 26, 2008, as compared to September 28, 2007. The present value of the accumulated benefit decreased \$6,389 for Mr. Dockendorff, \$515 for Mr. Almeida and \$3,666 for Mr. Masterson because of an increased discount rate used to calculate the cash balance benefit component of the benefit. This discount rate did not result in a decrease in Mr. Meelia's benefit because he is one year away from the unreduced retirement age (60). Mr. Wright is not eligible to participate in the Kendall Pension Plan because it was frozen before he commenced employment with the Company. For more information, see the Pension Benefits table and related notes and narrative below.

All investments offered under the Supplemental Savings Plan mirror investments offered under the Retirement Savings Plan (our tax-qualified Section 401(k) plan), except that the Retirement Savings Plan includes two additional investment options, BGI LifePath Portfolio Funds and our frozen Covidien Stock Fund, and the Supplemental Savings Plan includes an additional investment alternative available to Messrs. Dockendorff and Masterson, the Enhanced Moody's Rate. For more information, see the Fiscal 2008 Non-Qualified Deferred Compensation table and related notes and narrative below.

All Other Compensation (Column I) The amounts reported in Column I represent the aggregate dollar amount for each named executive officer for personal benefits, tax reimbursements, Company contributions to the Retirement Savings Plan, Company credits to the Supplemental Savings Plan, insurance premiums and other compensation, as applicable.

The following table shows the specific amounts included in Column I of the Summary Compensation Table for fiscal 2008. For a more complete understanding of the table, please read the narrative disclosures that follow the table.

ALL OTHER COMPENSATION

| Name and Principal Position | Perquisites and Other Personal Benefits | Tax Reimbursements | Company Contributions to Defined Contribution Plans | Insurance Premiums | Dividends/ Earnings on Equity Awards | Other | Total |
|--|---|-----------------------|---|-----------------------|---|--------------|-----------|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) |
| Richard J. Meelia | \$194,877 | \$32,412 | \$207,626 | \$71,270 | \$197,417 | \$127 | \$703,729 |
| Charles J. Dockendorff Executive Vice President and Chief Financial Officer | _ | _ | \$69,288 | _ | \$49,409 | \$98 | \$118,795 |
| José E. Almeida | _ | \$308 | \$66,204 | _ | \$45,181 | \$120 | \$111,813 |
| John H. Masterson | _ | _ | \$52,920 | _ | \$32,646 | \$117 | \$85,683 |
| Timothy R Wright | \$22,781 | \$19,307 | \$42,382 | _ | \$21,470 | _ | \$105,940 |

Perquisites & Other Personal Benefits (Column B)

Mr. Meelia. The aggregate value of perquisites and other personal benefits for Mr. Meelia in fiscal year 2008 was \$194,877. This amount includes a reimbursement for health club dues of \$147 (generally available to employees), \$1,103 of travel, lodging and entertainment expenses incurred in connection with the requested attendance of Mr. Meelia's spouse at one board meeting retreat and personal use of Company aircraft. The value of flights on corporate aircraft, \$193,627, is based on the total variable incremental cost incurred by the Company in providing such flights, calculated on an annualized per hour basis. The variable costs associated with such flights include fuel, triprelated maintenance, crew travel expenses, on-board catering, landing and parking fees and other variable costs. As Company-owned aircraft are used predominantly for business purposes, we have not included fixed costs, such as pilots' salaries, insurance and standard maintenance, which do not change based on usage. Executives are taxed on any imputed income attributable to personal use of Company aircraft and spousal attendance at Company events such as board retreats and do not receive tax assistance from the Company with respect to these amounts.

Mr. Wright. The aggregate value of perquisites and other personal benefits for Mr. Wright in fiscal year 2008 was \$22,781. The Company agreed to reimburse Mr. Wright for commuting expenses associated with travel from his home in Ohio to our offices in St. Louis, Missouri during the first year of his employment with the Company. Mr. Wright commenced employment with the Company in February 2007, and the amount listed in Column B includes \$21,543 for the reimbursement of these expenses during fiscal 2008 and \$1,238 for reimbursement of health insurance premiums paid for continuation coverage under Mr. Wright's former employer's health plan (generally available to newly hired employees).

Tax Reimbursements (Column C)

Mr. Meelia. Mr. Meelia received a tax reimbursement of \$32,412 to pay the taxes associated with premiums paid on his behalf for universal life insurance and supplemental long-term disability insurance.

Mr. Almeida. Mr. Almeida received a tax reimbursement of \$308 to pay the taxes associated with his relocation reimbursement.

Mr. Wright. Mr. Wright received a tax reimbursement of \$19,307 to pay the taxes associated with the Company's reimbursement of his commuting expenses. Of this amount, \$4,931 was paid in fiscal 2008, but is attributable to expenses that were reimbursed in fiscal year 2007.

Company Contributions to Defined Contribution Plans (Column D)

Mr. Meelia. Mr. Meelia received \$16,714 as a matching contribution in the Retirement Savings Plan and \$190,912 as a Company credit to the Supplemental Savings Plan.

Mr. Dockendorff. Mr. Dockendorff received \$13,800 as a matching contribution in the Retirement Savings Plan and \$55,488 as a Company credit to in the Supplemental Savings Plan.

Mr. Almeida. Mr. Almeida received \$13,800 as a matching contribution in the Retirement Savings Plan and \$52,404 as a Company credit to the Supplemental Savings Plan.

Mr. Masterson. Mr. Masterson received \$13,000 as a matching contribution in the Retirement Savings Plan and \$39,920 as a Company credit to the Supplemental Savings Plan.

Mr. Wright. Mr. Wright received \$11,500 as a matching contribution in the Retirement Savings Plan and \$30,882 as a Company credit to the Supplemental Savings Plan.

Insurance Premiums (Column E)

Mr. Meelia. This column reflects premiums paid by the Company for Executive Life Insurance for Mr. Meelia, as well as universal life insurance, long-term disability insurance, excess disability insurance premiums and extended care insurance for him and his spouse.

Dividends/Earnings on Equity Awards (Column F)

Unvested restricted stock units are credited with dividend equivalent units at the same rate as any cash dividends paid to holders of the Company's common stock. Dividend equivalent units vest according to the same vesting schedule as the underlying restricted stock units. This column reflects the dollar value, as of September 26, 2008, of dividend equivalent units that were credited by the Company on unvested restricted stock unit awards and, except for Mr. Wright, any cash dividends paid during fiscal 2008 on restricted stock awards.

Other (Column G)

When restricted stock and restricted stock unit awards were converted upon separation, the conversion resulted in fractional shares. Because converted restricted stock awards and converted restricted stock unit awards were issued only in whole shares, in the first quarter of fiscal 2008, the Company distributed to all employees holding such awards, including named executive officers, a cash payment equal to the value of the fractional shares. This column reflects the cash payment of fractional shares associated with the converted restricted stock awards and converted restricted stock unit awards.

Grants of Plan-Based Awards

The following table provides information concerning the annual and long-term incentive awards granted to each of our named executive officers in fiscal 2008. Because we issued our founders' grant on July 2, 2007 in connection with our separation from Tyco International and commencement of operations as an independent company, we did not issue any annual equity grants in fiscal 2008. "AIP" reflects Annual Incentive Plan cash compensation and "RSUs" are restricted stock units. For a more complete understanding of the table, please read the narrative disclosures that follow the table.

FISCAL 2008 GRANTS OF PLAN-BASED AWARDS

| Name | Grant Date | Date of Committee Action | Estimated Future Payouts | | All other Stock Awards: Number of Shares of Stock or Units (#) | All other Option Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards | |
|------------------------|---------------|--------------------------------|--------------------------|--------------|---|---|--|--|-----------|
| | | | Threshold (\$) | Target (\$) | Maximum (\$) | | | | |
| (A) | (B) | | (C) | (D) | (E) | (F) | (G) | (H) | (I) |
| Richard J. Meelia | | | | | | | | | |
| AIP | _ | _ | \$674,100 | \$1,348,200 | \$2,696,400 | _ | _ | _ | _ |
| Charles J. Dockendorff | | | | | | | | | |
| AIP | | _ | \$262,693 | \$525,385 | \$1,050,770 | _ | _ | _ | _ |
| RSUs | 1/11/08 | 11/19/07 | _ | _ | _ | 5,613 | _ | _ | \$252,142 |
| José E. Almeida | | | | | | | | | |
| AIP | _ | _ | \$240,440 | \$480,880 | \$961,760 | _ | | _ | |
| John H. Masterson | | | | | | | | | |
| AIP | _ | _ | \$187,575 | \$375,150 | \$750,300 | _ | _ | _ | _ |
| RSUs | 1/11/08 | 11/19/07 | _ | _ | _ | 2,245 | _ | _ | \$100,872 |
| Timothy R. Wright | | | | | | | | | |
| AIP | _ | _ | \$218,120 | \$436,240 | \$872,480 | _ | _ | _ | _ |

Grant Date (Column B) Please read the narrative disclosure set forth below under the heading "All Other Stock Awards (Column F)."

Non-Equity Incentive Plan Awards (Columns C through E) The amounts reported in Columns C through E reflect threshold, target and maximum performance bonus award amounts for the 2008 fiscal year pursuant to our 2008 Annual Incentive Plan, which is an element of our 2007 Stock and Incentive Plan. The actual amounts earned by each named executive officer pursuant to such awards are set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. For more information on the performance metrics applicable to these awards, see the "Compensation Discussion and Analysis" beginning on page 18.

All Other Stock Awards (Column F) The Compensation and Human Resources Committee authorized the issuance of restricted stock unit awards to Messrs. Dockendorff and Masterson to avoid the potential imposition of additional income tax liability under Section 409A of the Internal Revenue Code. These grants were issued only to Company employees who held a converted stock option award issued to them on February 5, 2002, including Messrs. Dockendorff and Masterson. The exercise price for these options was increased to the fair market value of Company stock on December 3, 2007 and the value of the restricted stock unit award represents the difference between the exercise price of the converted stock option award and the "new" exercise price of the option after the increase. The increased exercise price is noted in the Option Awards column (Column D) of the Outstanding Equity Awards at 2008 Fiscal Year-End table below. These restricted stock unit awards fully vested on January 23, 2008. For more information on the issuance of these restricted stock unit grants, see the "Compensation Discussion and Analysis" beginning on page 18.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding outstanding stock option awards and unvested restricted stock or restricted stock unit awards (including related dividend equivalent units) held by each named executive officer as of September 26, 2008. For a more complete understanding of the table, please read the footnotes that follow the table.

OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR-END

| | | Option Aw | ards | | Stock Awa | ards |
|------------------------|--|--|---|--|---|--|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) |
| (A) | (B) | (C) | (D) | (E) | (G) | (H) |
| Richard J. Meelia | 470,394 ¹ 61,778 ¹ 39,199 ¹ 195,997 ¹ 11,451 ¹ 313,596 ¹ 76,023 ¹ 352,795 ¹ 215,597 ¹ 156,798 ¹ 84,148 ² 48,999 ³ 160,050 ⁴ | 0 0 0 0 0 0 0 0 0 0 0 42,074 ² 146,998 ³ 480,150 ⁴ | \$46.9829 \$52.5482 \$46.4357 \$64.6243 \$67.6646 \$57.0160 \$64.5321 \$18.2018 \$35.4533 \$45.6575 \$36.9903 \$38.6485 \$43.0878 | 02/07/2009 10/17/2009 01/09/2010 10/02/2010 10/23/2010 09/30/2011 10/25/2011 03/06/2013 03/25/2014 03/09/2015 11/21/2015 11/20/2016 07/01/2017 | 10,7505 62,7196 1,4797 33,8678 139,2539 1,99110 | \$590,283 \$3,443,900 \$81,212 \$1,859,637 \$7,646,382 \$109,326 |
| Charles J. Dockendorff | 31,359 ¹ 31,359 ¹ 31,359 ¹ 52,266 ¹ 26,133 ¹ 39,199 ¹ 32,457 ¹ 16,673 ² 11,759 ³ 41,225 ⁴ | 0 0 0 0 0 0 0 0 0 8,336 ² 35,280 ³ 123,675 ⁴ | | 03/31/2009 04/17/2010 03/25/2011 02/04/2012 02/04/2012 03/06/2013 03/25/2014 03/09/2015 11/21/2015 11/20/2016 07/01/2017 | 2,125 ⁵ 15,052 ⁶ 354 ⁷ 6,679 ⁸ 35,858 ⁹ 512 ¹⁰ | \$116,684 \$826,505 \$19,438 \$366,744 \$1,968,963 \$28,114 |
| José E. Almeida | 32,457 ¹ 0 8,388 ³ 40,375 ⁴ | $0\\8,337^2\\25,166^3\\121,125^4$ | \$45.6575 \$36.9903 \$38.6485 \$43.0878 | 03/09/2015 11/21/2015 11/20/2016 07/01/2017 | 2,125 ⁵ 10,740 ⁶ 251 ⁷ 6,679 ⁸ 35,115 ⁹ 501 ¹⁰ | \$116,684 \$589,733 \$13,782 \$366,744 \$1,928,165 \$27,510 |
| John H. Masterson | 15,679 ¹ 23,519 ¹ 23,519 ¹ 20,906 ¹ 10,453 ¹ 18,031 ¹ 23,284 ¹ 11,133 ² 8,819 ³ 26,000 ⁴ | $\begin{matrix} 0 \\ 0 \\ 0 \\ 0 \\ 0 \\ 0 \\ 0 \\ 5,566^2 \\ 26,460^3 \\ 78,000^4 \end{matrix}$ | | 03/31/2009 04/17/2010 03/25/2011 02/04/2012 02/04/2012 03/25/2014 03/09/2015 11/21/2015 11/20/2016 07/01/2017 | 1,425 ⁵ 11,289 ⁶ 265 ⁷ 4,420 ⁸ 22,628 ⁹ 323 ¹⁰ | \$78,247 \$619,879 \$14,551 \$242,702 \$1,242,503 \$17,736 |
| Timothy R. Wright | 24,9004 | 74,7004 | \$43.0878 | 07/01/2017 | 21,668 ⁹ 309 ¹⁰ | \$1,189,790 \$16,967 |

Footnotes

- Represents fully vested converted stock option awards.
- Represents converted stock option awards that were granted on November 22, 2005, and that vest one-third annually beginning on the first anniversary of the grant date.
- Represents converted stock option awards that were granted on November 21, 2006, and that vest one-quarter annually beginning on the first anniversary of the grant date.

- Represents stock options that were granted on July 2, 2007, and that vest one-quarter annually beginning on the first anniversary of the grant date.
- Represents unvested converted restricted stock awards that were granted on November 22, 2005, and that fully vest on the third anniversary of the grant date.
- Represents unvested converted restricted stock unit awards that were granted on November 21, 2006, and that vest one-third annually beginning on the second anniversary of the grant date.
- Represents unvested dividend equivalent units credited on converted restricted stock unit awards that were granted on November 21, 2006, and that vest according to the same vesting schedule as the underlying restricted stock units, i.e., one-third annually beginning on the second anniversary of the grant date.
- Represents converted restricted stock unit awards that fully vested on September 30, 2008.
- Represents unvested restricted stock units that were granted on July 2, 2007, and that vest one-quarter annually beginning on the first anniversary of the grant date.
- Represents unvested dividend equivalent units credited on restricted stock unit awards that were granted on July 2, 2007, and that vest according to the same schedule as the underlying restricted stock units, i.e., one-quarter annually beginning on the first anniversary of the grant date.
- As described in the Compensation Discussion and Analysis above, the Compensation Committee increased the exercise price with respect to a portion of the converted stock options issued to Messrs. Dockendorff and Masterson in 2002 to avoid the potential imposition of additional income tax liability under Section 409A of the Internal Revenue Code. This represents the portion of the converted stock option awards that was not subject to the increased exercise price.
- As described in the Compensation Discussion and Analysis above, the Compensation Committee increased the exercise price with respect to options to purchase 26,133 shares held by Mr. Dockendorff, and options to purchase 10,453 shares held by Mr. Masterson, from \$30.4016 per share to \$40.05 per share (the closing price of our stock on December 3, 2007, the effective date of the change) to avoid the potential imposition of additional income tax liability under Section 409A of the Internal Revenue Code. This represents the portion of the converted stock option awards that was subject to the increased exercise price.

Option Exercises and Stock Vested

The following table provides information regarding the number of Company stock options that were exercised by named executive officers during the 2008 fiscal year and the value realized from the exercise of such awards. The table also provides information regarding the vesting of restricted stock and restricted stock units during the 2008 fiscal year. For a more complete understanding of the table, please read the narrative disclosures that follow the table.

FISCAL 2008 OPTION EXERCISES AND STOCK VESTED

| | Option Awards | | Stock | k Awards |
|------------------------|---|---|--|--------------------------------------|
| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| (A) | (B) | (C) | (D) | (E) |
| Richard J. Meelia | 117,598 31,801 156,798 ¹ | \$1,831,448 \$360,235 \$2,878,153 | 8,750 46,940 | \$359,100 \$2,282,927 |
| Charles J. Dockendorff | 20,905 | \$152,253 | 1,895 5,613 12,087 | \$77,771 \$233,585 \$587,822 |
| José E. Almeida | 8,336 | \$99,814 | 1,895 11,837 | \$77,771 \$575,693 |
| John H. Masterson | 23,519 | \$184,476 | 1,360 2,245 7,627 | \$55,814 \$93,426 \$370,939 |
| Timothy R. Wright | _ | _ | 7,304 | \$355,230 |

Footnotes

Per an agreement entered into on December 4, 2006, that was required to avoid the potential imposition of additional income tax liability under Section 409A of the Internal Revenue Code, Mr. Meelia agreed to exercise a portion of this option in calendar year 2008.

Option Awards (Columns B and C) Other than for Mr. Almeida and as indicated in footnote 1 above for Mr. Meelia with respect to 156,798 shares, the information reported in Columns B and C reflects exercises of converted stock option awards that were set to expire in calendar year 2008.

Stock Awards (Columns D and E) The information reported in Columns D and E reflects the vesting of converted restricted stock awards, restricted stock unit awards, dividend equivalent units relating to the restricted stock unit awards and, with respect to Messrs. Dockendorff and Masterson, restricted stock units issued in connection with the correction required to avoid the potential imposition of additional income tax liability under Section 409A of the Internal Revenue Code.

Pension Benefits

Messrs. Almeida, Dockendorff, Masterson, and Meelia participate in the Kendall/ADT Pension Plan, which was frozen with respect to all future benefit accruals (except interest crediting on the cash balance benefit) as of July 1, 1995. The Pension Plan has two components:

- a final average pay pension benefit, which was frozen as of May 31, 1990; and
- a cash balance benefit.

Messrs. Dockendorff and Meelia are entitled to benefits payable pursuant to both components, while Messrs. Almeida and Masterson are entitled only to the cash balance benefit.

Participants retiring on their normal retirement date (attainment of age 65) are entitled to a monthly pension calculated as the sum of:

- the benefit accrued under the provisions of the plan as in effect on June 1, 1990, including the value of the benefit derived from employee contributions; and
- with respect to accruals on or after June 1, 1990, the actuarial equivalent of the participant's current account.

The current account is credited with interest with the one-year Treasury bill rate in effect on January 1st for each calendar year and service credits as follows:

| <u>Tier</u> | Years of Benefit Service | Percent of Compensation |
|-------------|--------------------------|-------------------------|
| I | 0-2 | 4.75% |
| II | 3-9 | 5.25% |
| III | 10-14 | 6.00% |
| IV | 15-19 | 7.00% |
| V | 20+ | 7.50% |

Participants desiring to retire before normal retirement age may do so after attaining age 55 and completing five years of continuous service. If a participant chooses to retire before normal retirement age, his or her accrued benefit as of June 1, 1990 will be reduced by 0.33% per month for each month commencement precedes age 60. Only Mr. Meelia currently is eligible for retirement.

The following table provides information with respect to these pension benefits. For a more complete understanding of the table, please read the footnotes that follow the table.

2008 PENSION BENEFITS

| Name | Plan Name | Number of Years Credited Service ¹ (#) | Present Value of Accumulated Benefit ² (\$) | Payments During Last Fiscal Year (\$) |
|------------------------|--|---|--|---|
| (A) | (B) | (C) | (D) | (E) |
| Richard J. Meelia | Kendall Pension Plan ³ Kendall Pension Plan ⁴ | 13.1 5.1 | \$21,739 \$90,843 | _ _ |
| Charles J. Dockendorff | Kendall Pension Plan ³ Kendall Pension Plan ⁴ | 0.7 5.1 | \$7,014 \$47,697 | |
| José E. Almeida | Kendall Pension Plan ⁴ | 0.2 | \$1,149 | _ |
| John H. Masterson | Kendall Pension Plan ⁴ | 2.1 | \$9,547 | _ |
| Timothy R. Wright | _ | _ | _ | _ |

Footnotes

- The number of years of service credited under the Kendall/ADT Pension Plan for the named executive officers is less than the number of actual years of service because the years of credited service were frozen as of July 1, 1995. This freeze does not result in any increase in benefit to the named executive officers.
- All assumptions are as detailed in the Statement of Financial Accounting Standards No. 87 actuarial reports for the fiscal year ending September 26, 2008, with the exception of the following:
 (a) retirement age is the earliest age at which unreduced payment of all benefits can be received; and (b) no pre-retirement mortality, disability or termination is assumed. The amounts are calculated as being payable at age 60, the earliest unreduced retirement age.
- ³ Represents benefit payable under the final average pay component.
- ⁴ Represents benefit payable under the cash balance benefit component.

Non-Qualified Deferred Compensation

The following table provides information with respect to non-qualified deferred compensation plans for each of the named executive officers. For more information regarding information contained in the table, please read the narrative disclosures and footnotes that follow the table and, for additional information regarding the material terms of our non-qualified deferred compensation plan, please see the "Compensation Discussion and Analysis" section beginning on page 18 of this Proxy Statement and the narrative disclosure regarding column H of the Summary Compensation Table.

FISCAL 2008 NON-QUALIFIED DEFERRED COMPENSATION

| Name | Executive Contributions in Last FY (\$) | Registrant Contributions in Last FY (\$) | Aggregate Earnings in Last FY (\$) | Aggregate Withdrawals/ Distributions (\$) | Aggregate Balance at Last FYE (\$) |
|---|--|---|------------------------------------|--|------------------------------------|
| (A) | (B) | (C) | (D) | (E) | (F) |
| Richard J. Meelia Covidien Supplemental | | | | | |
| Savings Plan | \$1,179,899 | \$190,912 | (\$183,966) | _ | \$4,891,393 |
| Kendall Executive Supplemental Retirement Plan ¹ | | | | | \$116,485 |
| Charles J. Dockendorff | | | | | |
| Covidien Supplemental Savings Plan | \$295,379 | \$55,488 | \$501,292 | \$1,244,2522 | \$10,772,406 |
| José E. Almeida | | | | | |
| Covidien Supplemental Savings Plan | \$110,530 | \$52,404 | \$17,314 | _ | \$446,391 |
| John H. Masterson | | | | | |
| Covidien Supplemental Savings Plan | \$43,942 | \$39,920 | \$148,400 | \$171,4462 | \$3,791,667 |
| Timothy R. Wright | | | | | |
| Covidien Supplemental Savings Plan | _ | \$30,882 | \$1,006 | _ | \$34,779 |

Footnotes

- Represents a frozen benefit in the Kendall Company Senior Executive Supplemental Retirement Plan that was maintained by The Kendall Company prior to its acquisition by Tyco International and which was designed to provide supplemental retirement benefits in excess of IRS limits applicable to tax-qualified retirement plans.
- ² Represents an in-service distribution from the Supplemental Savings Plan.

Executive Contributions in Last Fiscal Year (Column B) The amounts reported in Column B include amounts deferred by the named executive officers during the 2008 fiscal year under our Supplemental Savings Plan. All amounts reported in this column are also included in the Salary and/or Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table.

Registrant Contributions in Last Fiscal Year (Column C) The amounts reported in Column C include amounts that we credited to our Supplemental Savings Plan on behalf of the named executive officers in fiscal 2008. These amounts are included in the amounts set forth in Column I of the Summary Compensation Table and are specifically broken out in the footnote to Column D of the All Other Compensation table. Benefits represent an unfunded and unsecured obligation of the Company. The Supplemental Savings Plan credits participant accounts with a Company contribution based on the executive officer's deferred base salary and bonus at the same rate at which the officer is eligible to receive matching contributions under the Company's tax-qualified 401(k) plan on any contribution the executive officer makes to the Supplemental Savings Plan on compensation that is below the eligible pay limit (as described below) and on any compensation the executive officer earns above the eligible pay limit irrespective of whether the executive officer contributes to the Supplemental Savings Plan. The Company's tax-qualified 401(k) plan provides a matching contribution of five dollars (\$5.00) for every one dollar (\$1.00) that Mr. Wright contributes up to the first one percent (1%) of eligible pay and, with respect to Messrs. Meelia, Dockendorff, Almeida and Masterson (who have each been credited with more than 10 years of service), provides a matching contribution of six dollars (\$6.00) for every one dollar (\$1.00) the executive officer contributes up to the first two percent (2%) of the executive officer's eligible pay. For purposes of the Supplemental Savings Plan, eligible pay is \$225,000 for 2007 and \$230,000 for 2008.

Aggregate Earnings in Last Fiscal Year (Column D) The amounts reported in Column D include earnings credited to the executive officer's account in our Supplemental Savings Plan. Earnings on credits to the Supplemental Savings Plan are determined by investment selections made by each executive officer in investment alternatives that generally mirror investment choices offered under the Company's tax-qualified 401(k) plan. However, the Covidien Stock Fund, which was eliminated as of December 31, 2008, and the BGI LifePath Portfolio Funds (target date retirement funds which are investment alternatives under our 401(k) plan) are not offered as investment alternatives in the Supplemental Savings Plan. With respect to amounts credited to a predecessor plan, the Tyco Deferred Compensation Plan, which Tyco International merged with and into the Tyco Supplemental Savings Plan and which were inherited by our Supplemental Savings Plan, however, Messrs. Dockendorff and Masterson are entitled to select the Enhanced Moody's Rate as an investment selection for amounts that were credited to such plan on their behalf at the time the Tyco Deferred Compensation Plan was merged into the Tyco Supplemental Savings Plan. The Enhanced Moody's Rate is an interest rate that is equal to the rate that is published in Moody's Bond Record (or www.moodys.com) under the heading "Moody's Long-Term Corporate Bond Yield Average" and is equal to the average corporate bond yield (based on seasoned bonds with remaining maturities of at least 20 years) published as of the fiscal year-end of the Company preceding the plan year for which the rate is to be used.

Aggregate Balance at Last FYE (Column F) The amounts reported in Column F for each executive officer includes the executive officer's total balance in our Supplemental Savings Plan as of September 26, 2008 and, for Mr. Meelia, also includes his frozen benefit in the Kendall Company Senior Executive Supplemental Retirement Plan, indicated in Footnote 1 above. For additional information regarding our Retirement Savings Plan and our Supplemental Savings Plan, see the "Compensation Discussion and Analysis" section beginning of page 18 of this Proxy Statement.

Potential Payments upon Termination, including Termination relating to Change in Control

Severance Plan. For all of the named executive officers in the table below, other than our Chief Executive Officer, who has an employment agreement which provides for certain severance benefits as described below, severance benefits are payable pursuant to the Covidien Ltd. Severance Plan for U.S. Officers and Executives. Under the Severance Plan, benefits are payable to an executive officer upon an involuntary termination of employment for any reason other than cause, permanent disability or death. Post-termination benefits consist of:

- continuation of base salary for a period of 18 months;
- payment of 1.5 times target bonus, paid over a period of 18 months;
- continuation of health and dental benefits at active employee rates for a period of 18 months;
- 12 months accelerated vesting of outstanding stock options;
- 12 months to exercise vested stock options (unless a longer period is provided in the applicable option agreement);
- outplacement services, in our discretion, for up to 12 months; and
- payment of a pro-rata portion of the executive's annual bonus for the year during which such officer's employment terminates, in our discretion.

The payment of benefits is conditioned upon the executive officer executing a general release in favor of the Company and agreeing to covenants providing for the confidentiality of Company information, one year non-competition, two years of non-solicitation of Company employees and customers, and non-disparagement. We may cancel or seek to recover benefits previously paid if the executive officer does not comply with these provisions or violates the release of claims.

Change in Control Plan. For all of the named executive officers in the table below, change in control benefits are payable pursuant to the Covidien Ltd. Change in Control Severance Plan for Certain U.S. Officers and Executives. Under the Change in Control Plan, benefits are payable to an executive officer only if the plan's double trigger requirements are satisfied, meaning that the executive officer must experience an involuntary termination of employment or good reason resignation during a period shortly before and continuing after a change in control. Post-termination benefits consist of:

- continuation of base salary for a period of 24 months (36 months for the Chief Executive Officer, provided that the total base salary paid does not exceed 2.99 times his base salary);
- payment of two times target bonus, paid over a period of 24 months (2.99 times target bonus, paid over a period of 36 months for the Chief Executive Officer);
- continuation of health and dental benefits at active employee rates for a period of 24 months (36 months for the Chief Executive Officer);
- full vesting of outstanding stock options;
- 12 months to exercise vested stock options (unless a longer period is provided in the applicable option agreement);
- full vesting of any unvested restricted stock and restricted stock units which are subject solely to time-based vesting;
- outplacement services, in our discretion, for up to 12 months;
- payment of a pro-rata portion of the executive's annual bonus for the year during which such officer's employment terminates; and

• payment of a tax gross-up amount in the event the payments to the executive officer exceed the lesser of 110 percent (110%) of three times the officer's base amount (determined under Code Section 280G) or fifty thousand dollars (\$50,000). As indicated in the Potential Payments Upon Termination table, application of the assumptions described below results in no entitlement for any named executive officer to any tax gross-up payment as a result of the application of Section 280G of the Internal Revenue Code.

Unvested restricted stock and restricted stock units that are subject to performance-based vesting may become fully vested upon a change in control if the change in control plan administrator determines that the applicable performance vesting requirements have been or will be attained, or would have been attained during the applicable severance period but for the change in control. As of the end of our last fiscal year, we did not have any unvested restricted stock or restricted stock units subject to performance-based vesting outstanding.

The table below reflects the amount of compensation that would become payable to each of the named executive officers under existing agreements and plans if the named executive officer's employment had terminated on September 26, 2008, the last day of our fiscal year, given the named executive's service levels as of such date and, if applicable, based on our closing stock price as of that date, which was \$54.91. These benefits are in addition to benefits available prior to the occurrence of any termination of employment, including under then-exercisable stock options and benefits available generally to salaried employees, such as distributions under the Company's 401(k) plan.

The actual amounts that would be paid upon a named executive officer's termination of employment or in connection with a change in control can be determined only at the time of any such event. Due to the number of factors that may affect the amount of any benefits provided upon the events discussed below, actual amounts paid or distributed may be higher or lower than indicated in the tables. Factors that could affect these amounts include the timing during the year of any such event, our stock price, the executive's age and years of service and any additional agreements or arrangements we may enter into in connection with any termination. For a more complete understanding of the table, please read the narrative disclosures and footnote that follow the table.

POTENTIAL PAYMENTS UPON TERMINATION

| Name and Termination Scenario | Cash Severance | Bonus | Option Awards | Stock Awards | Welfare Benefits and Outplacement | Tax Gross-Up | Total |
|--|-------------------|-------------|------------------|-----------------|---|-----------------|--------------|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) |
| Richard J. Meelia | | • | | , | | • | • |
| Involuntary termination (other than for cause) | \$4,943,400 | \$1,348,200 | \$3,442,894 | \$4,159,268 | \$49,844 | _ | \$13,943,606 |
| Involuntary termination (for cause) | _ | _ | | | _ | _ | _ |
| Voluntary Termination | \$4,943,400 | \$1,348,200 | \$1,866,108 | \$4,159,268 | \$24,844 | _ | \$12,341,820 |
| Death or Disability | \$4,943,400 | \$1,348,200 | \$8,820,791 | \$13,420,828 | \$24,844 | _ | \$28,558,063 |
| Change in Control Termination | \$7,390,383 | \$1,348,200 | \$8,820,791 | \$13,730,740 | \$64,083 | _ | \$31,354,197 |
| Charles J. Dockendorff | | | | | | | • |
| Involuntary termination (other than for cause) | \$1,715,228 | \$525,385 | \$827,984 | _ | \$43,349 | _ | \$3,111,946 |
| Involuntary termination (for cause) | _ | _ | _ | _ | _ | _ | _ |
| Voluntary Termination | _ | _ | _ | | | _ | _ |
| Death or Disability | _ | \$525,385 | \$2,185,195 | \$3,265,333 | | _ | \$5,975,913 |
| Change in Control Termination | \$2,286,970 | \$525,385 | \$2,185,195 | \$3,326,448 | \$49,844 | _ | \$8,373,842 |
| José E. Almeida | | I | | | | | |
| Involuntary termination (other than for cause) | \$1,622,970 | \$480,880 | \$763,136 | _ | \$43,349 | _ | \$2,910,335 |
| Involuntary termination (for cause) | _ | _ | _ | | | _ | _ |
| Voluntary Termination | _ | _ | _ | _ | _ | _ | _ |
| Death or Disability | _ | \$480,880 | \$1,990,597 | \$2,981,503 | | _ | \$5,452,980 |
| Change in Control Termination | \$2,163,960 | \$480,880 | \$1,990,597 | \$3,042,618 | \$49,844 | _ | \$7,727,899 |
| John H. Masterson | | Г | | | | ı | Г |
| Involuntary termination (other than for cause) | \$1,313,025 | \$375,150 | \$550,545 | _ | \$43,349 | _ | \$2,282,069 |
| Involuntary termination (for cause) | _ | | _ | | | _ | |
| Voluntary Termination | _ | _ | _ | _ | _ | _ | _ |
| Death or Disability | _ | \$375,150 | \$1,452,152 | \$2,175,205 | | _ | \$4,002,507 |
| Change in Control Termination | \$1,750,700 | \$375,150 | \$1,452,152 | \$2,215,619 | \$49,844 | _ | \$5,843,465 |
| Timothy R. Wright | | | | | | | |
| Involuntary termination (other than for cause) | \$1,472,310 | \$436,240 | \$294,373 | _ | \$43,349 | _ | \$2,298,4181 |
| Involuntary termination (for cause) | _ | _ | _ | _ | _ | _ | _ |
| Voluntary Termination | _ | _ | | _ | _ | _ | _ |
| Death or Disability | _ | \$436,240 | \$883,118 | \$1,206,757 | | _ | \$2,578,2611 |
| Change in Control Termination | \$1,963,080 | \$436,240 | \$883,118 | \$1,206,757 | \$49,844 | _ | \$4,591,1851 |

Footnote

Also includes \$17,367 in employer contributions to the Retirement Savings Plan and \$34,779 in Company credits to the Supplemental Savings Plan that will become fully vested (1) upon an involuntary termination (other than for cause) if Mr. Wright enters into a severance agreement with the Company or (2) upon a change in control termination. All other named executive officers are currently vested in employer contributions and Company credits.

Cash Severance (Column B)

Involuntary Termination (other than for cause). For all named executive officers other than Mr. Meelia, the cash severance amount in the involuntary termination scenario represents continuation of the officer's base salary and target annual bonus amount as of September 26, 2008 during an 18-month severance period, payable on our normal payroll schedule. For Mr. Meelia, this amount represents a lump sum cash payment in an amount equal to two times his base salary and target annual bonus as of September 26, 2008, pursuant to his Employment Agreement and as described below under "Employment Agreement with Mr. Meelia." Payments may be delayed until six months after termination of employment if necessary to comply with Section 409A of the Internal Revenue Code.

Voluntary Termination, Death or Disability. Pursuant to his Employment Agreement and as described below under "Employment Agreement with Mr. Meelia," Mr. Meelia is entitled to cash severance upon his termination of employment for any reason other than by the Company for cause. Thus, upon a voluntary termination of employment, or a termination of employment attributable to death or disability, Mr. Meelia is entitled to the cash severance amount described above under "Involuntary Termination (other than for cause)".

Change in Control Termination. For all named executive officers other than Mr. Meelia, the cash severance amount upon a change in control termination represents continuation of the executive officer's base salary and target annual bonus amount as of September 26, 2008, during a 24-month severance period, payable on our normal payroll schedule.

For Mr. Meelia, the cash severance amount in the change in control scenario represents continuation of his base salary and target annual bonus amount as of September 26, 2008, during a 36-month severance period, payable on our normal payroll schedule, up to a maximum of 2.99 times his base salary and target bonus amounts.

Bonus (Column C)

Involuntary Termination (other than for cause). The bonus amount represents payment of a pro rata portion of the target annual bonus payable to the executive officer for the year during which the involuntary termination occurred. Pursuant to SEC guidance, we assume that the involuntary termination occurs on September 26, 2008, the last day of the 2008 fiscal year, thereby entitling each officer to the full bonus for such fiscal year.

Voluntary Termination. The terms of our annual incentive plan provide that upon a termination of employment due to retirement (defined as a termination of employment after attainment of age 55, where the sum of the employee's age and years of service is at least 60) the employee is entitled to pro rata vesting of the annual bonus. Because Mr. Meelia satisfied the requirements for retirement as of September 26, 2008, he is entitled to a pro rata bonus payment upon his voluntary termination of employment based on the number of days he was employed by the Company during the fiscal year. Pursuant to SEC guidance, we assume that his termination of employment occurs on September 26, 2008, the last day of our 2008 fiscal year, thereby entitling Mr. Meelia to the full bonus for such fiscal year.

Death or Disability. The terms of our annual incentive plan provide that upon a termination of employment due to death or disability, the employee is entitled to pro rata vesting of the annual bonus. Named executive officers are entitled to a pro rata bonus payment upon their termination of employment due to death or disability based on the number of days they were employed by the Company during the fiscal year. Pursuant to SEC guidance, we assume that the death or disability occurs on September 26, 2008, the last day of our 2008 fiscal year, thereby entitling such officer to the full bonus for such fiscal year.

Change in Control Termination. The terms of our annual incentive plan provide that upon a change in control and termination of employment, the employee is entitled to payment of the target annual bonus for the fiscal year in which the change in control occurs. The bonus amount represents payment of the full target annual bonus payable to the executive officer for the year during which the change in control occurred.

Option Awards (Column D)

Involuntary Termination (other than for cause). The option award amount represents the value of outstanding options held by the executive officer that would have vested during the 12-month period that immediately follows September 26, 2008.

Involuntary Termination (for cause). Option awards include a "claw-back" feature that allows us to seek to recover the amount of any profit the named executive officer realized upon the exercise of any portion of options during the 12-month period that occurs immediately prior to the officer's involuntary termination for cause. For this purpose, "cause" means misconduct that is willfully or wantonly harmful to the Company or any of its subsidiaries, monetarily or otherwise, including, without limitation, conduct that violates the Company's code of ethical conduct.

Voluntary Termination. The option award amount represents the amount of outstanding options held by Mr. Meelia that would have vested as of September 26, 2008, his assumed employment termination date, as a result of his satisfaction of certain retirement requirements. The terms and conditions applicable to converted stock options and founders' grant stock options issued on July 2, 2007 provide that upon a termination of employment due to retirement (defined as a termination of employment after attainment of age 55, where the sum of the employee's age and years of service is at least 60) the employee is entitled to pro rata vesting of such award determined by the number of full years (in the case of the November 22, 2005 and November 21, 2006 awards) or full months (in the case of the founders' grant award) the employee completed since the grant date. During the 2008 fiscal year, Mr. Meelia attained age 59 and completed 17 years of service. If Mr. Meelia terminated employment on September 26, 2008, he would have been entitled to full vesting on the November 22, 2005 award, 50% vesting on the November 21, 2006 award and 29% vesting on the founders' grant award. As of September 26, 2008, Mr. Meelia had already vested in 67% of the November 22, 2005 award, 25% of the November 21, 2006 award and 25% of the founders' grant award. The amounts reported represent the difference between the pro rata vesting amount attributable to satisfaction of the retirement requirements and the amounts that were vested as of September 26, 2008 (i.e., an additional 33% on the November 22, 2005 award, 25% on the November 21, 2006 award and 4% on the founders' grant award).

Death or Disability. The terms of outstanding converted stock option awards and the founders' grant stock option awards provide for full vesting upon a termination of employment due to death or disability. The option award amount represents the full vesting of the outstanding converted stock options and founders' grant stock options held by the executive officer as of September 26, 2008.

Change in Control Termination. The option award amount represents the full vesting of all outstanding options held by the executive officer as of September 26, 2008.

Stock Awards (Column E)

Involuntary Termination (other than for cause). The stock award amount for Mr. Meelia represents the pro-rata vesting of converted restricted stock awards, converted restricted stock unit awards and the founders' grant restricted stock unit awards. The terms and conditions applicable to the converted restricted stock awards issued on November 22, 2005, the converted restricted stock unit awards issued on November 21, 2006, the founders' grant restricted stock unit awards issued on July 2, 2007 and the converted restricted stock unit awards that fully vested on September 30, 2008, provide that upon a termination of employment due to retirement (defined as a termination of employment after attainment of age 55, where the sum of the employee's age and years of service is at least 60) the employee is entitled to pro rata vesting of such award determined by the number of full months the employee completed since the grant date. During the 2008 fiscal year, Mr. Meelia attained age 59 and completed 17 years of service. If Mr. Meelia terminated employment on September 26, 2008, he would have been entitled to 94% vesting on the November 22, 2005 award, 46% on the November 21, 2006 award, 29% on the July 2, 2007 award and 100% of the target amount on the award that fully vested on September 30, 2008. As of September 26, 2008, Mr. Meelia was unvested in the November 22, 2005 award, the November 21, 2006 award and the award that vested on September 30, 2008, but was 25% vested in the founders' grant award. The amounts reported represent the difference between the pro rata vesting amount attributable to satisfaction of the

retirement requirements and the amounts that were vested as of September 26, 2008 (i.e., 94% on the November 22, 2005 award, 46% on the November 21, 2006 award, 100% of the target amount on the award that vested on September 30, 2008 and an additional 4% on the founder's grant award).

Involuntary Termination (for cause). Stock awards include a "claw-back" feature that allows us to seek to recover the amount realized by the executive officer upon the vesting of any stock award during the 12-month period that occurs immediately prior to the officer's involuntary termination for cause. For this purpose, "cause" means misconduct that is willfully or wantonly harmful to the Company or any of its subsidiaries, monetarily or otherwise including, without limitation, conduct that violates the Company's code of ethical conduct.

Voluntary Termination. The stock award amount for Mr. Meelia represents the pro-rata vesting of converted restricted stock awards, converted restricted stock unit awards and restricted stock unit awards, as described above under "Involuntary Termination (other than for cause)".

Death or Disability. The terms of outstanding converted restricted stock awards, converted restricted stock unit awards and restricted stock units awards provide for full vesting upon a termination of employment due to death or disability. The stock award amount represents the full vesting of the outstanding converted restricted stock awards, converted restricted stock unit awards and restricted stock awards held by the executive officer as of September 26, 2008.

Change in Control Termination. The stock award amount represents the full vesting of all restricted stock and restricted stock unit awards held by the executive officer as of the change in control.

Welfare Benefits and Outplacement Services (Column F) The welfare benefits amount represents the employer portion of the premium paid on behalf of the executive officer for continued coverage under the Company's health and dental plans during the applicable severance period. Although payable in our discretion with respect to executives other than Mr. Meelia, we assume that we would pay \$25,000 on behalf of each executive officer for outplacement services upon an involuntary termination (other than for cause) and a change in control termination.

Involuntary Termination (other than for cause). The applicable severance period is 24 months for Mr. Meelia and 18 months for all other named executive officers.

Death or Disability. The amount reported for Mr. Meelia represents the employer portion of the premium paid on behalf of his beneficiaries for continued coverage under the Company's health and dental plans during the 24-month severance period.

Change in Control Termination. The applicable severance period is 36 months for Mr. Meelia and 24 months for all other named executive officers.

Tax Gross-Up (Column G) Application of the assumptions set forth above results in no entitlement for any named executive officer to any tax gross-up payment as a result of the application of Section 280G of the Internal Revenue Code.

Employment Agreement with Mr. Meelia

Mr. Meelia is the only executive officer with an employment agreement. His Employment Agreement provides that Mr. Meelia will receive a base salary, bonus and a long-term incentive opportunity determined by our Board, as well as be eligible to participate in all employee benefit plans and programs applicable to executives generally. The Employment Agreement will continue for an indefinite term, and Mr. Meelia will be employed by the Company at will. The general terms of the Employment Agreement also provide that, if Mr. Meelia's employment is terminated for any reason other than by the Company for cause (as defined in the Employment Agreement) and subject to the execution of a general release in favor of the Company in the form provided in the Employment Agreement, the Company is obligated to pay him

a lump sum cash payment in an amount equal to two times the sum of (1) the greater of his then-current base salary or his base salary as in effect immediately before December 29, 2006, and (2) the greater of (i) his then-current target annual bonus or (ii) the average annual bonus received by him or his target bonus, whichever is greater, for the two fiscal years immediately preceding the date his employment terminates. This payment may be delayed until six months after termination of employment if necessary to comply with Section 409A of the Internal Revenue Code. If any payments are subject to an excise tax under Code Section 4999 due to application of Code Section 280G, the terms of the Employment Agreement provide that the Company will pay an additional tax gross-up payment to Mr. Meelia. Also, Mr. Meelia and his eligible dependents will receive continued coverage for two years in all health and welfare plans in which he participated on his date of termination under the same terms and conditions as in effect on the date of termination (or as amended from time to time), subject to Mr. Meelia's continued payment of applicable premiums. Mr. Meelia is required, under the terms of the Employment Agreement, not to disclose confidential Company information at any time, not to compete with the Company nor solicit our management level employees, or customers of the Company for a period of one year following termination of employment, and not to disparage the Company after his termination. The termination benefits provided under the Employment Agreement are in lieu of any termination or severance benefits for which Mr. Meelia may be eligible under any of the Company's plans, policies or programs.

SECURITY OWNERSHIP AND REPORTING

Security Ownership of Management and Certain Beneficial Owners

The following tables show the number of shares of common stock beneficially owned:

- as of January 6, 2009, by each current director and nominee for director, each executive officer named in the Summary Compensation Table and our directors and executive officers as a group;
 and
- as of the date indicated, by each owner of 5% or more of our outstanding shares of common stock.

A person is deemed to be a beneficial owner of common shares if he or she, either alone or with others, has the power to vote or to dispose of those common shares or the right to acquire such power within 60 days of the date of the table. Common shares subject to stock options presently exercisable or exercisable within 60 days of January 6, 2009, restricted stock units and dividend equivalent units are deemed to be outstanding and beneficially owned by the person holding the securities for the purpose of computing the percentage of ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of any other person. There were 503,886,531 Covidien common shares outstanding as of January 6, 2009. The tables below are based on information furnished by the persons named, public filings and our records.

Directors and Executive Officers

| Name of Beneficial Owner | Number of Covidien Common Shares Beneficially Owned | Percentage Ownership |
|---|---|-------------------------|
| Named Executive Officers | | |
| Richard J. Meelia ¹ | 2,619,769 | * |
| Charles J. Dockendorff ² | 457,843 | * |
| José E. Almeida ³ | 178,143 | * |
| John H. Masterson ⁴ | 257,632 | * |
| Timothy R. Wright 5 | 63,606 | * |
| Non-Employee Directors | | |
| Craig Arnold 6 | 8,534 | * |
| Robert H. Brust ⁶ | 8,053 | * |
| John M. Connors, Jr. 6 | 8,053 | * |
| Christopher J. Coughlin 7 | 197,832 | * |
| Timothy M. Donahue 6 | 8,053 | * |
| Kathy J. Herbert ⁶ | 8,053 | * |
| Randall J. Hogan, III 8 | 8,417 | * |
| Dennis H. Reilley 9 | 37,497 | * |
| Tadataka Yamada ⁶ | 8,053 | * |
| Joseph A. Zaccagnino 6 | 8,053 | * |
| All directors and executive officers as a group | 4 304 743 | * |
| Joseph A. Zaccagnino ⁶ | , | * |

^{*} Represents less than 1% of outstanding common shares.

Includes 10,750 restricted common shares, 217,915 restricted stock units and 2,277,898 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.

- Includes 2,125 restricted common shares, 61,528 restricted stock units and 366,342 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.
- Includes 2,125 restricted common shares, 62,944 restricted stock units and 97,946 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.
- ⁴ Includes 1,425 restricted common shares, 37,764 restricted stock units and 195,729 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.
- Includes 33,773 restricted stock units and 24,900 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.
- Includes 2,747 restricted stock units and 3,200 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.
- Includes 2,747 restricted stock units, 152,448 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009 and 26,725 shares held in a Grantor Retained Annuity Trust.
- Includes 2,747 restricted stock units, 3,200 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009 and 64 shares held in a trust over which Mr. Hogan has shared dispositive and voting power.
- Includes 5,485 restricted stock units and 3,200 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009.
- Includes, for executive officers not specifically named in the table, an aggregate of 333,237 common shares issuable upon the exercise of stock options presently exercisable or exercisable within 60 days of January 6, 2009. Also includes 6,072 shares of common stock pledged as security by one executive officer.

5% Beneficial Owners

| Name and Address of Beneficial Owner | Number of Covidien Common Shares Beneficially Owned | Percentage Ownership |
|---|--|-------------------------|
| FMR LLC ¹ | 50,285,771 | 10.1% |
| 82 Devonshire Street | | |
| Boston, MA 02109 | | |

The amount shown for the number of common shares beneficially owned by FMR LLC ("FMR") was provided by FMR pursuant to a Form 13G dated August 11, 2008.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors and persons who beneficially own more than 10 percent of our common shares to file reports of ownership and changes in ownership of such common shares with the SEC and NYSE. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. As a matter of practice, our administrative staff assists our officers and directors in preparing initial reports of ownership and reports of changes in ownership and files those reports on their behalf. Based on our review of the copies of such forms we have received, as well as information provided and representations made by the reporting persons, we believe that all required Section 16(a) reports were timely filed during our fiscal year ended September 26, 2008, except for two Forms 4 for John H. Masterson for two dividend reinvestment transactions which were inadvertently filed late.

PROPOSAL NUMBER TWO: APPROVAL OF THE AMENDED AND RESTATED COVIDIEN LTD. 2007 STOCK AND INCENTIVE PLAN

General

You are being asked to approve the amended and restated Covidien Ltd. 2007 Stock and Incentive Plan (the "2007 Plan"). The 2007 Plan was initially approved by Tyco International on December 8, 2007. In connection with our separation from Tyco International, the 2007 Plan was approved by our Board of Directors on June 1, 2007 and reapproved by our sole shareholder, Tyco International, on June 13, 2007. On November 21, 2008, upon the recommendation of the Compensation and Human Resources Committee and subject to shareholder approval, our Board of Directors approved the amendment and restatement of the 2007 Plan in the form attached to this Proxy Statement as Appendix A. The amendments, among other things:

- replenish the number of shares available for issuance under the 2007 Plan by providing that the maximum number of shares of common stock authorized for issuance for future grants under the 2007 Plan is 35 million, effective upon shareholder approval;
- eliminate the reuse, or "recycling", of shares tendered to pay the exercise price for stock option exercises or tax obligations for all awards issued under the plan;
- eliminate provisions that were included to address equity awards issued at our separation from Tyco International;
- clarify that an optionee, upon exercise of an option, may pay the exercise price by tendering other Company shares (a "share swap") or through a net exercise, whereby the Company would hold back the number of shares necessary to cover the exercise price;
- conform early and normal retirement provisions applicable to long-term performance awards to the same provisions for other equity awards;
- make certain defined terms in the 2007 Plan consistent with the same defined terms of other plans sponsored by the Company, specifically our Change in Control Plan and Executive Severance Plan;
- clarify the definition of key employee for Section 162(m) purposes; and
- modify provisions to reflect that the Nominating and Governance Committee issues equity awards to directors.

The amendments to the 2007 Plan also include conforming amendments required by changes in the law, including Section 409A of the Internal Revenue Code, and miscellaneous clarifications to plan language.

NYSE regulations require us to obtain shareholder approval of material revisions to equity compensation plans, such as the increase in shares available for issuance under the 2007 Plan. In addition, because the 2007 Plan was originally approved by our sole shareholder before we became a public company, in order for us to continue making grants that are exempt from Section 162(m) under the 2007 Plan, we must obtain approval from our public shareholders.

The 2007 Plan is designed to assist in the recruitment and retention of directors and employees, provide incentives to our directors and employees in consideration of their services to us, promote the growth and success of our business by aligning the interests of directors and employees with those of our shareholders, and provide directors and employees an opportunity to participate in our growth and financial success. To accomplish these objectives, the 2007 Plan provides for various types of awards, including stock options, stock appreciation rights, annual performance bonuses, long-term performance awards, restricted stock units, restricted stock units, and other stock-based awards. Replenishing the number of shares available for issuance under the 2007 Plan will enable the Company to continue to attract, retain and motivate qualified employees and directors.

Material Terms of the Amended and Restated 2007 Plan

The following description of the material terms of the 2007 Plan, as proposed to be amended and restated, is qualified in its entirety by the terms of the amended and restated 2007 Plan document, which is attached hereto as Appendix A.

Plan Administration. The 2007 Plan is administered by the Compensation and Human Resources Committee except with respect to director awards, which are administered by the Nominating and Governance Committee. The Compensation and Human Resources Committee or, to the extent required by applicable law, the Board of Directors, has broad discretion and authority under the 2007 Plan including the authority to:

- interpret and administer the 2007 Plan;
- select employees to receive awards and determine the form of awards, the number of common shares subject to an award, and the terms and conditions of each award;
- waive or amend any terms, conditions, restrictions or limitations on an award and/or vest awards upon a participant's termination of employment, except that the 2007 Plan's prohibition on the repricing of stock options and stock appreciation rights cannot be waived; and
- delegate its duties and appoint agents to help administer the 2007 Plan.

Eligibility. Each of our approximately 42,000 employees providing services to us or any of our affiliates who is selected by the Compensation and Human Resources Committee or its delegate, is eligible to receive an award under the 2007 Plan. Each of our ten non-employee Directors selected by the Nominating and Governance Committee is eligible to receive an award under the 2007 Plan. As of December 26, 2008, approximately 3,700 employees, officers and Directors had been granted awards under the 2007 Plan.

Shares Available for Issuance. Of the original 24,843,452 shares of common stock authorized for issuance under the 2007 Plan, as of December 26, 2008, there were 7,429,724 shares available for future awards. If we issued no awards from December 26, 2008 through the date shareholders approve the amended and restated 2007 Plan, the amendment and restatement would, in effect, increase the shares authorized for awards by 27,570,276 shares to the 35 million shares requested to be available for future issuance under the 2007 Plan.

Set forth below is information regarding options, restricted stock units, dividend equivalent units and performance units granted under the 2007 Plan and outstanding as of December 26, 2008:

| Shares of common stock to be issued upon exercise of outstanding options | |
|---|------------|
| Weighted average exercise price of outstanding options | \$38.75 |
| Weighted average contractual term of outstanding options | 9.12 years |
| Shares of common stock to be issued upon settlement of restricted stock units and | |
| dividend equivalent units and performance units | 3,590,521 |
| Total shares subject to outstanding 2007 Plan awards | 13,122,946 |

When common shares are issued pursuant to a grant of restricted stock, restricted stock units, deferred stock units, performance units or as payment of an annual performance bonus or other stock-based award, the total number of common shares remaining available for grant is decreased by a margin of at least 1.8 per common share issued; under the amended and restated 2007 Plan, we will decrease by a margin of 2.2 per common share issued. In determining the number of shares that remain available under the 2007 Plan, the following do not count against the 2007 Plan's share limit: (a) shares related to awards paid in cash; (b) shares related to awards that expire, are forfeited or cancelled or terminate for any other reason without issuance of shares; (c) any shares issued in connection with awards that are assumed, converted or substituted as a result of the acquisition of an acquired company by us or a combination of our company with another company; and

(d) any shares of restricted stock that are returned to us upon a participant's termination of employment. If the amended and restated 2007 Plan is approved by our shareholders, the maximum number of shares authorized for issuance pursuant to future awards under the 2007 Plan will be 35 million, effective upon shareholder approval.

Stock Options and Stock Appreciation Rights. Stock options awarded under the 2007 Plan may be in the form of nonqualified stock options or incentive stock options or a combination of the two. Stock appreciation rights may be awarded either alone or in tandem with stock options. Stock appreciation rights will be paid in cash or common shares or a combination of cash and common shares, as determined by the Compensation and Human Resources Committee. Unless otherwise determined by the Compensation and Human Resources Committee or as required by law, stock options and stock appreciation rights granted under the 2007 Plan are subject to the following terms and conditions:

- Exercise Price. The Compensation and Human Resources Committee will set the exercise price at the time of grant, which will be no less than the fair market value of a common share as of the date of grant. Under the 2007 Plan, fair market value is the closing price of a share of our common stock as reported on the New York Stock Exchange on the date for which fair market value is being determined which, in the case of establishing the exercise price of an option, is the grant date.
- No Repricing. The exercise price may not be decreased after the grant date, other than in connection with required 2007 Plan adjustments such as recapitalizations, unless our shareholders specifically approve the repricing.
- Vesting. Stock options and stock appreciation rights will vest at such time and in the manner as
 determined at the time of grant by the Compensation and Human Resources Committee. Unless
 otherwise provided in the award certificate, stock options and stock appreciation rights will
 immediately vest upon the normal retirement, death or disability of a participant, or upon a
 termination of employment without cause or resignation for good reason after a change in
 control.
- Post-Termination Exercise. Unless the Compensation and Human Resources Committee provides otherwise in the award certificate, stock options and stock appreciation rights that have not vested as of the date of a participant's termination of employment will be forfeited, unless the participant is eligible for normal retirement or terminates as a result of death or disability, in which cases the awards may become exercisable in full or, in the case of an early retirement, on a pro rata basis. Subject to the term of the award, any vested stock option or stock appreciation right that has not already been exercised will remain exercisable for a period of three years after termination of employment because of early or normal retirement, death or disability, and any vested stock option or stock appreciation right that has not already been exercised will remain exercisable for a period of 90 days after termination of employment for any other reason except for a termination for cause.

Performance-Based Awards. The 2007 Plan provides for performance-based awards in the form of: (1) annual performance bonuses that may be granted in the form of cash or common shares; and (2) long-term performance awards in the form of performance units that may be paid in cash or shares or performance-based restricted stock units or restricted stock awards that are paid in shares. The Compensation and Human Resources Committee, in its discretion, will fix the amount, terms and conditions of annual performance bonuses and long term performance awards, subject to the following:

• Performance Cycles. Annual performance bonuses will be awarded in connection with a 12-month performance cycle, which will coincide with our fiscal year. Long-term performance awards will be awarded in connection with a performance cycle that will not be shorter than 12 months or longer than five years. The annual performance bonus amount and the number of shares or units that are earned will be determined by the level of performance attained in relation to the applicable performance measures, as certified by the Compensation and Human Resources Committee following completion of the performance period.

Target Awards and Award Criteria. The Compensation and Human Resources Committee will set a target amount or target number of shares or units for each participant receiving an annual performance bonus or long-term performance award within 90 days after the start of a performance cycle. At that time, the Compensation and Human Resources Committee will also establish criteria for these awards, including the minimum level of performance that must be attained before any annual performance bonuses and long-term performance award will be paid or vest and the annual performance bonus amounts and the number of shares or units that will become payable upon attainment of various levels of performance. The Compensation and Human Resources Committee may select as the performance measure(s) any operating and maintenance expense targets or financial goals as interpreted by the Compensation and Human Resources Committee, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or subsidiary, either individually, alternatively or in any combination, and measured during the performance cycle including, but not limited to the following: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, (p) market segment share, (q) product release schedules, (r) new product innovation, (s) product cost reduction through advanced technology, (t) brand recognition/acceptance, (u) product ship targets, or (v) customer satisfaction. Financial performance measures may take into account such adjustments as the Compensation and Human Resources Committee may specify, including the exclusion of unusual or infrequently occurring items.

Restricted Stock, Restricted Stock Units, and Deferred Stock Units. Restricted stock, restricted stock units, and deferred stock units may be awarded under the 2007 Plan to any employee selected by the Compensation and Human Resources Committee. Restricted stock units and deferred stock units may be settled in shares or cash. The Compensation and Human Resources Committee has the discretion to fix the terms and conditions applicable to awards of restricted stock, restricted stock units and deferred stock units, subject to the following:

- Vesting. Unless the award certificate provides otherwise, any restrictions on restricted stock, restricted stock units, or deferred stock units will vest in equal annual installments over a four year period after the grant date. Unless the award certificate provides otherwise, any restrictions on restricted stock, restricted stock units, or deferred stock units that have not vested or been satisfied on the date of a participant's termination of employment will immediately vest in full or in part upon early or normal retirement, death or disability of the participant or certain terminations of employment following a change in control. Upon a termination of employment for any other reason, any unvested restricted stock units, deferred stock units or shares of restricted stock will be forfeited.
- Dividends and Dividend Equivalents. At the discretion of the Compensation and Human Resources Committee, dividends paid on shares may be paid immediately or withheld and deferred in the participant's account. In the event of a payment of dividends on common shares, the Compensation and Human Resources Committee may credit restricted stock units and deferred stock units with dividend equivalent units, which may be distributed immediately, withheld and deferred in the participant's account or credited in the form of additional share units.

Director Awards. The Nominating and Governance Committee has the exclusive authority to issue awards to Directors, which may consist of, but not be limited to, restricted stock, restricted stock units, deferred stock units, stock options, stock appreciation rights, or other stock-based awards. Each director award is governed by an award certificate that is approved by the Nominating and Governance Committee.

Other Stock-Based Awards. The Compensation and Human Resources Committee may grant other share-based awards under the 2007 Plan that consist of, or are denominated in, common shares. These

awards may include phantom or hypothetical shares. The Compensation and Human Resources Committee has broad discretion to determine the terms and conditions that will apply to other stock-based awards. Unless the Compensation and Human Resources Committee provides otherwise in an award certificate, restrictions on other stock-based awards based solely on continued service will vest in equal annual installments over a four year period after the grant date.

Substitute Awards. The Compensation and Human Resources Committee may make awards to grantees of an acquired company through the assumption of, or in substitution for, outstanding stock-based awards previously granted to the grantees. The assumed or substituted awards will be subject to the terms and conditions of the original awards made by the acquired company, with any adjustments that the Compensation and Human Resources Committee considers necessary to comply with applicable law or appropriate to give effect to the relevant provisions of any agreement for the acquisition of the acquired company.

Adjustments. The kind or maximum number of common shares available for issuance under the 2007 Plan, the individual and aggregate maximums that may be issued under each form of award, the number of common shares underlying outstanding awards and the exercise price applicable to outstanding stock options and stock appreciation rights shall be appropriately adjusted by the Compensation and Human Resources Committee upon any stock split, reverse stock split, dividend or other distribution, extraordinary cash dividend, recapitalization, merger, consolidation, split-up, spin-off, reorganization, combination, repurchase or exchange of common shares or other securities, or similar corporate transaction or event, to prevent dilution or enlargement of the benefits intended to be made available under the 2007 Plan.

Change in Control. All outstanding stock options, stock appreciation rights and long-term performance awards will become exercisable and all outstanding restricted stock, restricted stock units and deferred stock units will vest if there is a change in control and the change of control results in a termination without cause, resignation for good reason or substitution of the awards for awards not payable in publicly-traded stock. Each participant who has been granted an annual performance bonus or long term performance award that is outstanding as of the date of a change in control will be deemed to have achieved a level of performance, as of the change in control, that would cause all of the participant's target amount to become payable, unless the successor entity maintains the annual performance plan and the actual level of performance achieved would result in an annual performance bonus that exceeds the participant's target amount, in which case bonuses based on actual performance shall be paid.

Amendment and Termination. The 2007 Plan may be amended or terminated by our Board of Directors at any time without shareholder approval, except that any material revision to the terms of the 2007 Plan requires shareholder approval before it can be effective. A revision is "material" for this purpose if it materially increases the number of common shares that may be issued under the plan, other than an increase pursuant to an "adjustment" as described above, materially expands the class of persons eligible to receive awards, materially extends the term of the plan, materially decreases the exercise price at which stock options or stock appreciation rights may be granted, reduces the exercise price of outstanding stock options or stock appreciation rights, or results in the replacement of outstanding stock options or stock appreciation rights with awards that have a lower exercise price. If not earlier terminated, the 2007 Plan will terminate on the day before the tenth anniversary of the initial adoption of the plan by our sole shareholder, Tyco International, which occurred on December 8, 2006. No awards may be granted under the 2007 Plan after it is terminated, but any previously granted awards will remain in effect until they expire.

Code Section 162(m). Code Section 162(m) generally limits a company's annual deduction for compensation in excess of \$1 million paid to certain executive officers (these executive officers are referred to in the 2007 Plan as "key employees"). Compensation paid to key employees is not subject to the deduction limitation, however, if it is considered "qualified performance-based compensation" within the meaning of Code Section 162(m). Awards of stock options, stock appreciation rights, annual performance bonuses, performance units, performance-based restricted stock units and performance-based restricted stock can, but are not required to, satisfy this standard under Code Section 162(m).

Summary of Federal Income Tax Consequences of Awards

The following is a brief summary of the principal United States federal income tax consequences of the grant, exercise and disposition of stock options, stock appreciation rights, restricted stock, restricted stock units and deferred stock units under the 2007 Plan, based on advice received from our counsel regarding current U.S. federal income tax laws. This summary is not intended to be exhaustive and, among other things, does not describe state, local or foreign tax consequences. Because the federal income tax rules governing awards and related payments are complex, subject to frequent change, and depend on individual circumstances, participants should consult their tax advisors before exercising options or other awards or disposing of stock acquired pursuant to awards.

Nonqualified Stock Options and Stock Appreciation Rights. A participant will not recognize any income at the time a nonqualified stock option or stock appreciation right is granted, nor will we be entitled to a deduction at that time. When a nonqualified stock option is exercised, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the common shares received as of the date of exercise over the exercise price. When a stock appreciation right is exercised, the participant will recognize ordinary income in an amount equal to the cash received or, if the stock appreciation right is paid in common shares, the fair market value of the common shares received as of the date of exercise. Payroll taxes are required to be withheld from the participant on the amount of ordinary income recognized by the participant. We generally will be entitled to a tax deduction with respect to a nonqualified stock option or stock appreciation right at the same time and in the same amount as the participant recognizes income. The participant's subsequent sale of the common shares generally will give rise to capital gain or loss equal to the difference between the sale price and the sum of the exercise price the participant paid for the shares plus the ordinary income the participant recognized with respect to the shares, and these capital gains will be taxable as long-term capital gains if the participant held the shares for more than one year following exercise.

Incentive Stock Options. A participant will not recognize any income at the time an incentive stock option (ISO) is granted. Nor will a participant recognize any income at the time an ISO is exercised. However, the excess of the fair market value of the common shares on the date of exercise over the exercise price paid will be a preference item that could create liability under the alternative minimum tax. If a participant disposes of common shares acquired on exercise of an ISO after the later of two years after the date of grant of the ISO or one year after the date of exercise of the ISO (the "holding period"), the gain, if any, will be long-term capital gain eligible for favorable tax rates. If the participant disposes of such common shares before the end of the holding period, the participant generally will recognize ordinary income in the year of the disposition equal to the excess of the lesser of (i) the fair market value of the common shares on the date of exercise or (ii) the amount received for the common shares, over the exercise price paid. The balance of the gain or loss, if any, will be short- or long-term capital gain or loss, depending on how long the common shares were held by the participant prior to disposition. We are not entitled to a deduction as a result of the grant or exercise of an ISO unless a participant recognizes ordinary income as a result of a disposition, in which case we will be entitled to a deduction at the same time and in the same amount as the participant recognizes ordinary income.

Restricted Stock. Unless a participant makes an election to accelerate recognition of the income to the date of grant (as described below), the participant will not recognize income, and the Company will not be allowed a tax deduction, at the time a restricted stock award is granted. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the common stock as of that date (less any amount paid for the stock) and the Company will be allowed a corresponding federal income tax deduction. The participant's subsequent sale of the common shares will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income the participant recognized with respect to the shares, and any capital gains will be taxable as long-term gains if the participant held the shares for more than one year following the date on which restrictions lapsed. If the participant files an election under Section 83(b) of the Internal Revenue Code within 30 days of the date of grant of the restricted stock, the participant will recognize ordinary income as of the date of grant equal to the fair market value of the stock as of that date (less any amount paid for the stock) and the Company will be

allowed a corresponding federal income tax deduction. The participant's subsequent sale of the common shares will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income the participant recognized with respect to the shares, and any capital gains will be taxable as long-term gains if the participant held the shares for more than one year following the date of grant. However, if the stock is later forfeited, the participant will not be able to recover the tax previously paid pursuant to a Section 83(b) election.

Restricted Stock Units/Deferred Stock Units. A participant will not recognize any income at the time a restricted stock unit or deferred stock unit is granted, nor will we be entitled to a deduction at that time. Instead, the value of shares delivered on or after the vesting of restricted stock units or deferred stock units generally will be taxable to the recipient as ordinary income when shares are delivered to the participant. The amount of the income recognized will be the fair market value of the shares on the date shares are delivered. We will generally receive a deduction for federal income tax purposes in an amount equal to the amount of compensation included in the participant's income. The participant's subsequent sale of the common shares will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income the participant recognized with respect to the shares, and any capital gains will be taxable as long-term gains if the participant held the shares for more than one year following the date on which they were delivered.

Non-Competition and Non-Solicitation Agreements

The Compensation and Human Resources Committee may condition eligibility to participate in the 2007 Plan and receipt of benefits specified in an award agreement, such as vesting and exercisability of awards, on the participant's execution of, compliance with and/or certification of compliance with a non-competition and/or non-solicitation agreement.

New Plan Benefits

Awards issued after the date of the 2009 Annual General Meeting are subject to the amended and restated 2007 Plan if shareholder approval is obtained. Subject to annual individual limits set forth in the 2007 Plan, the number and types of awards that will be granted to any one individual or category of individuals under the amended and restated 2007 Plan in the future are not determinable, as the Compensation and Human Resources Committee, in conjunction with the Board of Directors and, in the case of director awards, the Nominating and Governance Committee, will make these determinations in their sole discretion.

The Board of Directors recommends that shareholders vote FOR the amended and restated Covidien

Ltd. 2007 Stock and Incentive Plan.

Equity Compensation Plan Information

| | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) ⁽¹⁾⁽²⁾ | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) ⁽³⁾ | Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c) ⁽⁴⁾ |
|--|--|--|--|
| Equity compensation plans approved by security holders | 6,581,535 | \$43.05 | 21,565,665 |
| TOTAL | 6,581,535 | \$43.05 | 21,565,665 |

Number of Securities

- This table does not include information regarding options and restricted stock units converted from Tyco International awards in connection with our separation from Tyco International in June 2007. We did not assume any equity compensation plans from Tyco International, and no grants of Covidien equity may be made pursuant to any Tyco International plans. As of September 26, 2008, there were 17,023,506 shares of common stock to be issued upon exercise of these converted options with a weighted average exercise price of \$41.04 and 1,347,702 shares of common stock to be issued upon settlement of converted restricted stock units.
- (3) Does not take into account restricted stock unit awards, which do not have an exercise price.
- (4) As of September 26, 2008, there were 15,628,154 shares of common stock available for issuance pursuant to our 2007 Stock and Incentive Plan; 4,937,511 shares of common stock available for issuance pursuant to the Covidien Ltd. Employee Stock Purchase Plan and 1,000,000 shares of common stock available for issuance pursuant to the Covidien Ltd. Savings Related Share Plan. If Proposal Number Two regarding our amended and restated 2007 Stock and Incentive Plan is approved by shareholders, the number of shares of common stock available for issuance under that plan will increase. See Proposal Number Two for more information.

⁽¹⁾ As of September 26, 2008, there were 4,987,927 shares of common stock to be issued upon exercise of outstanding options with a weighted average exercise price of \$43.05 and 1,593,608 shares of common stock to be issued upon settlement of restricted stock units and dividend equivalent units granted pursuant to our 2007 Stock and Incentive Plan.

PROPOSAL NUMBER THREE: APPOINTMENT OF INDEPENDENT AUDITORS AND AUTHORIZATION OF THE AUDIT COMMITTEE TO SET THEIR REMUNERATION

In accordance with Section 89 of the Companies Act 1981 of Bermuda, our shareholders have the authority to appoint our independent auditors and to authorize the Audit Committee of our Board of Directors to set the auditors' remuneration. Appointment of the independent auditors and authorization of the Audit Committee to set their remuneration require the affirmative vote of a majority of the votes cast by the holders of common shares represented at the Annual General Meeting in person or by proxy. The Audit Committee and the Board recommend that shareholders reappoint Deloitte & Touche LLP as our independent auditors to serve until the 2010 Annual General Meeting and authorize the Audit Committee of the Board to set the auditors' remuneration.

Representatives of Deloitte & Touche LLP are expected to be at the Annual General Meeting, and they will be available to respond to appropriate questions.

The Audit Committee and the Board of Directors recommend that shareholders vote <u>FOR</u> the appointment of Deloitte & Touche LLP and the authorization of the Audit Committee to set the auditors' remuneration.

AUDIT AND NON-AUDIT FEES

Set forth below are the aggregate fees for professional services rendered to Covidien by Deloitte & Touche LLP for the period beginning on June 29, 2007 (the date of our separation from Tyco International) through September 28, 2007 ("Fiscal 2007) and the period September 29, 2007 through September 26, 2008 ("Fiscal 2008).

| | Fiscal 2008 | Fiscal 2007 | | |
|--------------------|-------------|----------------|--|--|
| | (in thou | (in thousands) | | |
| Audit Fees | \$19,544 | \$20,054 | | |
| Audit-Related Fees | 2,086 | 3,264 | | |
| Tax Fees | 4,287 | 313 | | |
| All Other Fees | 0 | 0 | | |
| Total | \$25,917 | \$23,631 | | |

Audit Fees includes fees for professional services rendered for the year-end audits of our consolidated financial statements, internal control over financial reporting (for Fiscal 2008), quarterly review of the financial statements included in our Quarterly Reports on Form 10-Q, consents, statutory filings and preparation for the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). Audit fees previously reported for fiscal 2007 were understated by approximately \$1.3 million due to additional fees associated with statutory audits as well as fiscal 2007 audit fees billed after the 2007 fiscal year end.

Audit-Related Fees were primarily related to carve-out audits and provision of comfort letters. Audit fees previously reported for fiscal 2007 included \$176,000 for FIN 48-related services. These services are more appropriately reported under Audit Fees and are reported above under Fiscal 2007 in the Audit Fee category.

Tax Fees includes fees for tax compliance services in connection with preparation of federal and state returns (\$3,616,000 for Fiscal 2008) as well as fees for tax planning services (\$671,000 for Fiscal 2008).

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES

In June 2007, the Audit Committee adopted a pre-approval policy that provides guidelines for the audit, audit-related, tax and other permissible non-audit services that may be provided by our independent auditors. Pursuant to the policy, our Corporate Controller will support the Audit Committee by providing a list of proposed services to the Committee, monitoring the services and fees pre-approved by the Committee, providing periodic reports to the Audit Committee with respect to pre-approved services and coordinating with management and the independent auditor to ensure compliance with the policy.

Under the policy, the Audit Committee annually pre-approves the audit fee and terms of the engagement, as set forth in the engagement letter. This approval includes approval of a specified list of audit, audit-related and tax services. Any service not included in the specified list of services must be submitted to the Audit Committee for pre-approval. The term of any pre-approval is 12 months, unless the Audit Committee specifically provides for a different period. The independent auditor may not begin work on any engagement without confirmation of Audit Committee pre-approval from our Corporate Controller or his delegate.

The Committee has delegated to the Chair of the Audit Committee the authority to pre-approve the engagement of the independent auditors in his discretion. The Chair reports all such pre-approvals to the Audit Committee at the next Committee meeting.

AUDIT COMMITTEE REPORT

As more fully described in its charter, the Audit Committee oversees Covidien's financial reporting process on behalf of the Board. Management has the primary responsibility for the Company's financial statements and the overall reporting process, including assuring that the Company develops and maintains adequate financial controls and procedures and monitoring and assessing compliance with those controls and procedures, including internal control over financial reporting. Covidien's independent auditors are responsible for auditing the annual financial statements prepared by management, expressing an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the Company in conformity with generally accepted accounting principles and discussing with the Audit Committee any issues they believe should be raised. The independent auditors are also responsible to the Audit Committee and the Board for testing the integrity of the financial accounting and reporting control systems, for issuing a report on the Company's internal control over financial reporting and for such other matters as the Audit Committee and Board determine. The requirement for management to report on its assessment of the effectiveness of the Company's internal control over financial reporting and for the independent auditors to issue an attestation report on the Company's internal control over financial reporting first became effective for the Company for its fiscal year ending September 26, 2008.

In the performance of its oversight function, the Audit Committee has reviewed and discussed with management, the internal auditors and the independent auditors the consolidated financial statements for the fiscal year ended September 26, 2008. Management represented to the Committee that Covidien's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, relating to communication with audit committees. In addition, the Committee has received from the independent auditors the written disclosures and letter required by the Public Company Accounting Oversight Board Ethics and Independence Rule 3526 relating to independence discussions with audit committees, has discussed with the independent auditors their independence from the Company and its management and has considered whether the independent auditors' provision of non-audit services to the Company is compatible with maintaining the auditors' independence.

Based upon the Committee's review and discussions referred to above, the Committee recommended to the Board that Covidien's audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended September 26, 2008.

Audit Committee

Robert H. Brust, Chairman Craig Arnold Randall J. Hogan, III

OTHER MATTERS

Presentation of Financial Statements

In accordance with Section 84 of the Companies Act 1981 of Bermuda, Covidien's audited consolidated financial statements for the fiscal year ended September 26, 2008 will be presented at the Annual General Meeting. These statements have been approved by Covidien's Board of Directors. There is no requirement under Bermuda law that these statements be approved by shareholders, and no such approval will be sought at the Annual General Meeting.

Registered and Principal Executive Offices

The registered and principal executive offices of Covidien are located at 131 Front Street, Hamilton HM 12, Bermuda. The telephone number there is (441) 298-2480.

Shareholder Proposals for the 2010 Annual General Meeting

In accordance with the rules established by the SEC, as well as under the provisions of our Bye-laws, any shareholder proposal submitted pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 (the "Exchange Act") intended for inclusion in the Proxy Statement for next year's Annual General Meeting must be received by us no later than September 24, 2009. Such proposals should be sent to our Secretary at 131 Front Street, Hamilton HM 12, Bermuda. To be included in the Proxy Statement, the proposal must comply with the requirements as to form and substance established by the SEC and our Bye-laws, and must be a proper subject for shareholder action under Bermuda law.

A shareholder may otherwise propose business for consideration or nominate persons for election to the Board in compliance with U.S. federal proxy rules, Bermuda law and other legal requirements, without seeking to have the proposal included in our proxy statement pursuant to Rule 14a-8 under the Exchange Act. Bermuda law provides that shareholders holding not less than 5% of the total voting rights or 100 or more registered shareholders together may require a proposal to be submitted to an Annual General Meeting. Generally, notice of such a proposal must be deposited at our registered office not less than six weeks before the date of the meeting, unless the meeting is subsequently called for a date six weeks or less after the notice has been deposited.

United States Securities and Exchange Commission Reports

Copies of our Annual Report on Form 10-K for the fiscal year ended September 26, 2008, as filed with the SEC (without exhibits), are available to shareholders free of charge on our web site at *www.covidien.com* or by writing to our Corporate Secretary at Covidien Ltd., 131 Front Street, Hamilton HM 12, Bermuda.

General

The enclosed proxy is solicited on behalf of our Board of Directors. Unless otherwise directed, proxies held by the Chief Executive Officer, the Chief Financial Officer and the General Counsel will be voted at the Annual General Meeting (or an adjournment or postponement thereof), FOR the election of all 11 nominees to the Board of Directors named on the proxy card, FOR the amended and restated 2007 Stock and Incentive Plan and FOR the appointment of the independent auditors and the authorization of the Audit Committee of the Board to set the auditors' remuneration. If any matter other than those described in this Proxy Statement properly comes before the Annual General Meeting, or with respect to any adjournment or postponement thereof, the Chief Executive Officer, Chief Financial Officer or General Counsel will vote the common shares represented by such proxies in accordance with his discretion.

COVIDIEN LTD. 2007 STOCK AND INCENTIVE PLAN

ARTICLE I

PURPOSE

1.1 *Purpose.* The purposes of this Covidien Ltd. 2007 Stock and Incentive Plan (the "Plan") are to promote the interests of Covidien Ltd. (and any successor thereto) by (i) aiding in the recruitment and retention of Directors and Employees, (ii) providing incentives to Directors and Employees by means of performance-related incentives to achieve short-term and long-term performance goals, (iii) providing Directors and Employees with an opportunity to participate in the growth and financial success of the Company, and (iv) promoting the growth and success of the Company's business by aligning the financial interests of Directors and Employees with that of the other stockholders of the Company. Toward these objectives, the Plan provides for the grant of Stock Options, Stock Appreciation Rights, Annual Performance Bonuses, Long-Term Performance Awards and Other Stock-Based Awards.

1.2 Effective Date; Shareholder Approval. The Plan, as amended and restated, is effective as of November 21, 2008, subject to shareholder approval. Except as otherwise provided herein, the amendment and restatement applies to grants made on and after shareholder approval. The Plan was approved by the Board of Directors of Covidien Ltd. on November 21, 2008 and by the Company's shareholders at its 2009 Annual General Meeting held on March 18, 2009.

ARTICLE II DEFINITIONS

For purposes of the Plan, the following terms have the following meanings, unless another definition is clearly indicated by particular usage and context:

"Acquired Company" means any business, corporation or other entity acquired by the Company or any Subsidiary.

"Acquired Grantee" means the grantee of a stock-based award of an Acquired Company and may include a current or former Director of an Acquired Company.

"Annual Performance Bonus" means an Award of cash or Shares granted under Section 4.4 of the Plan that is paid solely on account of the attainment of a specified performance target in relation to one or more Performance Measures.

"Award" means any form of incentive or performance award granted under the Plan, whether singly or in combination, to a Participant by the Committee pursuant to any terms and conditions that the Committee may establish and set forth in the applicable Award Certificate. Awards granted under the Plan may consist of:

- (a) "Stock Options" awarded pursuant to Section 4.3;
- (b) "Stock Appreciation Rights" awarded pursuant to Section 4.3;
- (c) "Annual Performance Bonuses" awarded pursuant to Section 4.4;
- (d) "Long-Term Performance Awards" awarded pursuant to Section 4.5;
- (e) "Other Stock-Based Awards" awarded pursuant to Section 4.6;
- (f) "Director Awards" awarded pursuant to Section 4.7; and
- (g) "Substitute Awards" awarded pursuant to Section 4.8.

"Award Certificate" means the document issued, either in writing or an electronic medium, by the Committee or its designee to a Participant evidencing the grant of an Award and which contains, in the same or accompanying document, the terms and conditions applicable to such Award.

"Board" means the Board of Directors of the Company.

"Cause" means an Employee's or Director's (i) substantial failure or refusal to perform duties and responsibilities of his or her job as required by the Company or Subsidiary, (ii) violation of any fiduciary duty owed to the Company or Subsidiary, (iii) conviction of a felony or misdemeanor, (iv) dishonesty, (v) theft, (vi) violation of Company or Subsidiary rules or policy, or (vii) other egregious conduct, that has or could have a serious and detrimental impact on the Company or Subsidiary and its employees. The Committee (or the Nominating Committee solely with respect to Director Awards), in its sole and absolute discretion, shall determine Cause.

"Change in Control" means the first to occur of any of the following events:

- (a) any "person" (as defined in Section 13(d) and 14(d) of the Exchange Act, excluding for this purpose, (i) the Company or any Subsidiary or (ii) any employee benefit plan of the Company or any Subsidiary (or any person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan that acquires beneficial ownership of voting securities of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Company representing more than 30 percent of the combined voting power of the Company's then outstanding securities; provided, however, that no Change in Control will be deemed to have occurred as a result of a change in ownership percentage resulting solely from an acquisition of securities by the Company; or
- (b) persons who, as of the Effective Date constitute the Board (the "Incumbent Directors") cease for any reason (including without limitation, as a result of a tender offer, proxy contest, merger or similar transaction) to constitute at least a majority thereof, provided that any person becoming a Director of the Company subsequent to the Effective Date shall be considered an Incumbent Director if such person's election or nomination for election was approved by a vote of at least 50 percent of the Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened proxy contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a "person" (as defined in Section 13(d) and 14(d) of the Exchange Act) other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or
- (c) consummation of a reorganization, merger or consolidation or sale or other disposition of at least 80 percent of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of outstanding voting securities of the Company immediately prior to such Business Combination beneficially own directly or indirectly more than 50 percent of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the company resulting from such Business Combination (including, without limitation, a company which, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities of the Company; or
- (d) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

"Change in Control Termination" means a Participant's involuntary termination of employment that occurs during the twelve (12) month period immediately following a Change in Control. For this purpose, a Participant's involuntary termination of employment includes only the following:

- (a) termination of the Participant's employment by the Company for any reason other than for Cause, Disability or death;
- (b) termination of the Participant's employment by the Participant after one of the following events, provided that the Participant's termination of employment occurs within sixty (60) days after the occurrence of any such event:
 - (i) the Company (1) assigns or causes to be assigned to the Participant duties inconsistent in any material respect with his or her position as in effect immediately prior to the Change in Control; (2) makes or causes to be made any material adverse change in the Participant's position (including titles and reporting relationships and level), authority, duties or responsibilities; or (3) takes or causes to be taken any other action which, in the reasonable judgment of the Participant, would cause him or her to violate his or her ethical or professional obligations (after written notice of such judgment has been provided by the Participant to the Company and the Company has been given a 15-day period within which to cure such action), or which results in a significant diminution in such position, authority, duties or responsibilities; or
 - (ii) the Company, without the Participant's consent, (1) requires the Participant to relocate to a principal place of employment more than fifty (50) miles from his or her existing place of employment; or (2) reduces the Participant's base salary, annual bonus, or retirement, welfare, stock incentive, perquisite (if any) and other benefits taken as a whole.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"Committee" means the Compensation and Human Resources Committee of the Board or any successor committee or other committee to which the Compensation and Human Resources Committee delegates its authority under this Plan. The Compensation and Human Resources Committee is comprised solely of nonemployee directors within the meaning of Rule 16b-3(b)(3) of the Exchange Act and two or more persons who are outside directors within the meaning of Section 162(m)(4)(C)(i) of the Code and the applicable regulations.

"Common Stock" means the common stock of the Company, \$0.20 (U.S.) par value, and such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 5.3 of the Plan.

"Company" means Covidien Ltd., a Bermuda company, or any successor thereto.

"Deferred Stock Unit" means a Unit granted under Section 4.6 or 4.7 to acquire Shares upon Termination of Directorship or Termination of Employment, subject to any restrictions that the Committee, in its discretion, may determine.

"Director" means a member of the Board who is a "non-employee director" within the meaning of Rule 16b-3(b)(3) under the Exchange Act.

"Disabled" or "Disability" means that the Employee has a permanent and total incapacity from engaging in any employment for the Company or Subsidiary for physical or mental reasons. A "Disability" shall be deemed to exist if the Employee is designated with an inactive employment status at the end of a disability or medical leave or if the Employee meets the requirements for disability benefits under (i) the Company's or Subsidiary's long-term disability plan or (ii) the Social Security law then in effect, for Employees who are on the payroll of any United States Subsidiary.

"Dividend Equivalent" means an amount equal to the cash dividend or the Fair Market Value of the stock dividend that would be paid on each Share underlying an Award if the Share were duly issued and outstanding on the date on which the dividend is payable.

"Effective Date" means November 21, 2008, unless otherwise provided herein.

"Employee" means any individual who performs services as an officer or employee of the Company or a Subsidiary.

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

"Exercise Price" means the price of a Share, as fixed by the Committee, which may be purchased under a Stock Option or with respect to which the amount of any payment pursuant to a Stock Appreciation Right is determined.

"Fair Market Value" of a Share means the closing sales price on the New York Stock Exchange of a Share on the trading day of the grant or on the date as of which the determination of Fair Market Value is being made or, if no sale is reported for such day, on the next preceding day on which a sale of Shares is reported. Notwithstanding anything to the contrary herein, the Fair Market Value of a Share will in no event be determined to be less than par value.

"GAAP" means United States generally accepted accounting principles.

"Incentive Stock Option" means a Stock Option granted under Section 4.3 of the Plan that meets the requirements of Section 422 of the Code and any related regulations and is designated in the Award Certificate to be an Incentive Stock Option.

"Key Employee" means an Employee who is a "covered employee" within the meaning of Section 162(m)(3) of the Code or who is reasonably expected to be a "covered employee" at the time an Award becomes payable.

"Long-Term Performance Award" means an Award granted under Section 4.5 of the Plan that is paid solely on account of the attainment of a specified performance target in relation to one or more Performance Measures or other performance criteria as selected in the sole discretion of the Committee.

"Nominating Committee" means the Nominating and Governance Committee the Board.

"Non-Employee Director" means any member of the Board, elected or appointed, who is not otherwise an Employee of the Company or a Subsidiary. An individual who is elected to the Board at an annual meeting of the stockholders of the Company will be deemed to be a member of the Board as of the date of such meeting.

"Nonqualified Stock Option" means any Stock Option granted under Section 4.3 of the Plan that is not an Incentive Stock Option.

"Normal Retirement" means Termination of Employment on or after a Participant has attained age 60, provided that the sum of the Participant's age and years of service with the Company or a Subsidiary is 70 or higher.

"Other Stock-Based Award" means an Award granted under Section 4.6 of the Plan and denominated in Shares.

"Participant" means a Director, Employee or Acquired Grantee who has been granted an Award under the Plan.

"Performance Cycle" means, with respect to any Award that vests based on Performance Measures, the period of 12 months or longer over which the level of performance will be assessed. The first Performance Cycle under the Plan will begin on such date as is set by the Committee, in its sole discretion.

"Performance Measure" means, with respect to any Annual Performance Bonus or Long-Term Performance Award, the business criteria selected by the Committee to measure the level of performance of the Company during a Performance Cycle. The Committee may select as the Performance Measure any operating and maintenance expense targets or financial goals as interpreted by the Committee, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured during the Performance Cycle including, but not limited to the following criteria: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, (p) market segment share, (q) product release schedules, (r) new product innovation, (s) product cost reduction through advanced technology, (t) brand recognition/acceptance, (u) product ship targets, or (v) customer satisfaction.

"Performance Unit" means a Long-Term Performance Award denominated in Units.

"Plan" means the Covidien Ltd. 2007 Stock and Incentive Plan, as it may be amended from time to time.

"Premium-Priced Stock Option" means a Stock Option the Exercise Price of which is fixed by the Committee at a price that exceeds the Fair Market Value of a Share on the date of grant.

"Reporting Person" means a Director or an Employee who is subject to the reporting requirements of Section 16(a) of the Exchange Act.

"Restricted Stock" means Shares issued pursuant to Section 4.6 that are subject to any restrictions that the Committee, in its discretion, may impose.

"Restricted Unit" means a Unit granted under Section 4.5 or Section 4.6 to acquire Shares or an equivalent amount in cash, which Unit is subject to any restrictions that the Committee, in its discretion, may impose.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Share" means a share of Common Stock.

"Stock Appreciation Right" means a right granted under Section 4.3 of the Plan of an amount in cash or Shares equal to any difference between the Fair Market Value of the Shares as of the date on which the right is exercised and the Exercise Price.

"Stock Option" means a right granted under Section 4.3 of the Plan to purchase from the Company a stated number of Shares at a specified price. Stock Options awarded under the Plan may be in the form of Incentive Stock Options or Nonqualified Stock Options.

"Subsidiary" means (i) a subsidiary company (wherever incorporated) of the Company, as defined by Section 86 of the Companies Act 1981 of Bermuda, as amended; (ii) any separately organized business unit, whether or not incorporated, of the Company; (iii) any employer that is required to be aggregated with the Company pursuant to Code Section 414 and the regulations promulgated thereunder; and (iv) any service recipient or employer that is within a controlled group of corporations as defined in Code Sections 1563(a)(1), (2) and (3) where the phrase "at least 50%" is substituted in each place "at least 80%" appears and any service recipient or employer within trades or businesses under common control as defined in Code Section 414(c) and Treas. Reg. § 1.414(c)-2 where the phrase "at least 50%" is substituted in each place "at least 80%" appears, provided, however, that when the relevant determination is to be based upon legitimate business criteria (as described in Treas. Reg. § 1.409A-1(b)(5)(iii)(E) and § 1.409A-1(h)(3)), the phrase "at least 20%" shall be substituted in each place "at least 80%" appears as described above with respect to both a controlled group of corporations and trades or business under common control.

"Target Amount" means the amount of Performance Units that will be paid if the Performance Measure is fully (100%) attained, as determined in the sole discretion of the Committee.

"Target Vesting Percentage" means the percentage of performance-based Restricted Units or Shares of Restricted Stock that will vest if the Performance Measure is fully (100%) attained, as determined in the sole discretion of by the Committee.

"Termination of Directorship" means the date of cessation of a Director's membership on the Board for any reason, with or without Cause, as determined in the sole discretion of the Nominating Committee, provided however that if the Director is a member of the Nominating Committee, such determination shall be made by the full Board (excluding such Director).

"Termination of Employment" means the date of cessation of an Employee's employment relationship with the Company or a Subsidiary for any reason, with or without Cause, as determined in the sole discretion of the Company.

"*Unit*" means, for purposes of Performance Units, the potential right to an Award equal to a specified amount denominated in such form as is deemed appropriate in the discretion of the Committee and, for purposes of Restricted Units or Deferred Stock Units, the potential right to acquire one Share.

ARTICLE III ADMINISTRATION

- 3.1 *Committee*. The Plan will be administered by the Committee, except as otherwise provided in Section 4.7.
- 3.2 *Authority of the Committee*. The Committee or, to the extent required by applicable law, the Board will have the authority, in its sole and absolute discretion and subject to the terms of the Plan, to:
 - (a) Interpret and administer the Plan and any instrument or agreement relating to the Plan;
 - (b) Prescribe the rules and regulations that it deems necessary for the proper operation and administration of the Plan, and amend or rescind any existing rules or regulations relating to the Plan;
 - (c) Select Employees to receive Awards under the Plan;
 - (d) Determine the form of an Award, the number of Shares subject to each Award, all the terms and conditions of an Award, including, without limitation, the conditions on exercise or vesting, the designation of Stock Options as Incentive Stock Options or Nonqualified Stock Options, and the circumstances under which an Award may be settled in cash or Shares or may be cancelled, forfeited or suspended, and the terms of each Award Certificate;
 - (e) Determine whether Awards will be granted singly, in combination or in tandem;
 - (f) Establish and interpret Performance Measures (or, as applicable, other performance criteria) in connection with Annual Performance Bonuses and Long-Term Performance Awards, evaluate the level of performance over a Performance Cycle and certify the level of performance attained with respect to Performance Measures (or other performance criteria, as applicable);
 - (g) Subject to Sections 6.1 and 7.12, waive or amend any terms, conditions, restriction or limitation on an Award, except that the prohibition on the repricing of Stock Options and Stock Appreciation Rights, as described in Section 4.3(g), may not be waived;
 - (h) Make any adjustments to the Plan (including but not limited to adjustment of the number of Shares available under the Plan or any Award) and any Award granted under the Plan as may be appropriate pursuant to Section 5.3;
 - (i) Determine and set forth in the applicable Award Certificate the circumstances under which Awards may be deferred and the extent to which a deferral will be credited with Dividend Equivalents and interest thereon;

- (j) Determine and set forth in the applicable Award Certificate whether a Nonqualified Stock Option or Restricted Share may be transferable to family members, a family trust or a family partnership;
- (k) Establish any subplans and make any modifications to the Plan, without amending the Plan, or to Awards made hereunder (including the establishment of terms and conditions in the Award Certificate not otherwise inconsistent with the terms of the Plan) that the Committee may determine to be necessary or advisable for grants made in countries outside the United States to comply with, or to achieve favorable tax treatment under, applicable foreign laws or regulations or tax policies or customs:
 - (1) Appoint such agents as it shall deem appropriate for the proper administration of the Plan; and
- (m) Take any and all other actions it deems necessary or advisable for the proper operation or administration of the Plan.
- 3.3 *Effect of Determinations*. All determinations of the Committee will be final, binding and conclusive on all persons having an interest in the Plan.
- 3.4 Delegation of Authority. The Board or, if permitted under applicable corporate law, the Committee, in its discretion and consistent with applicable law and regulations, may delegate to a committee or an officer or group of officers, as it deems to be advisable, the authority to select Employees to receive an Award and to determine the number of Shares under any such Award, subject to any terms and conditions that the Board or the Committee may establish. When the Board or the Committee delegates authority pursuant to the foregoing sentence, it will limit, in its discretion, the number or value of Shares that may be subject to Awards that the delegate may grant. Only the Committee has the authority to grant and administer Awards to Key Employees and other Reporting Persons or to delegates of the Committee, and to establish and certify Performance Measures.
- 3.5 *Employment of Advisors*. The Committee may employ attorneys, consultants, accountants and other advisors, and the Committee, the Company and the officers and directors of the Company may rely upon the advice, opinions or valuations of the advisors employed.
- 3.6 *No Liability*. No member of the Committee or any person acting as a delegate of the Committee with respect to the Plan will be liable for any losses resulting from any action, interpretation or construction made in good faith with respect to the Plan or any Award granted under the Plan.

ARTICLE IV AWARDS

- 4.1 *Eligibility*. All Participants and Employees are eligible to be designated to receive Awards granted under the Plan, except as otherwise provided in this Article IV.
- 4.2 Form of Awards. Awards will be in the form determined by the Committee, in its discretion, and will be evidenced by an Award Certificate. Awards may be granted singly or in combination or in tandem with other Awards.
- 4.3 Stock Options and Stock Appreciation Rights. The Committee may grant Stock Options and Stock Appreciation Rights under the Plan to those Employees whom the Committee may from time to time select, in the amounts and pursuant to the other terms and conditions that the Committee, in its discretion, may determine and set forth in the Award Certificate, subject to the provisions below:
 - (a) *Form.* Stock Options granted under the Plan will, at the discretion of the Committee and as set forth in the Award Certificate, be in the form of Incentive Stock Options, Nonqualified Stock Options or a combination of the two. If an Incentive Stock Option and a Nonqualified Stock Option are granted to the

same Participant under the Plan at the same time, the form of each will be clearly identified, and they will be deemed to have been granted in separate grants. In no event will the exercise of one Award affect the right to exercise the other Award. Stock Appreciation Rights may be granted either alone or concurrently with Nonqualified Stock Options and the amount of Shares attributable to each Stock Appreciation Right shall be set forth in the applicable Award Certificate on or before the grant date.

- (b) Exercise Price. The Committee will set the Exercise Price of Stock Options or Stock Appreciation Rights granted under the Plan at a price that is equal to the Fair Market Value of a Share on the date of grant, subject to adjustment as provided in Section 5.3. The Committee will set the Exercise Price of Premium-Priced Stock Options at a price that is higher than the Fair Market Value of a Share as of the date of grant, provided that such price is no higher than 150 percent of such Fair Market Value. The Exercise Price of Incentive Stock Options will be equal to or greater than 110 percent of the Fair Market Value of a Share as of the date of grant if the Participant receiving the Stock Options owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary or parent corporation of the Company, as defined in Section 424 of the Code. The Exercise Price of a Stock Appreciation Right granted in tandem with a Stock Option will equal the Exercise Price of the related Stock Option. On or before the grant date, the Committee will set forth the Exercise Price of a Stock Option or Stock Appreciation Right in the Award Certificate or accompanying documentation. Stock Options granted under the Plan will, at the discretion of the Committee and as set forth in the Award Certificate or accompanying documentation, be Stock Options, Premium-Priced Stock Options or a combination of Stock Options and Premium-Priced Stock Options.
- (c) *Term and Timing of Exercise*. Each Stock Option or Stock Appreciation Right granted under the Plan will be exercisable in whole or in part, subject to the following conditions, unless determined otherwise by the Committee:
 - (i) The term of each Stock Option shall be determined by the Committee and set forth in the applicable Award Certificate, but in no event shall the term of a Stock Option exceed ten (10) years from the date of its grant.
 - (ii) A Stock Option or Stock Appreciation Right will become exercisable at such times and in such manner as determined by the Committee and set forth in the applicable Award Certificate.
 - (ii) Unless the applicable Award Certificate provides otherwise, upon the death, Disability, Normal Retirement or a Change in Control Termination of a Participant who has outstanding Stock Options or Stock Appreciation Rights, the unvested Stock Options or Stock Appreciation Rights will fully vest. Unless the applicable Award Certificate provides otherwise, the Participant's Stock Options and Stock Appreciation Rights will lapse, and will not thereafter be exercisable, upon the earlier of (A) their original expiration date or (B) the date that is three (3) years after the date on which the Participant dies, incurs a Disability or retires due to Normal Retirement.
 - (iii) Unless the applicable Award Certificate provides otherwise, upon the Termination of Employment of a Participant for any reason other than the Participant's death, Disability, Normal Retirement or a Change in Control Termination, if the Participant has attained age 55 and the sum of the Participant's age and years of service with the Company or a Subsidiary is 60 or higher, a pro rata portion of the Participant's Stock Options and Stock Appreciation Rights will vest so that the total number of vested Stock Options or Stock Appreciation Rights held by the Participant at Termination of Employment (including those that have already vested as of such date) will be equal to the total number of Stock Options or Stock Appreciation Rights originally granted to the Participant under the applicable Award multiplied by a fraction, the numerator of which is the period of time (in whole months) that have elapsed since the date of grant, and the denominator of which is the number of months set forth in the applicable Award Certificate that is required to attain full vesting. Unless the Award Certificate provides otherwise, such Participant's Stock Options and Stock Appreciation Rights will lapse, and will not thereafter be exercisable, upon the earlier of (A) their original expiration date or (B) the date that is three (3) years after the date of Termination of Employment.

- (iv) Unless the applicable Award Certificate provides otherwise, upon the Termination of Employment of a Participant that does not meet the requirements of paragraphs (ii) or (iii) above, any unvested Stock Options or Stock Appreciation Rights will be forfeited. Unless the applicable Award Certificate provides otherwise, any Stock Options or Stock Appreciation Rights that are vested as of such Termination of Employment will lapse, and will not thereafter be exercisable, upon the earlier of (A) their original expiration date or (B) the date that is ninety (90) days after the date of such Termination of Employment.
- (v) Stock Options and Stock Appreciation Rights of a deceased Participant may be exercised only by the estate of the Participant or by the person given authority to exercise the Stock Options or Stock Appreciation Rights by the Participant's will or by operation of law. If a Stock Option or Stock Appreciation Right is exercised by the executor or administrator of a deceased Participant, or by the person or persons to whom the Stock Option or Stock Appreciation Right has been transferred by the Participant's will or the applicable laws of descent and distribution, the Company will be under no obligation to deliver Shares or cash until the Company is satisfied that the person exercising the Stock Option or Stock Appreciation Right is the duly appointed executor or administrator of the deceased Participant or the person to whom the Stock Option or Stock Appreciation Right has been transferred by the Participant's will or by applicable laws of descent and distribution.
- (vi) A Stock Appreciation Right granted in tandem with a Stock Option is subject to the same terms and conditions as the related Stock Option and will be exercisable only to the extent that the related Stock Option is exercisable.
- (d) Payment of Exercise Price. The Exercise Price of a Stock Option must be paid in full when the Stock Option is exercised. Shares will be issued and delivered only upon receipt of payment. Payment of the Exercise Price may be made in cash or by certified check, bank draft, wire transfer, or postal or express money order, provided that the format is approved by the Company or a designated third-party administrator. The Committee, in its discretion may also allow payment to be made by any of the following methods, as set forth in the applicable Award Certificate:
 - (i) Delivering a properly executed exercise notice to the Company or its agent, together with irrevocable instructions to a broker to deliver to the Company, within the typical settlement cycle for the sale of equity securities on the relevant trading market (or otherwise in accordance with the provisions of Regulation T issued by the Federal Reserve Board), the amount of sale proceeds with respect to the portion of the Shares to be acquired having a Fair Market Value on the date of exercise equal to the sum of the applicable portion of the Exercise Price being so paid;
 - (ii) Subject to any requirements of applicable law and regulations, tendering (actually or by attestation) to the Company or its agent previously acquired Shares that have a Fair Market Value on the day prior to the date of exercise equal to the applicable portion of the Exercise Price being so paid; or
 - (iii) Subject to any requirements of applicable law and regulations, instructing the Company to reduce the number of Shares that would otherwise be issued by such number of Shares as have in the aggregate a Fair Market Value on the date of exercise equal to the applicable portion of the Exercise Price being so paid.
- (e) *Incentive Stock Options*. Incentive Stock Options granted under the Plan will be subject to the following additional conditions, limitations and restrictions:
 - (i) *Eligibility*. Incentive Stock Options may be granted only to Employees of the Company or a Subsidiary that is a subsidiary or parent corporation of the Company within the meaning of Code Section 424.
 - (ii) *Timing of Grant*. No Incentive Stock Option will be granted under the Plan after the 10-year anniversary of the date on which the Plan is adopted by the Board or, if earlier, the date on which the Plan is approved by the Company's stockholders.

- (iii) Amount of Award. Subject to Section 5.3 of the Plan, no more than 10 million Shares may be available for grant in the form of Incentive Stock Options. The aggregate Fair Market Value (as of the date of grant) of the Shares with respect to which the Incentive Stock Options awarded to any Employee first become exercisable during any calendar year may not exceed \$100,000 (U.S.). For purposes of this \$100,000 (U.S.) limit, the Employee's Incentive Stock Options under this Plan and all other plans maintained by the Company and its Subsidiaries will be aggregated. To the extent any Incentive Stock Option would exceed the \$100,000 (U.S.) limit, the Incentive Stock Option will afterwards be treated as a Nonqualified Stock Option to the extent required by the Code and underlying regulations and rulings.
- (iv) *Timing of Exercise*. If the Committee exercises its discretion in the Award Certificate to permit an Incentive Stock Option to be exercised by a Participant more than three months after the Participant has ceased being an Employee (or more than 12 months if the Participant is permanently and totally disabled, within the meaning of Code Section 22(e)), the Incentive Stock Option will afterwards be treated as a Nonqualified Stock Option to the extent required by the Code and underlying regulations and rulings. For purposes of this paragraph (iv), an Employee's employment relationship will be treated as continuing intact while the Employee is on military leave, sick leave or another approved leave of absence if the period of leave does not exceed 90 days, or a longer period to the extent that the Employee's right to reemployment with the Company or a Subsidiary is guaranteed by statute or by contract. If the period of leave exceeds 90 days and the Employee's right to reemployment is not guaranteed by statute or contract, the employment relationship will be deemed to have ceased on the 91st day of the leave.
- (v) *Transfer Restrictions*. In no event will the Committee permit an Incentive Stock Option to be transferred by an Employee other than by will or the laws of descent and distribution, and any Incentive Stock Option awarded under this Plan will be exercisable only by the Employee during the Employee's lifetime.
- (f) Exercise of Stock Appreciation Rights. Upon exercise of a Participant's Stock Appreciation Rights, the Company will pay cash or Shares or a combination of cash and Shares, in the discretion of the Committee and as described in the Award Certificate. Cash payments will be equal to the excess of the Fair Market Value of a Share on the date of exercise over the Exercise Price, for each Share for which a Stock Appreciation Right was exercised. If Shares are paid for the Stock Appreciation Right, the Participant will receive a number of whole Shares equal to the quotient of the cash payment amount divided by the Fair Market Value of a Share on the date of exercise.
- (g) *No Repricing*. Except as otherwise provided in Section 5.3, in no event will the Committee decrease the Exercise Price of a Stock Option or Stock Appreciation Right after the date of grant or cancel outstanding Stock Options or Stock Appreciation Rights and grant replacement Stock Options or Stock Appreciation Rights with a lower Exercise Price than that of the replaced Stock Options or Stock Appreciation Rights or other Awards without first obtaining the approval of the holders of a majority of the Shares who are present in person or by proxy at a meeting of the Company's stockholders and entitled to vote.
- 4.4 Annual Performance Bonuses. The Committee may grant Annual Performance Bonuses under the Plan in the form of cash or Shares to the Reporting Persons that the Committee may from time to time select, in the amounts and pursuant to the terms and conditions that the Committee may determine and set forth in the Award Certificate, subject to the provisions below:
 - (a) *Performance Cycles*. Annual Performance Bonuses will be awarded in connection with a twelve (12) month Performance Cycle, which will be the fiscal year of the Company.
 - (b) *Eligible Participants*. Within ninety (90) days after the commencement of a Performance Cycle, the Committee will determine the Reporting Persons who will be eligible to receive an Annual Performance Bonus under the Plan. If an individual becomes a Reporting Person after this ninety (90) day period, the

Committee may determine that such Reporting Person is eligible to receive a pro rata Annual Performance Bonus under the Plan.

- (c) Performance Measures; Targets; Award Criteria.
- (i) Within ninety (90) days after the commencement of the service period to which a Performance Cycle relates, the Committee will fix and establish in writing (A) the Performance Measures that will apply to that Performance Cycle; (B) the Target Amount payable to each Participant; and (C) subject to subsection (d) below, the criteria for computing the amount that will be paid with respect to each level of attained performance. The Committee will also set forth the minimum level of performance, based on objective factors, that must be attained during the Performance Cycle before any Annual Performance Bonus will be paid and the percentage of the Target Amount that will become payable upon attainment of various levels of performance that equal or exceed the minimum required level.
- (ii) The Committee may, in its discretion, select Performance Measures that measure the performance of the Company or one or more business units, divisions or Subsidiaries of the Company. The Committee may select Performance Measures that are absolute or relative to the performance of one or more comparable companies or an index of comparable companies.
- (iii) The Committee, in its discretion, may, on a case-by-case basis, reduce, but not increase, the amount payable to any Key Employee with respect to any given Performance Cycle, provided, however, that no reduction will result in an increase in the amount payable under any Annual Performance Bonus of another Key Employee.
- (d) *Payment, Certification.* No Annual Performance Bonus will vest with respect to any Reporting Person until the Committee certifies in writing the level of performance attained for the Performance Cycle in relation to the applicable Performance Measures. In applying Performance Measures, the Committee may, in its discretion, exclude unusual or infrequently occurring items (including any event listed in Section 5.3 and the cumulative effect of changes in the law, regulations or accounting rules), and may determine no later than ninety (90) days after the commencement of any applicable Performance Cycle to exclude other items, each determined in accordance with GAAP (to the extent applicable).
- (e) Form of Payment. Annual Performance Bonuses will be paid in cash or Shares. All such Performance Bonuses shall be paid no later than the 15th day of the third month following the end of the calendar year (or, if later, following the end of the Company's fiscal year) in which such Performance Bonuses are no longer subject to a substantial risk of forfeiture (as determined for purposes of Section 409A of the Code), except to the extent that a Participant has elected to defer payment under the terms of a duly authorized deferred compensation arrangement, in which case the terms of such arrangement shall govern.
- (f) Section 162(m) of the Code. It is the intent of the Company that Annual Performance Bonuses be "performance-based compensation" for purposes of Section 162(m) of the Code, that this Section 4.4 be interpreted in a manner that satisfies the applicable requirements of Section 162(m)(4)(C) of the Code and related regulations, and that the Plan be operated so that the Company may take a full tax deduction for Annual Performance Bonuses. If any provision of this Plan or any Annual Performance Bonus would otherwise frustrate or conflict with this intent, the provision will be interpreted and deemed amended so as to avoid this conflict.
- (g) Acceleration. Each Participant who is eligible to receive an Annual Performance Bonus with respect to a Performance Cycle during which a Change of Control occurs will, except as otherwise provided below, be deemed to have achieved a level of performance, as of the date of Change in Control, that would cause all (100%) of the Participant's Target Amount to become payable at such times and in such manner as determined in the sole discretion of the Committee. Notwithstanding the previous sentence, if (i) a surviving entity maintains the Performance Cycle in which a Change in Control occurs, or otherwise provides for the payment of an Annual Performance Bonus based on the level of performance attained for such Performance Cycle in relation to the Performance Measures established for such Performance Cycle (including Performance Measures that were adjusted or modified as a result of the Change in Control) and (ii) the

Annual Performance Bonus based on the level of performance attained for such Performance Cycle exceeds all (100%) of the Participant's Target Amount, then each Participant who is eligible to receive an Annual Performance Bonus with respect to such Performance Cycle shall receive an Annual Performance Bonus based on the level of performance attained for such Performance Cycle at such times and in such manner as determined in the sole discretion of the Committee, or successor to the Committee. The time and manner of any payments made pursuant to this Section 4.4(g) shall comply with Section 4.4(e) above.

- 4.5 Long-Term Performance Awards. The Committee may grant Long-Term Performance Awards under the Plan in the form of Performance Units, Restricted Units or Restricted Stock to any Employee who the Committee may from time to time select, in the amounts and pursuant to the terms and conditions that the Committee may determine and set forth in the Award Certificate, subject to the provisions below:
 - (a) *Performance Cycles*. Long-Term Performance Awards will be awarded in connection with a Performance Cycle, as determined by the Committee in its discretion, provided, however, that a Performance Cycle may be no shorter than twelve (12) months and no longer than five (5) years.
 - (b) *Eligible Participants*. Within ninety (90) days after the commencement of a Performance Cycle, the Committee will determine the Employees who will be eligible to receive a Long-Term Performance Award for the Performance Cycle, provided that the Committee may determine the eligibility of any Employee other than a Key Employee after the expiration of this ninety (90) day period.
 - (c) Performance Measures; Targets; Award Criteria.
 - (i) Within ninety (90) days after the commencement of the service period to which a Performance Cycle relates, the Committee will fix and establish in writing (A) the Performance Measures that will apply to that Performance Cycle; (B) with respect to Performance Units, the Target Amount payable to each Participant; (C) with respect to Restricted Units and Restricted Stock, the Target Vesting Percentage for each Participant; and (D) subject to subsection (d) below, the criteria for computing the amount that will be paid or will vest with respect to each level of attained performance. The Committee will also set forth the minimum level of performance, based on objective factors, that must be attained during the Performance Cycle before any Long-Term Performance Award will be paid or vest, and the percentage of Performance Units that will become payable and the percentage of performance-based Restricted Units or Shares of Restricted Stock that will vest upon attainment of various levels of performance that equal or exceed the minimum required level.
 - (ii) The Committee may, in its discretion, select Performance Measures that measure the performance of the Company or one or more business units, divisions or Subsidiaries of the Company. The Committee may select Performance Measures that are absolute or relative to the performance of one or more comparable companies or an index of comparable companies.
 - (iii) The Committee, in its discretion, may, on a case-by-case basis, reduce, but not increase, the amount of Long-Term Performance Awards payable to any Key Employee with respect to any given Performance Cycle, provided, however, that no reduction will result in an increase in the dollar amount or number of Shares payable under any Long-Term Performance Award of another Key Employee.
 - (iv) With respect to Employees who are not Key Employees, the Committee may establish, in its discretion, performance criteria other than the Performance Measures that will be applicable for the Performance Cycle.
 - (d) *Payment, Certification*. No Long-Term Performance Award will vest with respect to any Employee until the Committee certifies in writing the level of performance attained for the Performance Cycle in relation to the applicable Performance Measures. Long-Term Performance Awards awarded to Participants who are not Key Employees will be based on the Performance Measures, or other applicable performance criteria, and payment formulas that the Committee, in its discretion, may establish for these purposes. These Performance Measures, or other performance criteria, and formulas may be the same as or different than the Performance Measures and formulas that apply to Key Employees.

In applying Performance Measures, the Committee may, in its discretion, exclude unusual or infrequently occurring items (including any event listed in Section 5.3 and the cumulative effect of changes in the law, regulations or accounting rules, and may determine no later than ninety (90) days after the commencement of any applicable Performance Cycle to exclude other items, each determined in accordance with GAAP (to the extent applicable) and as identified in the financial statements, notes to the financial statements or discussion and analysis of management.

- (e) Form of Payment. Long-Term Performance Awards in the form of Performance Units may be paid in cash or full Shares, in the discretion of the Committee, and as set forth in the applicable Award Certificate. Performance-based Restricted Units and Restricted Stock will be paid in full Shares. Payment with respect to any fractional Share will be in cash in an amount based on the Fair Market Value of the Share as of the date the Performance Unit becomes payable. All Long-Term Performance Awards shall be paid no later than the 15th day of the third month following the end of the calendar year (or, if later, following the end of the Company's fiscal year) in which such Long-Term Performance Awards are no longer subject to a substantial risk of forfeiture (within the meaning of Code Section 409A), except to the extent that a Participant has elected to defer payment under the terms of a duly authorized deferred compensation arrangement, in which case the terms of such arrangement shall govern, or as otherwise provided in Section 4.5(g) below.
- (f) Section 162(m) of the Code. It is the intent of the Company that Long-Term Performance Awards made to Key Employees be "performance-based compensation" for purposes of Section 162(m) of the Code, that this Section 4.5 be interpreted in a manner that satisfies the applicable requirements of Section 162(m)(4)(C) of the Code and related regulations with respect to Long-Term Performance awards made to Key Employees, and that the Plan be operated so that the Company may take a full tax deduction for Long-Term Performance Awards. If any provision of this Plan or any Long-Term Performance Award would otherwise frustrate or conflict with this intent, the provision will be interpreted and deemed amended so as to avoid this conflict.
- (g) Special Vesting Provisions. Unless the applicable Award Certificate provides otherwise, upon the death, Disability, Normal Retirement or a Change in Control Termination of a Participant who has an outstanding Long-Term Performance Award, the unvested Long-Term Performance Award will fully vest when the Committee certifies the performance criteria for the applicable Performance Period have been satisfied. Unless the applicable Award Certificate provides otherwise, upon the Termination of Employment of a Participant for any reason other than the Participant's death, Disability, Normal Retirement or a Change in Control Termination, the unvested Long-Term Performance Award will be forfeited unless the Participant has attained age 55 and the sum of the Participant's age and years of service with the Company or a Subsidiary is 60 or higher, in which case a pro rata portion of the Participant's Long-Term Performance Awards will vest on the date the Committee certifies the performance criteria for the applicable Performance Period have been satisfied so that the total number of vested Long-Term Performance Awards held by the Participant on such date shall equal the total number of Long-Term Performance Awards in which such Participant would have vested had such Participant remained in active employment with the Company or any Subsidiary until the date the Committee certifies the performance criteria for the applicable Performance Period have been satisfied and after adjustment for the attained level of performance multiplied by a fraction, the numerator of which is the period of time (in whole months) that have elapsed since the date of grant, and the denominator of which is the number of total months set forth in the applicable Award Certificate for such Performance Period.

4.6 Other Stock-Based Awards. The Committee may, from time to time, grant Awards (other than Stock Options, Stock Appreciation Rights, Annual Performance Bonuses or Long-Term Performance Awards) to any Employee who the Committee may from time to time select, which Awards consist of, or are denominated in, payable in, valued in whole or in part by reference to, or otherwise related to, Shares. These Awards may include, among other forms, Restricted Stock, Restricted Units, or Deferred Stock Units. The Committee will determine, in its discretion, the terms and conditions that will apply to Awards granted pursuant to this Section 4.6, which terms and conditions will be set forth in the applicable Award Certificate.

- (a) *Vesting*. Restrictions on Other Stock-Based Awards granted under this Section 4.6 will lapse at such times and in such manner as determined by the Committee and set forth in the applicable Award Certificate. Unless the applicable Award Certificate provides otherwise, if the restrictions on Other Stock-Based Awards have not lapsed or been satisfied as of the Participant's Termination of Employment, the Shares will be forfeited by the Participant if the termination is for any reason other than the Normal Retirement, death or Disability of the Participant or a Change in Control Termination, except that the Award will vest pro rata with respect to the portion of the vesting term set forth in the applicable Award Certificate that the Participant has completed if the Participant has attained age 55 and the sum of the Participant's age and years of service with the Company is 60 or higher. All restrictions on Other Stock-Based Awards granted pursuant to this Section 4.6 will lapse upon the Normal Retirement, death or Disability of the Participant or a Change in Control Termination.
- (b) *Grant of Restricted Stock*. The Committee may grant Restricted Stock to any Employee, which Shares will be registered in the name of the Participant and held for the Participant by the Company. The Participant will have all rights of a stockholder with respect to the Shares, including the right to vote and to receive dividends or other distributions, except that the Shares may be subject to a vesting schedule and will be forfeited if the Participant attempts to sell, transfer, assign, pledge or otherwise encumber or dispose of the Shares before the restrictions are satisfied or lapse.
- (c) *Grant of Restricted Units*. The Committee may grant Restricted Units to any Employee, which Units will be paid in cash or whole Shares or a combination of cash and Shares, in the discretion of the Committee, when the restrictions on the Units lapse and any other conditions set forth in the Award Certificate have been satisfied. For each Restricted Unit that vests, one Share will be paid or an amount in cash equal to the Fair Market Value of a Share as of the date on which the Restricted Unit vests.
- (d) *Grant of Deferred Stock Units*. The Committee may grant Deferred Stock Units to any Employee, which Units will be paid in whole Shares upon the Employee's Termination of Employment if the restrictions on the Units have lapsed. One Share will be paid for each Deferred Stock Unit that becomes payable.
- (e) Dividends and Dividend Equivalents. At the discretion of the Committee and as set forth in the applicable Award Certificate, dividends issued on Shares may be paid immediately or withheld and deferred in the Participant's account. In the event of a payment of dividends on Common Stock, the Committee may credit Restricted Units with Dividend Equivalents in accordance with terms and conditions established in the discretion of the Committee. Dividend Equivalents will be subject to such vesting terms as is determined by the Committee and may be distributed immediately or withheld and deferred in the Participant's account as determined by the Committee and set forth in the applicable Award Certificate. Deferred Stock Units may, in the discretion of the Committee and as set forth in the Award Certificate, be credited with Dividend Equivalents or additional Deferred Stock Units. The number of any Deferred Stock Units credited to a Participant's account upon the payment of a dividend will be equal to the quotient produced by dividing the cash value of the dividend by the Fair Market Value of one Share as of the date the dividend is paid. The Committee will determine any terms and conditions on deferral of a dividend or Dividend Equivalent, including the rate of interest to be credited on deferral and whether interest will be compounded.

4.7 Director Awards.

- (a) Notwithstanding anything herein to the contrary, the Nominating Committee shall have the exclusive authority to issue awards to Directors (Director Awards), which may consist of, but not be limited to, Stock Options, Stock Appreciation Rights, or Other Stock-Based Awards. Each Director Award shall be governed by an Award Certificate approved by the Nominating Committee.
- (b) The Nominating Committee shall have the exclusive authority to administer Director Awards, and shall have the authority set forth in Section 3.2 and the indemnification set forth in Section 7.7, solely as such provisions apply to the Director Awards. All determinations made by the Nominating Committee hereunder shall be final, binding and conclusive.

4.8 Substitute Awards. The Committee may make Awards under the Plan to Acquired Grantees through the assumption of, or in substitution for, outstanding stock-based awards previously granted to such Acquired Grantees. Such assumed or substituted Awards will be subject to the terms and conditions of the original awards made by the Acquired Company, with such adjustments therein as the Committee considers appropriate to give effect to the relevant provisions of any agreement for the acquisition of the Acquired Company. Any grant of Incentive Stock Options pursuant to this Section 4.8 will be made in accordance with Section 424 of the Code and any final regulations published thereunder.

4.9 *Limit on Individual Grants*. Subject to Sections 5.1 and 5.3, no Employee may be granted more than six (6) million Shares over any calendar year pursuant to Awards of Stock Options, Stock Appreciation Rights and performance-based Restricted Stock and Restricted Units, except that an incentive Award of no more than ten (10) million Shares may be made pursuant to Stock Options, Stock Appreciation Rights and performance-based Restricted Stock and Restricted Units to any person who has been hired within the calendar year as a Key Employee. The maximum amount that may be paid in cash or Shares pursuant to Annual Performance Bonuses or Long-Term Performance Awards paid in Performance Units to any one Employee is \$15 million (U.S.) for any Performance Cycle of twelve (12) months. For any longer Performance Cycle, this maximum will be adjusted proportionally.

4.10 Termination for Cause. Notwithstanding anything to the contrary herein and unless the applicable Award Certificate provides otherwise, if a Participant incurs a Termination of Directorship or Termination of Employment for Cause, then all Stock Options, Stock Appreciation Rights, Annual Performance Bonuses, Long-Term Performance Awards, Restricted Units, Restricted Stock and Other Stock-Based Awards will immediately be cancelled. The exercise of any Stock Option or Stock Appreciation Right or the payment of any Award may be delayed, in the Committee's discretion, in the event that a potential termination for Cause is pending. Unless the applicable Award Certificate provides otherwise, if a Participant incurs a Termination of Directorship or Termination of Employment for Cause, then the Participant will be required to deliver to the Company (i) Shares (or, in the discretion of the Committee, cash) equal in value to the amount of any profit the Participant realized upon the exercise of an Option or Stock Appreciate Right during the twelve (12) month period occurring immediately prior to the Participant's Termination of Directorship or Termination of Employment for Cause; and (ii) the number of Shares (or, in the discretion of the Committee, the cash value of Shares) the Participant received for Other Stock Based Awards (including Restricted Stock, Restricted Units and Deferred Stock Units) that vested during the period specified in (i) above. Unless the applicable award certificate provides otherwise, if, after a Participant's Termination of Directorship or Termination of Employment, the Committee determines in its sole discretion that while the Participant was a Company or Subsidiary employee or a Director, such Participant engaged in activity that would have been grounds for a Termination of Directorship or Termination of Employment for Cause, then the Company will immediately cancel all Stock Options, Stock Appreciation Rights, Annual Performance Bonuses, Long-Term Performance Awards, Restricted Units, Restricted Stock and Other Stock-Based Awards and the Participant will be required to deliver to the Company (A) Shares (or, in the discretion of the Committee, cash) equal in value to the amount of any profit the Participant realized upon the exercise of an Option or Stock Appreciate Right during the period that begins twelve (12) months immediately prior to the Participant's Termination of Directorship or Termination of Employment and ends on the date of the Committee's determination that the Participant's conduct would have constituted grounds for a Termination of Directorship or Termination of Employment for Cause; and (B) the number of Shares (or, in the discretion of the Committee, the cash value of said shares) the Participant received for Other Stock Based Awards (including Restricted Stock, Restricted Units and Deferred Stock Units) that vested during the period specified in (A) above.

ARTICLE V SHARES SUBJECT TO THE PLAN; ADJUSTMENTS

5.1 Shares Available. The Shares issuable under the Plan will be authorized but unissued Shares, and, to the extent permissible under applicable law, Shares acquired by the Company, any Subsidiary or any other person or entity designated by the Company. The total number of Shares with respect to which Awards may be issued

under the Plan may equal, but may not exceed 35 million, subject to adjustment in accordance with Section 5.3; provided that when Shares are issued pursuant to a grant of Restricted Stock, Restricted Units, Deferred Stock Units, Performance Units or as payment of an Annual Performance Bonus or Other Stock-Based Award, the total number of Shares remaining available for grant will be decreased by a margin of at least 1.8 per Share issued. No more than 10 million Shares of the total Shares issuable under the Plan may be available for grant in the form of Incentive Stock Options.

- 5.2 Counting Rules. The following Shares related to Awards under this Plan may again be available for issuance under the Plan, in addition to the Shares described in Section 5.1:
 - (a) Shares related to Awards paid in cash;
 - (b) Shares related to Awards that expire, are forfeited or cancelled or terminate for any other reason without issuance of Shares;
 - (c) Any Shares issued in connection with Awards that are assumed, converted or substituted as a result of the acquisition of an Acquired Company by the Company or a combination of the Company with another company; and
 - (d) Any Shares of Restricted Stock that are returned to the Company upon a Participant's Termination of Employment or, if applicable, a Director's Termination of Directorship.
- 5.3 Adjustments. In the event of a change in the outstanding Shares by reason of a stock split, reverse stock split, dividend or other distribution (whether in the form of cash, Shares, other securities or other property), extraordinary cash dividend, recapitalization, merger, consolidation, split-up, spin-off, reorganization, combination, repurchase or exchange of Shares or other securities or similar corporate transaction or event, the Committee shall make an appropriate adjustment to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. Any adjustment made by the Committee under this Section 5.3 will be conclusive and binding for all purposes under the Plan.

5.4 Change in Control.

- (a) Acceleration. Unless the applicable Award Certificate provides otherwise, (i) all outstanding Stock Options and Stock Appreciation Rights will become exercisable as of the effective date of a Participant's Change in Control Termination if the Awards are not otherwise vested, and all conditions will be waived with respect to outstanding Restricted Stock and Restricted Units (other than Long-Term Performance Awards) and Deferred Stock Units and (ii) each Participant who has been granted a Long-Term Performance Award that is outstanding as of the date of such Participant's Change in Control Termination will be deemed to have achieved a level of performance, as of the Change in Control Termination, that would cause all (100%) of the Participant's Target Amounts to become payable and all restrictions on the Participant's performance-based Restricted Units and Shares of Restricted Stock to lapse. Unless the Committee determines otherwise in its discretion (either when an Award is granted or any time thereafter), in the event that Awards outstanding as of the date of a Change in Control that are payable in shares of Company Common Stock will not be substituted with comparable awards payable or redeemable in shares of publicly-traded stock after the Change in Control, each such outstanding Award (A) will become fully vested (at target, where applicable) immediately prior to the Change in Control and (B) each such Award that is a Stock Option will be settled in cash, without the Participant's consent, for an amount equal to the amount that could have been attained upon the exercise of such Award immediately prior to the Change in Control had such Award been exercisable or payable at such time.
- (b) *Permissive Actions*. In addition to the actions described in Section 5.4(a)(A) and (B), in the event of a Change in Control, the Committee may take any one or more of the following actions with respect to any or all outstanding Awards, without the consent of Participants: (i) the Committee may determine that outstanding Stock Options and Stock Appreciation Rights shall be fully vested and exercisable and restrictions on Restricted Stock, Restricted Units, Deferred Stock Units and Other Stock-Based Awards shall

lapse as of the date of the Change in Control or such other time (prior to a Participant's Change in Control Termination) as the Committee determines; (ii) the Committee may require that a Participant surrender his or her outstanding Stock Options and Stock Appreciation Rights in exchange for one or more payments by the Company, in cash or Common Stock, as determined by the Committee, in an amount equal to the amount by which the then Fair Market Value of the Shares subject to the Participant's unexercised Stock Options and Stock Appreciation Rights exceeds the Exercise Price, if any, and on such terms as the Committee determines; (iii) after giving Participants an opportunity to exercise any outstanding Stock Options and Stock Appreciation Rights, the Committee may terminate any or all unexercised Stock Options and Stock Appreciation Rights at such time as the Committee deems appropriate; (iv) the Committee may determine that Annual Performance Bonuses and/or Long-Term Performance Awards will be paid out at their target level, in cash or Common Stock as determined by the Committee; or (v) the Committee may determine that Awards that remain outstanding after the Change in Control shall be converted to similar grants of, or assumed by, the surviving corporation (or a parent or subsidiary of the surviving corporation or successor). Such acceleration, surrender, termination, settlement, payment or conversion shall take place as of the date of the Change in Control or such other date as the Committee determines. The Committee may specify how an Award will be treated in the event of a Change in Control either when the Award is granted or at any time thereafter.

5.5 Fractional Shares. No fractional Shares will be issued under the Plan. Except as otherwise provided in Section 4.5(e) and unless otherwise provided by the Committee, if a Participant acquires the right to receive a fractional Share under the Plan, the Participant will receive, in lieu of the fractional Share, a full Share as of the date of settlement.

ARTICLE VI AMENDMENT AND TERMINATION

- 6.1 Amendment. The Plan may be amended at any time and from time to time by the Board or authorized Board committee without the approval of stockholders of the Company, except that no material revision to the terms of the Plan will be effective until the amendment is approved by the stockholders of the Company. A revision is "material" for this purpose if, among other changes, it materially increases the number of Shares that may be issued under the Plan (other than an increase pursuant to Section 5.3 of the Plan), expands the types of Awards available under the Plan, materially expands the class of persons eligible to receive Awards under the Plan, materially extends the term of the Plan, materially decreases the Exercise Price at which Stock Options or Stock Appreciation Rights may be granted, reduces the Exercise Price of outstanding Stock Options or Stock Appreciation Rights, or results in the replacement of outstanding Stock Options and Stock Appreciation Rights with new Awards that have an Exercise Price that is lower than the Exercise Price of the replaced Stock Options and Stock Appreciation Rights. No amendment of the Plan or any outstanding Award Certificate made without the Participant's written consent may adversely affect any right of a Participant with respect to an outstanding Award.
 - 6.2 Termination. The Plan will terminate upon the earlier of the following dates or events to occur:
 - (a) the adoption of a resolution of the Board terminating the Plan; or
 - (b) the day before the tenth (10^{th}) anniversary of the adoption of the Plan by the Company's shareholder as described in Section 1.2.

No Awards will be granted under this Plan after it has terminated. The termination of the Plan, however, will not alter or impair any of the rights or obligations of any person under any Award previously granted under the Plan without such person's consent. After the termination of the Plan, any previously granted Awards will remain in effect and will continue to be governed by the terms of the Plan and the applicable Award Certificate.

ARTICLE VII GENERAL PROVISIONS

- 7.1 *Nontransferability of Awards*. No Award under the Plan will be subject in any manner to alienation, anticipation, sale, assignment, pledge, encumbrance or transfer, and no other persons will otherwise acquire any rights therein, except as provided below.
 - (a) Any Award may be transferred by will or by the laws of descent or distribution.
 - (b) Unless the applicable Award Certificate provides otherwise, all or any part of a Nonqualified Stock Option or Shares of Restricted Stock may be transferred to a family member. For purposes of this subsection (b), "family member" includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law of the Participant, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent (50%) of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent (50%) of the voting interests.

Any transferred Award will be subject to all of the same terms and conditions as provided in the Plan and the applicable Award Certificate. The Participant or the Participant's estate will remain liable for any withholding tax that may be imposed by any federal, state or local tax authority. The Company may, in its sole discretion, disallow all or a part of any transfer of an Award pursuant to this Subsection 7.1(b) unless and until the Participant makes arrangements satisfactory to the Company for the payment of any withholding tax. The Participant must immediately notify the Company, in the form and manner required by the applicable Award Certificate or as otherwise required by the Company, of any proposed transfer of an Award pursuant to this Subsection 7.1(b). No transfer will be effective until the Company consents to the transfer.

- (c) Unless the applicable Award Certificate provides otherwise, any Nonqualified Stock Option transferred by a Participant pursuant to subsection (b) may be exercised by the transferee only to the extent that the Award would have been exercisable by the Participant had no transfer occurred. The transfer of Shares upon exercise of the Award will be conditioned on the payment of any withholding tax.
- (d) Restricted Stock may be freely transferred after the restrictions lapse or are satisfied and the Shares are delivered, provided, however, that Restricted Stock awarded to an affiliate of the Company may be transferred only pursuant to Rule 144 under the Securities Act, or pursuant to an effective registration for resale under the Securities Act. For purposes of this subsection (d), "affiliate" will have the meaning assigned to that term under Rule 144.
- (e) In no event may a Participant transfer an Incentive Stock Option other than by will or the laws of descent and distribution.
- 7.2 Withholding of Taxes. The Committee, in its discretion, may require the satisfaction of a Participant's tax withholding obligations by any of the following methods or any method as it determines to be in accordance with the laws of the jurisdiction in which the Participant resides, has domicile or performs services.
 - (a) Stock Options and Stock Appreciation Rights. As a condition to the delivery of Shares pursuant to the exercise of a Stock Option or Stock Appreciation Right, the Committee may require that the Participant, at the time of exercise, pay to the Company by cash, certified check, bank draft, wire transfer or postal or express money order an amount sufficient to satisfy any applicable tax withholding obligations. The Committee may also, in its discretion, accept payment of tax withholding obligations through any of the Exercise Price payment methods described in Section 4.3(d).
 - (b) Other Awards Payable in Shares. The Participant shall satisfy the Participant's tax withholding obligations arising in connection with the release of restrictions on Restricted Units, Restricted Stock and

Other Stock-Based Awards by payment to the Company in cash or by certified check, bank draft, wire transfer or postal or express money order, provided that the format is approved by the Company or a designated third-party administrator. However, subject to any requirements of applicable law, the Company may also satisfy the Participant's tax withholding obligations by other methods, including selling or withholding Shares that would otherwise be available for delivery.

- (c) *Cash Awards*. The Company may satisfy a Participant's tax withholding obligation arising in connection with the payment of any Award in cash by withholding cash from such payment.
- 7.3 Special Forfeiture Provision. The Committee may, in its discretion, provide in an Award Certificate that the Participant may not, within two (2) years after the Participant's Termination of Employment, enter into any employment or consultation arrangement (including service as an agent, partner, stockholder, consultant, officer or director) with any entity or person engaged in any business in which the Company or any Subsidiary is engaged without prior written approval of the Committee if, in the sole judgment of the Committee, the business is competitive with the Company or any Subsidiary or business unit or such employment or consultation arrangement would present a risk that the Participant would likely disclose Company proprietary information (as determined in the sole discretion of the Committee). If the Committee makes a determination that this prohibition has been violated, unless the Award Certificate otherwise provides, the Participant (i) will forfeit all rights under any outstanding Stock Option or Stock Appreciation Right that was granted subject to the Award Certificate and will return to the Company the amount of any profit realized upon an exercise of all Awards during the period, as the Committee determines and sets forth in the Award Certificate, beginning no earlier than twelve (12) months prior to the Participant's Termination of Employment, and (ii) will forfeit and return to the Company any Annual Performance Bonuses, Performance Units, Shares of Restricted Stock, Restricted Units (including any credited Dividend Equivalents), Deferred Stock Units, and Other Stock-Based Awards that are outstanding on the date of the Participant's Termination of Employment, subject to the Award Certificate, and have not vested or that became vested and remain subject to this Section 7.3 during a period, as the Committee determines and sets forth in the Award Certificate, beginning no earlier than twelve (12) months prior to the Participant's Termination of Employment.
- 7.4 No Implied Rights. The establishment and operation of the Plan, including the eligibility of a Participant to participate in the Plan, will not be construed as conferring any legal or other right upon any Director for any continuation of directorship or any Employee for the continuation of employment through the end of any Performance Cycle or other period. The Company expressly reserves the right, which may be exercised at any time and in the Company's sole discretion, to discharge any individual or treat him or her without regard to the effect that discharge might have upon him or her as a Participant in the Plan.
- 7.5 *No Obligation to Exercise Awards*. The grant of a Stock Option or Stock Appreciation Right will impose no obligation upon the Participant to exercise the Award.
- 7.6 No Rights as Stockholders. A Participant who is granted an Award under the Plan will have no rights as a stockholder of the Company with respect to the Award unless and until certificates for the Shares underlying the Award are registered in the Participant's name and (other than in the case of Restricted Stock) delivered to the Participant. The right of any Participant to receive an Award by virtue of participation in the Plan will be no greater than the right of any unsecured general creditor of the Company.
- 7.7 Indemnification of Committee. The Company will indemnify, to the fullest extent permitted by law, each person made or threatened to be made a party to any civil or criminal action or proceeding by reason of the fact that the person, or the executor or administrator of the person's estate, is or was a member of the Committee or an authorized delegate of the Committee including, for purposes of Director Awards, the Nominating Commmittee.
- 7.8 No Required Segregation of Assets. Neither the Company nor any Subsidiary will be required to segregate any assets that may at any time be represented by Awards granted pursuant to the Plan.

- 7.9 Nature of Payments. All Awards made pursuant to the Plan are in consideration of services for the Company or a Subsidiary. Any gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and will not be taken into account as compensation for purposes of any other employee benefit plan of the Company or a Subsidiary, except as the Committee otherwise provides. The adoption of the Plan will have no effect on Awards made or to be made under any other benefit plan covering an employee of the Company or a Subsidiary or any predecessor or successor of the Company or a Subsidiary.
- 7.10 Securities Law Compliance. Awards under the Plan are intended to satisfy the requirements of Rule 16b-3 under the Exchange Act. If any provision of this Plan or any grant of an Award would otherwise frustrate or conflict with this intent, that provision will be interpreted and deemed amended so as to avoid conflict. No Participant will be entitled to a grant, exercise, transfer or payment of any Award if the grant, exercise, transfer or payment would violate the provisions of the Sarbanes-Oxley Act of 2002 or any other applicable law.
- 7.11 *Coordination with Other Plans*. If this Plan provides a level of benefits with respect to Awards that differs from the level of benefits provided under the Covidien Severance Plan for U.S. Officers and Executives, the Covidien Change in Control Severance Plan for Certain U.S. Officers and Executives or the Covidien Severance Plan for U.S. Employees, then the terms of the plan that provides for the more favorable benefit to the Participant shall govern.
- 7.12 Section 409A Compliance. Notwithstanding any other provision of this Plan or an applicable Award Certificate to the contrary, the provisions of this Section 7.12 shall apply to all Awards that were issued or became vested on or after January 1, 2005 and that are subject to Code Section 409A, but only with respect to the portion of such Award that is subject to Code Section 409A.
 - (a) *General*. To the extent the Committee (or Nominating Committee with respect to Director Awards) determines that any Award granted under the Plan is subject to Code Section 409A, the Award Certificate evidencing such Award will incorporate the terms and conditions required by Code Section 409A. To the extent applicable, the Plan and the Award Certificate will be interpreted in accordance with Code Section 409A and the applicable regulations and rulings thereunder. Notwithstanding any other provision of the Plan to the contrary, in the event that the Committee (or Nominating Committee with respect to Director Awards) determines that any Award may be subject to Code Section 409A, the Committee may adopt such amendments to the Plan and/or the applicable Award Certificate or adopt policies and procedures or take any other action or actions, including an action or amendment with retroactive effect, that the Committee (or Nominating Committee with respect to Director Awards) determines is necessary or appropriate to (i) exempt the Award from the application of Code Section 409A or (ii) comply with the requirements of Code Section 409A.
 - (b) *Modifications to Defined Terms*. The following modifications to Plan provisions (and, if necessary, applicable Award Certificate provisions) shall apply.
 - (i) Any payment of deferred compensation that is to be made under an Award other than an Annual Performance Bonus upon the occurrence of a Change in Control or any change in the timing and/or form of such payment as a direct result of a Change in Control (including payments made upon a specified date or event occurring after a Change in Control) shall not be made, or such change in timing and/or form shall not occur, unless such Change in Control is also a "change in ownership or effective control" of the Company within the meaning of Code Section 409A(a)(2)(A)(v) and applicable regulations and rulings thereunder and such payment, or such change in timing and/or form, occurs no later than two (2) years after the date of such change in ownership or effective control of the Company. Notwithstanding the foregoing, if the Committee takes an action pursuant to Section 5.4(b) to accelerate the payment of deferred compensation upon a Change in Control, then any accelerated payment shall occur on a date specified in the applicable Award Certificate, which date shall be no later than ninety (90) days after a "change in ownership or effective control" of the Company. The payment of an Annual Performance Bonus that is to be accelerated pursuant to Subsection 4.4(g) shall

occur within thirty (30) days after a "change in ownership or effective control" of the Company within the meaning of Code Section 409A(a)(2)(A)(v).

- (ii) The definition of "Change in Control Termination" in subsection (b) of that definition shall be deleted in its entirety and replaced with the following:
 - "(b) termination of the Participant's employment by the Participant after one of the following events:
 - (i) the Company (1) assigns or causes to be assigned to the Participant duties inconsistent in any material respect with his or her position as in effect immediately prior to the Change in Control; (2) makes or causes to be made any material adverse change in the Participant's position (including titles and reporting relationships and level), authority, duties or responsibilities, or the budget over which the Participant retains authority; or (3) takes or causes to be taken any other action which results in a material diminution in such position, authority, duties or responsibilities or the budget over which the Participant retains authority; or
 - (ii) the Company, without the Participant's consent, (1) requires the Participant to relocate to a principal place of employment more than fifty (50) miles from his or her existing place of employment; or (2) materially reduces the Participant's base salary, annual bonus, or retirement, welfare, stock incentive, perquisite (if any) and other benefits taken as a whole;

provided that an event described in (i) or (ii) above shall permit a Participant's termination of employment to be deemed a Change in Control Termination only if (x) the Participant provides written notice to the Company specifying in reasonable detail the event upon which the Participant is basing his termination within ninety (90) days after the occurrence of such event, (y) the Company fails to cure such event within thirty (30) days after its receipt of such notice, and (z) the Participant terminates his employment within sixty (60) days after the expiration of such cure period."

- (iii) The definition of "Disabled" or "Disability" shall be deleted in its entirety and replaced with the following:
 - ""Disabled" or "Disability" means that the Employee is receiving income replacement benefits for a period of not less than three (3) months under a Company or Subsidiary accident and health plan covering the Employee by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months."
- (iv) A Termination of Directorship or Termination of Employment shall only occur where such Termination of Directorship or Termination of Employment is a "separation from service" within the meaning of Code Section 409A(a)(2)(A)(i) and the applicable regulations and rulings thereunder. For purposes of determining whether a Termination of Directorship has occurred under this Subsection 7.12(b)(iii), services provided in the capacity of an employee or otherwise shall be excluded.
- (c) *Modifications to or Adjustments of Awards*. Any modifications to an Award pursuant to Subsection 3.2(g) or adjustments of an Award pursuant to Subsections 4.8 or 5.3 shall comply with the requirements of Section 409A.
- (d) Specified Employees. Payments to any Participant who is a "specified employee" of deferred compensation that is subject to Code Section 409A(a)(2) and that becomes payable upon, or that is accelerated upon, such Participant's Termination of Employment (as modified by Subsection 7.12(b)(iii)), shall not be made on or before the date which is six (6) months following such Participant's Termination of

Employment (or, if earlier, such Participant's death). A specified employee for this purpose shall be determined by the Committee or its delegate in accordance with the provisions of Code Section 409A and the regulations and rulings thereunder.

7.13 Section 457A Compliance. To the extent the Committee (or Nominating Committee with respect to Director Awards) determines that any Award granted under the Plan is subject to Code Section 457A, the Award Certificate evidencing such Award will incorporate the terms and conditions required by Code Section 457A. To the extent applicable, the Plan and the Award Certificate will be interpreted in accordance with Code Section 457A and applicable guidance issued thereunder. Notwithstanding any other provision of the Plan to the contrary, in the event that the Committee (or Nominating Committee with respect to Director Awards) determines that any Award may be subject to Code Section 457A, the Committee may adopt such amendments to the Plan and/or the applicable Award Certificate or adopt policies and procedures or take any other action or actions, including an action or amendment with retroactive effect, that the Committee (or Nominating Committee with respect to Director Awards) determines is necessary or appropriate to (i) exempt the Award from the application of Code Section 457A or (ii) comply with the requirements of Code Section 457A.

7.14 Governing Law, Severability. The Plan and all determinations made and actions taken under the Plan will be governed by the law of Bermuda and construed accordingly. If any provision of the Plan is held unlawful or otherwise invalid or unenforceable in whole or in part, the unlawfulness, invalidity or unenforceability will not affect any other parts of the Plan, which parts will remain in full force and effect.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

| (Mark | O |
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| | |

| (Mark One) | |
|--|---|
| ☒ ANNUAL REPORT PURSUANT TO SECTION | ON 13 OR 15(d) OF THE SECURITIES |
| EXCHANGE ACT OF 1934 | |
| For the fiscal year en | nded September 26, 2008 |
| | OR |
| ☐ TRANSITION REPORT PURSUANT TO SE | ECTION 13 OR 15(d) OF THE SECURITIES |
| EXCHANGE ACT OF 1934 | TOTAL SOCIETIES |
| 001 | -33259 |
| (Commissio | n File Number) |
| | ENLTD. nt as specified in its charter) |
| Bermuda | 98-0518045 |
| (Jurisdiction of Incorporation) | (IRS Employer Identification No.) |
| | milton HM 12, Bermuda s principal executive office) |
| | 298-2480 |
| (Registrant's t | telephone number) |
| Securities registered pursua | ant to Section 12(b) of the Act: |
| Title of each class | Name of each exchange on which registered |
| Common Shares, Par Value \$0.20 | New York Stock Exchange |
| Securities registered pursuant | t to Section 12(g) of the Act: None |
| Indicate by check mark if the registrant is a well-known sea Act. Yes 🗵 No 🗌 | asoned issuer, as defined in Rule 405 of the Securities |
| Indicate by check mark if the registrant is not required to fi Act. Yes \square No \boxtimes | le reports pursuant to Section 13 or Section 15(d) of the |
| · · · · · · · · · · · · · · · · · · · | all reports required to be filed by Section 13 or 15(d) of the as (or for such shorter period that the registrant was required to file its for the past 90 days. Yes \boxtimes No \square |
| • | resuant to Item 405 of Regulation S-K is not contained herein, and efinitive proxy or information statements incorporated by reference $-K$. |
| | celerated filer, an accelerated filer, a non-accelerated filer, or a rated filer," "accelerated filer" and "smaller reporting company" in |
| Large accelerated filer \boxtimes Accelerated filer \square No Indicate by check mark whether the registrant is a shell contact). Yes \square No \boxtimes | Non-accelerated filer |
| | ommon 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 28, 2008, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$21,946 million (based upon the closing price of \$43.99 per share as reported by the New York Stock Exchange on that date).

The number of common shares outstanding as of November 17, 2008 was 503,576,527.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's 2009 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 collaboration with medical professionals, which enhance the quality of life for patients and improve outcomes for our customers and our shareholders.

Covidien Ltd. was incorporated in Bermuda in 2000 as a wholly-owned subsidiary of Tyco International Ltd. Until June 29, 2007, Covidien did not engage in any significant business activities and held minimal assets. As part of a plan to separate Tyco International into three independent companies, Tyco International transferred the equity interests of the entities that held all of the assets and liabilities of its healthcare businesses to Covidien and, on June 29, 2007, distributed all of its shares of Covidien to its shareholders. Where we refer to financial results for fiscal 2007, these results reflect the consolidated operations of Covidien Ltd. from June 29, 2007 to September 28, 2007 and, for all periods prior to June 29, 2007, a combined reporting entity comprised of the assets and liabilities used in managing Tyco International Ltd.'s healthcare businesses.

Unless otherwise indicated, references in this Annual Report to 2008, 2007 and 2006 are to our fiscal years ended September 26, 2008, September 28, 2007 and September 29, 2006, respectively, and references to Covidien include the Healthcare businesses of Tyco International Ltd. for all periods prior to our Separation from Tyco International.

During fiscal 2008, we sold both our Retail Products segment and our European Incontinence business. In addition, our management and board of directors approved a plan to sell our Specialty Chemical business within the Pharmaceutical Products segment. We decided to sell these businesses because their products and customer bases are not aligned with our long-term strategic objectives.

We operate our continuing businesses through four segments:

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

For fiscal 2008, we generated net sales of \$9.9 billion and net income of \$1.4 billion. Approximately 55% of our net sales are generated in the United States and 45% are generated outside of the United States.

Strategy

Our goal is to enhance growth by increasing research and development initiatives, pursuing targeted acquisition opportunities and enhancing our global infrastructure including sales, marketing and distribution. We are committed to the following strategic initiatives:

- Focus on Growth. We have been implementing global initiatives throughout our businesses to generate opportunities for growth. These include investments in our sales and marketing infrastructure to further strengthen our customer relationships and capitalize on global healthcare needs and trends.
- Commitment to Innovation. We plan to continue to broaden and enhance our product offerings. We remain committed to identifying, obtaining and developing new technologies through increased internal research and development initiatives, licensing and distribution transactions and selective acquisitions that expand our technological capabilities and accelerate the development of new products. We intend to focus these efforts on product areas that are driven by clinician preference and technological innovation, which we believe offer higher growth rates and margins.
- Leveraging our Global Structure. We believe that we have opportunities to further expand our position beyond the United States. Our organization and management structure have been designed to integrate our U.S. and non-U.S. operations. This global infrastructure creates opportunities to develop and commercialize new products that meet global needs.
- Driving Operational Excellence. We are focused on maximizing return on invested capital by
 controlling manufacturing and logistical costs and optimizing capital investment while continuing to
 strive for top-line revenue growth. We are committed to developing and manufacturing high-quality
 products in a cost-effective manner. Throughout our organization, we employ recognized programs
 including Six Sigma, Lean Manufacturing and strategic sourcing initiatives and strict safety and quality
 controls.
- Enhanced Portfolio Management. We remain committed to better utilizing our capital to create more value for our shareholders. We plan to continue to make disciplined investments through acquisitions and licenses to access new technologies and adjacent markets. We continuously review our portfolio and consider the divestiture of underperforming or non-strategic businesses. During fiscal 2008, we undertook several notable portfolio initiatives, including: the acquisitions of Tissue Science Laboratories plc and Scandius Biomedical, Inc. and the acquisition of technology assets from CardioDigital Inc. and power injectors from Pinyons Medical Technology Inc. We also divested our Retail Products segment and our European Incontinence business. We intend to redeploy the proceeds of any divestitures to expand our offering of higher growth, higher margin products.

Segments

Note 20 to our financial statements sets forth certain segment financial data relating to our business.

Medical Devices

With fiscal 2008 net sales of \$6.8 billion, our Medical Devices businesses comprise 68% of our net sales. In fiscal 2007 and 2006, net sales totaled \$6.0 billion or 68% of our net sales and \$5.6 billion or 67% of our net sales, respectively. Our Medical Device segment develops, manufactures and sells an array of products which we categorize in the following product groups:

- Endomechanical Instruments—includes our laparoscopic instruments and surgical staplers.
- Soft Tissue Repair Products—includes our sutures, mesh and biosurgery products.
- *Energy Devices*—includes our vessel sealing, electrosurgical and ablation products and related capital equipment.
- Oximetry and Monitoring Products—includes our sensors, monitors and temperature management products.

- *Airway and Ventilation Products*—includes our airway, ventilator, breathing systems, sleep and inhalation therapy products.
- Vascular Devices—includes our compression and vascular therapy products.
- SharpSafety Products—includes our needles, syringes and sharps disposable products.
- Clinical Care Products—includes our urology, enteral feeding and other advanced woundcare products.

We are a leader in innovative wound closure products, advanced surgical devices and electrosurgical systems.

- Our Autosuture franchise introduced the world's first practical surgical stapler over 40 years ago and continues to be an innovator in minimally invasive surgery, offering a complete line of surgical stapling and laparoscopic instrumentation.
- Our Syneture brand offers one of the most comprehensive suture product lines in the industry.
- We recently expanded our offerings of surgical mesh and implant products for hernia repair through our acquisitions of Tissue Science Laboratories plc and Floreane Medical Implants, S.A. and the acquisition of intellectual property from Sorbx, LLC. We recently launched the AbsorbaTack absorbable mesh fixation device for hernia repair in both the United States and Europe.
- We are developing and marketing a broad line of innovative biosurgery solutions, including internal sealants, topical adhesives and anti-adhesion products, which have applications in many types of surgical procedures.
- Our Valleylab franchise has been a leader in electrosurgery systems for over 40 years, offering
 products such as the recently introduced ForceTriad tissue fusing and electrosurgery system, the
 LigaSure Vessel Sealing System and the Cool-tip Radiofrequency Ablation System. We recently
 announced the global release of the Evident microwave ablation system and launched LigaSure
 Advance, a multifunctional laparoscopic instrument, for use exclusively with the ForceTriad energy
 platform.

We offer an extensive line of products used to monitor, diagnose and treat respiratory disease and sleep disorders.

- Through our Nellcor brand we pioneered pulse oximetry, and we continue to be a leader in this field.
 We recently acquired technology assets from CardioDigital Inc., a company specializing in the development of advanced signal processing techniques for patient monitoring. This technology complements our Nellcor pulse oximetry platform and will strengthen our patient monitoring business.
- Our Puritan Bennett brand is a leader in the field of high-acuity ventilators. The continuing development of Puritan Bennett products ranges from the introduction of the first modern mechanical ventilator 40 years ago to our recent acquisition of Airox S.A., which offers non-invasive home care ventilator systems and complements our ventilator portfolio.
- We are a leader in the field of airway management with our comprehensive line of Mallinckrodt endotracheal tubes and Shiley tracheostomy tubes.
- Our Sandman sleep diagnostic system is a leading product for the diagnosis of sleep disorders.

Kendall's innovative SCD Vascular Compression System and T.E.D. Anti-Embolism Stockings set the standard for the mechanical prevention of deep vein thrombosis, a potentially fatal complication from surgery. Both continue to be leaders in this field. Our SharpSafety line of needles, syringes and sharps disposal systems is focused on offering products that minimize the risk of needle stick incidents, which threaten the safety of clinicians. Our Kangaroo brand is a leader in enteral feeding systems.

Products offered by our Medical Devices segment are used primarily by hospitals and alternate site healthcare providers, although physician offices and homecare represent an increasing share of our customers. We market these products through both our direct sales force and third-party distributors primarily to physicians, nurses, materials managers, group purchase organizations (GPOs) and governmental healthcare authorities.

Imaging Solutions

With fiscal 2008 net sales of \$1.2 billion, our Imaging Solutions businesses comprise 12% of our net sales. In fiscal 2007 and 2006, net sales totaled \$1.1 billion or 12% of our net sales and \$1.0 billion or 12% of our net sales, respectively. Our Imaging Solutions segment develops, manufactures and markets the following products:

- Radiopharmaceuticals—includes our radioactive isotopes and associated pharmaceutical products used for the diagnosis and treatment of disease.
- Contrast Products—includes our contrast delivery systems and contrast agents.

Our imaging products are designed to enhance the quality of images obtained through computed tomography (CT) scans, x-ray, magnetic resonance (MR) and nuclear medicine procedures to improve the detection and diagnosis of disease. Some of our key products include Optiray non-ionic x-ray contrast agent, OptiMARK magnetic resonance imaging agent, OptiVantage contrast delivery system and OctreoScan, a nuclear medicine imaging agent for cancer. In addition, we recently launched a sestamibi-based contrast agent for cardiological procedures and two new delivery systems, Optistar Elite and Optivantage. Both contrast delivery systems incorporate radio-frequency identification (RFID) technology to help reduce the risk of potentially life-threatening medical errors and infections during CT scan procedures. We also recently acquired hand-held injectors from Pinyons Medical Technology Inc. to complement our existing line of injector products. We estimate that we manufacture approximately one-half of all technetium generators sold in the United States. These generators supply the critical technetium isotope, which is utilized in over 80% of all U.S. nuclear medicine diagnostic procedures.

We market our imaging products primarily to physicians, technologists and purchasing administrators at hospitals, imaging centers, cardiology clinics and radiopharmacies. We also operate our own network of 41 radiopharmacies, which provides a distribution channel for services such as real-time delivery of nuclear medicine unit doses.

Pharmaceutical Products

With 2008 net sales of \$1.0 billion, our Pharmaceutical Products businesses comprise 10% of our net sales. In 2007 and 2006, net sales totaled \$908 million or 10% of our net sales and \$840 million or 10% of our net sales, respectively. Our Pharmaceutical Products segment develops, manufactures and distributes the following products:

- *Dosage Pharmaceuticals*—delivers prescriptions of finished products which include brand pharmaceuticals, generic pharmaceuticals and addiction treatment products.
- Active Pharmaceutical Ingredients (API)—is a producer of both medicinal narcotics and acetaminophen as well as a supplier of other active pharmaceutical ingredients, including peptides, generic APIs, stearates and phosphates to the pharmaceutical industry.

Our Mallinckrodt brand is the world's largest manufacturer of medicinal narcotics and acetaminophen. Of the most widely used analgesics in the United States, 18 contain active pharmaceutical ingredients from Mallinckrodt Pharmaceuticals. API includes manufacturing, packaging, and distribution of prescription pharmaceuticals. Dosage Pharmaceuticals recently received approval from the U.S. Food and Drug Administration (FDA) for oxycodone hydrochloride extended-release tablets and subsequently entered into a license agreement which allows us to sell limited quantities of these tablets for a limited period of time ending in 2009. In addition, Dosage Pharmaceuticals recently launched TussiCaps(R) extended-release capsules, the first and currently only hydrocodone antitussive oral capsule to provide cough suppression for up to 12 hours.

Medical Supplies

With 2008 net sales of \$920 million, our Medical Supplies businesses comprise 10% of our net sales. In 2007 and 2006, net sales totaled \$887 million or 10% of our net sales and \$894 million or 11% of our net sales, respectively. Our Medical Supplies segment develops, manufactures and distributes the following products:

- Nursing Care Products—includes our traditional woundcare, incontinence and suction products.
- *Medical Surgical Products*—includes our operating room supply products and related accessories, electrodes and chart paper product lines within the United States.
- Original Equipment Manufacturer Products (OEM)—includes various medical supplies, such as needles and syringes, for a number of leading medical device companies.

For over 100 years, the Kendall brand has been a leader in the field of wound care with its Curity and Kerlix gauze and bandages. Our Devon brand is a leader in operating room kits and accessories. Under our Medi-Trace brand, we offer a comprehensive line of monitoring, diagnostic and defibrillation electrodes. These products are marketed through a combination of direct sales representatives and third-party distributors, primarily to materials managers, GPOs and integrated delivery networks (IDNs), and are used primarily in hospitals, surgi-centers and alternate care facilities.

Customers

Our customers include hospitals, surgi-centers, alternate site facilities including long-term care facilities and imaging centers, drug manufacturers and major retailers 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.

Our net sales by geographic area are set forth below (dollars in millions):

| | Fiscal | | |
|----------------|---------|---------|---------|
| | 2008 | 2007 | 2006 |
| United States | \$5,435 | \$5,109 | \$4,897 |
| Other Americas | 577 | 480 | 433 |
| Europe | 2,750 | 2,320 | 2,046 |
| Asia—Pacific | 1,148 | 986 | 937 |
| | \$9,910 | \$8,895 | \$8,313 |

Intellectual Property

Patents, trademarks and other proprietary rights are very important to our business. We also rely upon trade secrets, manufacturing know-how, continuing 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 numerous patents and have numerous 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 of 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 \$341 million, \$260 million and \$248 million in fiscal 2008, 2007 and 2006, respectively. We continually evaluate developing technologies in areas where we have technological or marketing expertise for possible investment or acquisition.

We intend to continue our focus on research and development as a key enabler of growth. We intend to focus our internal and external investments in fields that will offer the greatest opportunity for near and long-term growth.

Governmental Regulation and Supervision

We face comprehensive governmental regulation both within and outside the United States relating to our 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, record keeping and 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.

Medical device and drug laws also are in effect in many of the non-U.S. markets in which we do business. These laws range from comprehensive device and drug approval requirements to requests for product data or certifications. Inspection of and controls over manufacturing, as well as monitoring of device-related adverse events, also 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 FDA continues to result in increases in the amount of testing and documentation required for approval or clearance of new drugs and devices, all of which add to the expense of product introduction. 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 and 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 particular medical devices. Payers 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 pharmaceutical 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.

Property, plant and equipment, net

Our property, plant and equipment, net by geographic area, is set forth below (dollars in millions):

| | Fiscal | | |
|----------------|---------|---------|---------|
| | 2008 | 2007 | 2006 |
| United States | \$1,833 | \$1,767 | \$1,690 |
| Other Americas | 150 | 147 | 118 |
| Europe | 387 | 379 | 369 |
| Asia—Pacific | 106 | 100 | 82 |
| | \$2,476 | \$2,393 | \$2,259 |

Manufacturing

We have 60 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 | Asia—Pacific |
|------------------------|--------------------|--------------|
| United States (26) | Germany (2) | China (1) |
| Canada (2) | United Kingdom (4) | Japan (1) |
| Mexico (7) | Holland (2) | Thailand (1) |
| Dominican Republic (1) | France (4) | Malaysia (1) |
| Brazil (1) | Italy (1) | |
| Puerto Rico (1) | Ireland (5) | |

We estimate that our manufacturing production by region in fiscal 2008 (as measured by cost of production) was approximately: Americas—81%, Europe/Middle East/Africa—16%, and Asia/Pacific—3%. We expect that manufacturing production will continue to increase in the Asia/Pacific region as a proportion of total manufacturing, as the Asia/Pacific region continues to experience strong growth and we continue to implement low-cost manufacturing initiatives.

Sales, Marketing and Distribution

We have a sales force strategically located in markets throughout the world, with a direct sales presence in over 55 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, for example, nuclear medicine, product 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.

We recently have undertaken, and continue to roll out, a reorganization focused on a global management approach to our businesses. This global reorganization gives management teams responsibility for particular products on a worldwide basis. In the past, our businesses generally had been managed outside of the United States on a territorial basis, with management responsible for virtually all product sales within certain regions or countries. We believe that globalization of our product lines enables us to drive sales growth effectively, particularly in new or developing markets.

We have a well-trained, experienced sales force with a significant presence in all major markets. Our sales force is focused on understanding and addressing the needs of our customers.

Competition

We participate in medical device, pharmaceutical and other healthcare product 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. According to the International Trade Administration, there are approximately 8,000 companies in the United States operating in the medical devices market. 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, C.R. Bard and Becton Dickinson, and other companies that are more focused on specific fields, such as ConMed.

Imaging Solutions. Our main competitors include GE Healthcare for contrast and nuclear medicine products, Schering AG and its U.S. affiliate Berlex, Bracco for contrast agents, and Lantheus Medical Imaging for nuclear medicine cardiology agents. Cardinal Health is the main competitor to our radiopharmacy network. 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.

Pharmaceutical Products. Our major competitors of our active ingredients product line include Johnson & Johnson, Siegfried and Johnson Matthey, and major competitors of our dosage product line include Teva, Mylan and Watson. Although competition is steadily increasing and we expect new entrants into this market, we believe our ability to meet strict production and licensing requirements for controlled substances will enable us to compete effectively. 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 and DEA provides us the knowledge to successfully operate in this regulatory environment.

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

increasingly also turn to products from low-cost suppliers. Our Medical Supplies segment competes against branded products offered by 3M, ConMed and First Quality, as well as private-label products provided by low-cost suppliers, such as Cardinal Health and Medline.

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 they 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 or otherwise pay for the cost of investigation and cleanup of those sites and for 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, solvents, metals and other hazardous substances. 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 \$222 million, of which \$13 million is included in accrued and other current liabilities and \$209 million is included in other liabilities on our balance sheet at September 26, 2008. 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.

Employees

At September 26, 2008, we had approximately 41,700 employees. Approximately 20,300 of our employees are based in the United States, approximately 900 of whom are represented by a labor union. In Europe, many of our employees are represented by unions or work councils. We believe that our relations with our employees are satisfactory.

Available Information

Covidien is required to file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (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 our Corporate Governance Guidelines 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 industry 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 relative to that of our competitors;
- the timing of our market entry; and
- our ability to market and distribute our products effectively.

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. The implementation of healthcare reforms both within and outside of the United States may 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 for which our customers are willing to pay and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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 position 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 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 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. 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 pharmaceutical products 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. 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 adverse 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 voluntarily to recall products or temporarily shut down production lines based on internal safety and quality monitoring and testing data. Any of the foregoing problems could disrupt our business and have a material adverse 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 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 adverse effect on our business, results of operations, financial condition and cash flows.

We are subject to antitrust claims and lawsuits in which competitors allege that we use our market position to exclude competitors from certain markets and to prevent customers from purchasing the competitors' products. We also are subject to consumer antitrust class action lawsuits in which the putative class representatives, on behalf of themselves and other customers, seek to recover overcharges they allege that they paid for certain products. Any antitrust claim brought against us, with or without merit, could be costly to defend and could result in significant damages against us.

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

We have experienced and may continue to experience higher costs to produce our products as a result of rising 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 have increased in recent years, 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 these higher costs continue and we are unable fully to recover these costs through price increases or offset these increases through other 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 materially 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 adverse 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 geographically 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 with 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 common 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 generic versions when our proprietary products lose their patent protection. Our current or future products could be rendered obsolete or uneconomical as a result of this competition. Our failure to compete effectively could cause us to lose market share to our competitors and have a material adverse 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 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 2008 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:

- 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 the aggregate, could have a material adverse 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 and interest rates. Approximately 45% of our net sales for fiscal 2008 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. As noted in the Legal Proceedings discussion in Part I, Item 3 of this annual report, Tyco International has disclosed to the Department of Justice (DOJ) and SEC potential non-compliance with the FCPA. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations, financial condition and cash flows.

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 adverse 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; 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 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.

The volatility and disruption of the capital and credit markets and adverse changes in the global economy may negatively impact our business and our ability to access financing.

We have exposure to many different industries and counterparties, including commercial banks, investment banks and customers (which include distributors, governments and healthcare organizations) that may experience liquidity issues in the current economic environment. Any such issues may impact these parties' ability to fulfill contractual obligations to us or might limit or place burdensome conditions upon future transactions with us. Customers may also reduce spending during times of economic uncertainty, and it is possible that suppliers may be negatively impacted. Decreased consumer spending levels, increased difficulty in collecting accounts receivable and increased pressure on prices for our products and services could all result in decreased revenues and have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, although we intend to finance expansion and renovation projects with existing cash, cash flow from operations and borrowing under our existing commercial paper or senior credit facility, we may require additional financing to support our continued growth. Due to the existing uncertainty in the capital and credit markets, however, our access to capital may not be available on terms acceptable to the Company or at all.

Further, general economic conditions have resulted in severe downward pressure on the stock and credit markets, which could reduce the return available on invested corporate cash, reduce the return on investments under pension plans and thereby potentially increase funding obligations, all of which, if severe and sustained, could have a material adverse effect on our results of operations, financial condition and cash flows.

We have disclosed a material weakness in our internal control over financial reporting relating to our accounting for income taxes which could adversely affect our ability to report our financial condition, results of operations or cash flows accurately and on a timely basis.

In connection with our assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, we identified a material weakness in our internal control over financial reporting relating to our accounting for income taxes as of September 26, 2008. For a discussion of our internal control over financial reporting and a description of the identified material weakness, see "Management's Annual Report on Internal Control over Financial Reporting" under Item 9A, "Controls and Procedures."

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the deficiencies, it is reasonably possible that internal controls over financial reporting may not have prevented or detected errors that could have been material, either individually or in the aggregate. While considerable actions have been taken to improve our internal controls in response to the identified material weakness related to certain aspects of accounting for income taxes, and further action steps to strengthen controls have been taken, we have determined that further improvements are required in our tax accounting processes before we can consider the material weakness remediated. Our material weakness in controls over accounting for income taxes will not be considered remediated until new internal controls are operational for a period of time and are tested, and management and our independent registered public accounting firm conclude that these controls are operating effectively.

A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. If we are unsuccessful in implementing or following our remediation plan, we may not be able to accurately report our financial condition, results of operations or cash flows or maintain effective internal controls over financial reporting. If we are unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the SEC and the New York Stock Exchange, including a delisting from the New York Stock Exchange, securities litigation, debt rating agency downgrades or rating withdrawals and a general loss of investor confidence, any one of which could adversely affect the valuation of our common stock and could adversely affect our business prospects.

Risks Relating to Our Separation from Tyco International

Our combined financial information for periods prior to June 29, 2007, is not necessarily representative of the results we would have achieved as an independent, publicly-traded company and may not be a reliable indicator of our future results.

The combined financial information included in this annual report for periods prior to June 29, 2007 does not necessarily reflect the results of operations, financial condition or cash flows that we would have achieved as an independent, publicly-traded company or those that we will achieve in the future, primarily as a result of the following factors:

- Prior to the separation, our business was operated by Tyco International as part of its broader corporate
 organization, rather than as an independent, publicly-traded company. In addition, prior to our
 separation, Tyco International and its affiliates performed significant corporate functions for us,
 including tax and treasury administration and certain governance functions, including internal audit and
 external reporting. Our historical combined financial statements reflect allocations of corporate
 expenses from Tyco International for these and similar functions.
- Our working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, historically have been satisfied as part of the company-wide cash management practices of Tyco International. As an independent, publicly-traded company, we no

longer obtain funds from Tyco International to finance our working capital or other cash requirements. Rather, we must obtain financing from banks, through public offerings or private placements of debt or equity securities or other arrangements.

• Other significant changes may occur in our cost structure, management, financing and business operations because we operate as a company separate from Tyco International.

We are responsible for a portion of Tyco International's contingent and other corporate liabilities, including those relating to litigation.

On June 29, 2007, we entered into a Separation and Distribution Agreement and a Tax Sharing Agreement with Tyco International and Tyco Electronics. Under the Separation and Distribution Agreement and other agreements, subject to certain exceptions contained in the Tax Sharing Agreement, we, Tyco International and Tyco Electronics have agreed to assume and be responsible for 42%, 27% and 31%, respectively, of certain of Tyco International's contingent and other corporate liabilities. All costs and expenses associated with the management of these contingent and other corporate liabilities are shared equally among the parties. These contingent and other corporate liabilities primarily relate to consolidated securities litigation, any actions with respect to the separation plan or the distribution of Covidien and Tyco Electronics common shares by Tyco International to its shareholders brought by any third party and tax liabilities for periods prior to and including the distribution date, June 29, 2007. For more information on the contingent tax liabilities, see the risk factors relating to such liabilities below. Contingent and other corporate liabilities do not include liabilities that are specifically related to one of the three separated companies, which are allocated 100% to the relevant company.

If any party responsible for such liabilities were to default in its payment, when due, of any of these assumed obligations, each non-defaulting party would be required to pay equally with any other non-defaulting party the amounts in default. Accordingly, under certain circumstances, we may be obligated to pay amounts in excess of our agreed-upon share of the assumed obligations related to such contingent and other corporate liabilities, including associated costs and expenses.

Many lawsuits are outstanding against Tyco International. We do not believe that it is feasible to predict the final outcome or resolution of the unresolved proceedings. An adverse outcome from the unresolved proceedings or liabilities or other proceedings for which we will assume joint and several liability under the Separation and Distribution Agreement could be material with respect to our results of operations and cash flows in any given reporting period. Furthermore, Tyco International has the right to control the defense and settlement of the outstanding litigation, subject to certain limitations. The timing, nature and amount of any settlement may not be in our best interests. Also, in the event of any subsequent settlement, we may have limited notice before we would be required to pay our portion of the settlement amount.

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

Under the Tax Sharing Agreement, we share responsibility for certain of our, Tyco International's and Tyco Electronics' income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. More specifically, we, Tyco International and Tyco Electronics will 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 Tyco Electronics' 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. All costs and expenses associated with the management of these shared tax liabilities will be shared equally among the parties. We are responsible for all of our own taxes that are not shared pursuant to the Tax Sharing Agreement's sharing formula. In addition, Tyco International and Tyco Electronics are responsible for their tax liabilities that are not subject to the Tax Sharing Agreement's sharing formula.

All the tax liabilities that are associated with our businesses, including liabilities that arose prior to our separation from Tyco International, have become our tax liabilities. Although we have agreed to share certain of these tax liabilities with Tyco International and Tyco Electronics pursuant to the Tax Sharing Agreement, we remain primarily liable for all of these liabilities. If Tyco International and Tyco Electronics 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 certain circumstances, we may be obligated to pay amounts in excess of our agreed-upon share of our, Tyco International's and Tyco Electronics' tax liabilities.

Our, Tyco International's and Tyco Electronics' income tax returns are examined periodically by various tax authorities. In connection with such examinations, tax authorities, including the U.S. Internal Revenue Service, have raised issues and proposed tax adjustments. We, Tyco International and Tyco Electronics are reviewing and contesting certain of the proposed tax adjustments. We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions and other issues. Prior to September 29, 2007, these reserves were recorded when management determined that it was probable that a loss would be incurred related to these matters and the amount of such loss was reasonably determinable. As of September 29, 2007, we adopted Financial Accounting Standards Board, (FASB) Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." As a result, reserves subsequent to that date are based on a determination of whether and how much of a tax benefit we take in our tax filings or positions is more likely than not to be realized following resolution of any potential contingencies present related to the tax benefit. Potential interest and penalties associated with such uncertain tax positions are recorded as components of income tax expense. We adjust these liabilities in light 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. If our estimate of tax liabilities proves to be less than the ultimate assessment, we would incur an additional charge to expense. 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. Substantially all of these potential tax liabilities are recorded in non-current income taxes payable on the balance sheets as payment is not expected within one year.

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. Moreover, 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 on or after June 29, 2009. All other tax audits will be administered, controlled and settled by the party that would be responsible for paying the tax.

One of our directors may have actual or potential conflicts of interest because of his ongoing employment by Tyco International.

One of our directors, Christopher J. Coughlin, is the Chief Financial Officer of Tyco International, a position that could create, or appear to create, potential conflicts of interest when our and Tyco International's management and directors face decisions that could have different implications for us or Tyco International. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between us and Tyco International regarding the terms of the Separation and Distribution Agreement and the Tax Sharing Agreement. Tyco International will manage the ongoing shareholder litigation, subject to certain limitations, and may determine to settle such litigation at a time, on terms or for an amount not in our best interest. Potential

conflicts of interest could also arise if we and Tyco International enter into any commercial arrangements with each other in the future. We expect that Mr. Coughlin would recuse himself from any decisions and discussions relating to material matters between us and Tyco International.

If the distribution of Covidien and Tyco Electronics common shares by Tyco International to its shareholders or certain internal transactions undertaken in anticipation of the separation 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 Internal Revenue Service regarding the U.S. federal income tax consequences of the distribution of our common shares and Tyco Electronics common shares to the Tyco International shareholders substantially to the effect that the distribution, except for cash received in lieu of a fractional share of our common shares and the Tyco Electronics 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 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, Tyco Electronics 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 Internal Revenue Service 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 common shares and Tyco Electronics common shares distributed to Tyco International shareholders on the distribution date over Tyco International's tax basis in such common shares, but 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 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 Electronics or Tyco International, the party responsible for such failure would be responsible for all taxes imposed on us, Tyco Electronics and Tyco International as a result thereof. If such determination is not the result of actions taken after the distribution by us, Tyco Electronics or Tyco International, then we, Tyco International and Tyco Electronics would be responsible for 42%, 27% and 31%, respectively, of any taxes imposed on us, Tyco International or Tyco Electronics 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.

We might not be able to engage in desirable strategic transactions and equity issuances because of restrictions relating to U.S. federal income tax requirements for tax-free distributions.

Our ability to engage in significant equity transactions could be limited or restricted in order to preserve for U.S. federal income tax purposes the tax-free nature of the distribution of Covidien and Tyco Electronics common shares by Tyco International to its shareholders. In addition, similar limitations and restrictions will apply to Tyco Electronics and Tyco International. The distribution may result in corporate level taxable gain to Tyco International under Section 355(e) of the Code if 50% or more, by vote or value, of our common shares,

Tyco Electronics' common shares or Tyco International's common shares are acquired or issued as part of a plan or series of related transactions that includes the distribution. For this purpose, any acquisitions or issuances of Tyco International's common shares within two years before the distribution, and any acquisitions or issuances of our common shares, Tyco Electronics' common shares or Tyco International's common shares within two years after the distribution, generally are presumed to be part of such a plan, although we, Tyco Electronics or Tyco International may be able to rebut that presumption. We are not aware of any such acquisitions or issuances of Tyco International's common shares within the two years before the distribution. If an acquisition or issuance of our common shares, Tyco Electronics' common shares or Tyco International's common shares triggers the application of Section 355(e) of the Code, Tyco International would recognize taxable gain as described above, but such gain generally would not be subject to U.S. federal income tax. However, certain subsidiaries of Tyco Electronics or Tyco International or subsidiaries of ours would incur significant U.S. federal income tax liabilities as a result of the application of Section 355(e) of the Code.

Under the Tax Sharing Agreement, there are restrictions on our ability to take actions that could cause the distribution or certain internal transactions undertaken in anticipation of the separation to fail to qualify as tax-favored transactions, including entering into, approving or allowing any transaction that results in a change in ownership of more than 35% of our common shares, a redemption of equity securities, a sale or other disposition of a substantial portion of our assets, an acquisition of a business or assets with equity securities to the extent one or more persons would acquire 35% or more of our common shares, or engaging in certain internal transactions. These restrictions apply for the two-year period after the distribution, unless we obtain the consent of the other parties or we obtain a private letter ruling from the Internal Revenue Service or an unqualified opinion of a nationally recognized law firm that such action will not cause the distribution or the internal transactions undertaken in anticipation of the separation to fail to qualify as tax-favored transactions, and such letter ruling or opinion, as the case may be, is acceptable to the parties. Tyco Electronics and Tyco International are subject to similar restrictions under the Tax Sharing Agreement. Moreover, the Tax Sharing Agreement generally provides that a party thereto is responsible for any taxes imposed on any other party thereto as a result of the failure of the distribution or certain internal transactions to qualify as a tax-favored transaction under the Code if such failure is attributable to certain post-distribution actions taken by or in respect of the responsible party or its shareholders, regardless of whether the actions occur more than two years after the distribution, the other parties consent to such actions or such party obtains a favorable letter ruling or opinion of tax counsel as described above. For example, we would be responsible for a third party's acquisition of us at a time and in a manner that would cause such failure. These restrictions may prevent us from entering into transactions which might be advantageous to our shareholders.

Risks Relating to Our Jurisdictions of Incorporation

Legislation and negative publicity regarding Bermuda companies could increase our tax burden and adversely affect our business, results of operations, financial condition and cash flows.

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. In 2003, the State of California adopted legislation intended to limit the eligibility of certain Bermuda and other non-U.S. chartered companies to participate in certain state contracts.

Tax Legislation

We continue to assess the impact of various U.S. federal and state legislative proposals, and modifications to existing tax treaties between the United States and other countries, that could result in a material increase in

our U.S. federal and state taxes. In October 2004, the United States Congress enacted legislation affecting the tax treatment of U.S. companies that have undertaken certain types of expatriation transactions. Such legislation did not, however, retroactively apply to us. More recently, several proposals were introduced in the United States House of Representatives and Senate that, if ultimately enacted by the United States Congress, would limit treaty benefits on certain payments made by our U.S. subsidiaries to non-U.S. affiliates or otherwise could result in a material increase in U.S. federal and state taxes. We cannot predict the outcome of any specific legislative proposals. However, if such proposals were to be enacted, or if modifications were to be made to certain existing tax treaties, the consequences could have a materially adverse impact on us, including substantially reducing the benefits of our corporate structure, materially increasing our tax burden, or otherwise adversely affecting our results of operations, financial condition or cash flows.

Negative Publicity

There is continuing negative publicity regarding, and criticism of, U.S. companies' use of, or relocation to, offshore jurisdictions, including Bermuda. As a Bermuda company, this negative publicity could harm our reputation and impair our ability to generate new business if companies or governmental agencies decline to do business with us as a result of any perceived negative public image of Bermuda companies or the possibility of our customers receiving negative media attention from doing business with a Bermuda company.

Bermuda 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 Bermuda 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 Bermuda 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 Bermuda 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 Bermuda.

As a Bermuda company, Covidien Ltd. is governed by the Companies Act 1981 of Bermuda, which differs 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, shareholder lawsuits and indemnification. Likewise, the duties of directors and officers of a Bermuda company generally are owed to the company only. Shareholders of Bermuda 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. Under Bermuda law, a company also may agree to indemnify directors and officers for any personal liability, not involving fraud or dishonesty, incurred in relation to the company. Thus, holders of Covidien Ltd. securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the United States.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive offices in the United States are located in a leased facility in Mansfield, Massachusetts. Including the facilities used by businesses which we have now classified as discontinued operations, as of September 26, 2008, we owned or leased a total of 346 facilities in 62 countries. Our owned facilities consist of

approximately 13 million square feet, and our leased facilities consist of approximately 8 million square feet. Our 60 manufacturing facilities are located in the United States and in 15 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 | 250 |
| Imaging Solutions | 49 |
| Pharmaceutical Products | |
| Medical Supplies | 13 |
| Corporate | _ 9 |
| Total | 346 |

Item 3. Legal Proceedings

Covidien Legal Proceedings

We are subject to various legal proceedings and claims, including patent infringement claims, antitrust claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. We believe that these legal proceedings and claims will likely 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 these proceedings will have a material adverse effect on our financial condition. However, one or more of the proceedings could have a material adverse effect on our results of operations or cash flows for a future period. The most significant of these matters are discussed below.

Patent Litigation

We and Applied Medical Resources Corp. are involved in the following patent infringement actions related to trocar products used in minimally invasive surgical procedures:

- (1) Applied Medical Resources Corp. v. United States Surgical is a patent infringement action that was filed in the United States District Court for the Central District of California on July 31, 2003. U.S. Surgical is one of our subsidiaries. The complaint alleges that U.S. Surgical's Versaseal Plus trocar product infringes Applied Medical's U.S. Patent No. 5,385,553. Applied Medical seeks injunctive relief and unspecified monetary damages, including enhanced damages for alleged willful infringement. Applied Medical filed a motion for a preliminary injunction, which the district court denied on December 23, 2003. On February 7, 2005, the district court granted U.S. Surgical's motion for summary judgment of non-infringement. Applied Medical appealed the summary judgment ruling. On May 15, 2006, the United States Court of Appeals for the Federal Circuit issued a decision on the appeal vacating the district court's grant of summary judgment and remanded the case for further proceedings. On January 9, 2007, the district court entered an order that denied both parties' motions for summary judgment on the grounds that material facts remain in dispute. On February 20, 2008, following a five-week trial, a jury returned a verdict finding that U.S. Surgical's product does not infringe Applied Medical's '553 patent. On April 29, 2008, the district court denied Applied Medical's post-trial motion seeking judgment as a matter of law or, alternatively, a new trial. Following this ruling, Applied Medical appealed to the United States Court of Appeals for the Federal Circuit seeking a new trial. Oral argument in that appeal took place on November 6, 2008.
- (2) Tyco Healthcare Group LP v. Applied Medical Resources Corp. is a patent infringement action that was filed in the United States District Court for the Eastern District of Texas, Lufkin Division on July 19, 2006. The complaint alleges that Applied Medical's "Universal Seal" in its trocar product infringes our U.S. Patent No. 5,304,143, No. 5,685,854, No. 5,542,931, No. 5,603,702 and No. 5,895,377. We are seeking injunctive relief and unspecified monetary damages. The parties are in the discovery stage. Trial is scheduled to begin on July 8, 2009.

Becton Dickinson and Company v. Tyco Healthcare Group LP is a patent infringement action that was filed in the United States District Court for the District of Delaware on December 23, 2002. The complaint alleges that our Monoject Magellan safety needle and safety blood collector products infringe Becton Dickinson's U.S. Patent No. 5,348,544. Following trial, on October 26, 2004, the jury returned a verdict finding that we willfully infringed Becton Dickinson's patent and awarded Becton Dickinson \$4 million in lost profits damages and reasonable royalty damages. In post-trial proceedings, we filed motions for judgment as a matter of law, or, alternatively, for a new trial. Becton Dickinson filed a post-trial motion for enhanced damages, attorneys' fees, pre-judgment interest and postjudgment interest, and a motion for a permanent injunction. On March 31, 2006, the trial court issued a memorandum and order on the parties' post-trial motions denying our motion for judgment as a matter of law; granting our motion for a new trial on the issue of infringement; and denying Becton Dickinson's motion for enhanced damages, attorneys' fees, pre-judgment interest and post-judgment interest, and a permanent injunction. On November 30, 2007, following the new trial, a jury returned a verdict finding that we infringed Becton Dickinson's patent. Before submitting the case to the jury, the district court granted judgment as a matter of law in our favor finding that we did not willfully infringe Becton Dickinson's patent. We have filed post-trial motions in the district court for judgment as a matter of law or, in the alternative, for a new trial. Becton Dickinson has filed a motion for permanent injunction. On September 11, 2008, the district court denied our motion for a new trial. On October 17, 2008 the district court denied our motion for judgment as a matter of law. On October 29, 2008, the district court awarded Becton Dickinson \$58 million in damages and prejudgment interest; ordered a post-verdict accounting for additional damages that have accrued since the trial's conclusion; and ordered a permanent injunction precluding us from selling the Monoject Magellan safety needle products that the jury found to have infringed. The injunction is scheduled to take effect on December 17, 2008. We have appealed to the United States Court of Appeals for the Federal Circuit. We are also launching redesign products that we believe do not infringe Becton Dickinson's patent. We have assessed the status of this matter and have concluded that it is more likely than not that the infringement finding will be overturned, and, further, we intend to vigorously pursue all available means to achieve such reversal. Accordingly, no provision has been made in our financial statements with respect to any damage award.

Antitrust Litigation

Masimo Corporation v. Tyco Healthcare Group LP and Mallinckrodt, Inc. was filed on May 22, 2002 in the United States District Court for the Central District of California. Masimo alleges violations of antitrust laws by us in the markets for pulse oximetry products. Masimo alleges that we used our market position to prevent hospitals from purchasing Masimo's pulse oximetry products. Masimo seeks injunctive relief and monetary damages, including treble damages. Trial in this case began on February 22, 2005. The jury returned its verdict on March 21, 2005, and awarded Masimo \$140 million in damages. The damages are automatically trebled under the antitrust statute to an award of \$420 million. If ultimately successful, Masimo's attorneys are entitled to an award of reasonable fees and costs in addition to the verdict amount. On March 22, 2006, the district court issued its memorandum of decision regarding the post-trial motions. In the memorandum, the district court vacated the jury's liability findings on two business practices; affirmed the jury's liability finding on two other business practices; vacated the jury's damage award in its entirety; and ordered a new trial on damages. The district court held the new trial on damages on October 18 and 19, 2006. On January 25, 2007, the district court ordered an additional hearing on the issue of damages, which took place on March 22, 2007. On June 7, 2007, the district court issued its memorandum of decision in the new trial on damages and awarded Masimo \$14.5 million in damages. The damages are automatically trebled under the antitrust statute to an award of \$43.5 million. On June 29, 2007, the district court entered final judgment awarding Masimo \$43.5 million in damages, denying Masimo's demand for a permanent injunction, and retaining jurisdiction to determine the amount of attorney's fees and costs, if any, to be awarded Masimo. On November 5, 2007, the district court issued an order granting Masimo \$8.7 million in attorney's fees and costs. Following entry of judgment, both parties appealed to the United States Court of Appeals for the Ninth Circuit. Oral argument in that appeal is scheduled for December 8, 2008. We have assessed the status of this matter and have concluded that it is more likely than not that the liability findings and damages award (including attorney's fees and costs) will be overturned, and, further, we intend to vigorously pursue all available means to achieve such reversal. Accordingly, no provision has been made in our financial statements with respect to this damage award.

Beginning on August 29, 2005 with *Allied Orthopedic Appliances, Inc. v. Tyco Healthcare Group, L.P., and Mallinckrodt Inc.*, 12 consumer class actions have been filed in the United States District Court for the Central District of California. In all of the complaints, the putative class representatives, on behalf of themselves and others, seek to recover overcharges they allege they paid for pulse oximetry products as a result of anticompetitive conduct by us in violation of the federal antitrust laws. The 12 complaints were subsequently consolidated into a single proceeding styled *In re: Pulse Oximetry Antitrust litigation*. By stipulation among the parties, six putative class representatives dismissed their claims against us, leaving six remaining putative class representatives as plaintiffs in the consolidated proceeding. On December 21, 2007, the district court denied the plaintiffs' motion for class certification. On March 14, 2008, the United States Court of Appeals for the Ninth Circuit denied the plaintiffs' request for leave to appeal the district court's denial of their motion for class certification. On July 9, 2008, the district court granted our motion for summary judgment which resulted in the dismissal of all claims. The plaintiffs have appealed both rulings to the United States Court of Appeals for the Ninth Circuit.

Rochester Medical Corporation, Inc. v. C.R. Bard, Inc., et al. is a complaint filed against us, another manufacturer and two group purchasing organizations in the United States District Court for the Eastern District of Texas on March 15, 2004. The complaint alleges that we and the other defendants conspired or acted to exclude Rochester Medical from markets for urological products in violation of federal and state antitrust laws. Rochester Medical also asserts claims under the Lanham Act and for business disparagement, common law conspiracy and tortious interference with business relationships. Rochester Medical seeks injunctive relief and damages. Any damages awarded under the federal antitrust laws will be subject to statutory trebling. Rochester Medical has reported that it has settled its claims against defendants C.R. Bard, Inc. and Premier, Inc./Premier Purchasing Partners, L.P. and Novation, LLC/VHA, Inc. Prior to settlement with these three parties, Rochester Medical alleged a damages figure of approximately \$213 million against all defendants for all claims. At this time, it is not possible to estimate the amount of loss or probable losses, if any, that might result from an adverse resolution of this matter. We intend to defend this action vigorously. Trial is scheduled to begin on January 5, 2009.

Daniels Sharpsmart, Inc. v. Tyco International (US) Inc., et al. is a complaint filed against us, another manufacturer and three GPOs in the United States District Court for the Eastern District of Texas on August 31, 2005. The complaint alleges that we monopolized or attempted to monopolize the market for sharps containers and that we and the other defendants conspired or acted to exclude Daniels from the market for sharps containers in violation of federal and state antitrust laws. Daniels also asserts claims under the Lanham Act and for business disparagement, common law conspiracy and tortious interference with business relationships. Daniels seeks injunctive relief and unspecified monetary damages, including treble damages. Daniels dismissed with prejudice its claims against Consorta, Inc., one of the defendant GPOs. Also, following a settlement, Daniels dismissed with prejudice its claims against the other two defendant GPOs, Novation, LLC/VHA, Inc. and Premier, Inc./ Premier Purchasing Partners, L.P., as well as its claims against Becton Dickinson and Company. At this time, it is not possible for us to estimate the amount of loss or probable losses, if any, that might result from an adverse resolution of this matter. We intend to defend this action vigorously. Trial is scheduled to begin on January 5, 2009 for claims against us.

Natchitoches Parish Hospital Service District, et al. v. Tyco International, Ltd., et al. is a class action lawsuit filed against us on September 15, 2005 in the United States District Court for the District of Massachusetts. In the complaint, the putative class representatives, on behalf of themselves and others, seek to recover overcharges they allege that they and others paid for sharps containers as a result of anticompetitive conduct by us in violation of federal antitrust laws. At this time, it is not possible to estimate the amount of loss or probable losses, if any, that might result from an adverse resolution of this matter. We intend to vigorously defend this action. On August 29, 2008, the district court granted the plaintiffs' motion for class certification. We filed a request for leave with the United States Court of Appeals for the First Circuit to appeal the district court's granting of the plaintiffs' motion for class certification. No trial date has been scheduled.

Asbestos Matters

Mallinckrodt Inc., one of our subsidiaries, 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 were never substantiated and have been dismissed by the courts. We 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 26, 2008, there were 10,586 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 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 insurance coverage, will not have a material adverse 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. One of our subsidiaries, Mallinckrodt LLC, 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 completed a Corrective Measures Study (CMS) plan and submitted it to the EPA and MDEP in 2004. MDEP has orally indicated that it does not agree with Mallinckrodt's proposed remedial alternative. Mallinckrodt has been in discussions with MDEP regarding potential alternatives to the remediation approach proposed by Mallinckrodt in the CMS. Mallinckrodt is not certain at this time of the potential outcome of these discussions. Mallinckrodt has been advised that issuance of an implementation order from MDEP outlining its preferred remedial alternative is pending. Mallinckrodt is the only remaining party responsible for remediation at this site.

In April 2000, Mallinckrodt and other prior owners were sued 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. Since that order, the district court has appointed a study panel to oversee the study. The study panel has prepared a "study plan," which calls for three years of field work, followed by a fourth year for "data synthesis." The study panel has commenced Phase II study activities which involve more detailed investigation of mercury impacts to the Penobscot River

and its animal and plants over a number of years. The district court has also created an escrow account from which to pay bills associated with the study, and the district court periodically has ordered Mallinckrodt to deposit money into the escrow account.

In July 2005, the district court entered an opinion and order approving the study plan, which Mallinckrodt subsequently appealed to the United States Court of Appeals for the First Circuit. We received a Notice of Opinion and Decision in the above-referenced matter on December 22, 2006. The First Circuit Court of Appeals upheld the district court's decision and affirmed its rulings in all respects. We filed a petition for certiorari with the United States Supreme Court seeking review of the First Circuit's decision, but the petition for certiorari was denied.

The ultimate cost of site cleanup 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 26, 2008, we concluded that it was probable that we would incur remedial costs in the range of approximately \$95 million to \$257 million for the cleanup of all known sites for which the costs are currently estimable. As of September 26, 2008, we concluded that the best estimate within this range was \$125 million, discounted using risk free rates where appropriate, of which \$13 million was included in accrued and other current liabilities and \$112 million was included in other liabilities on the balance sheet. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial condition or cash flows. This accrual does not include potential costs that we may incur if we are ordered to remediate environmental conditions in the Penobscot River and Bay. At this time, it is not possible for us to estimate the amount of any such potential additional remediation costs.

Other Matters

Covidien is 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 adverse effect on our results of operations, financial condition or cash flows.

Tyco International-related Legal Proceedings

Pursuant to the Separation and Distribution Agreement, we assumed a portion of Tyco International's contingent and other corporate liabilities, including potential liabilities relating to certain of Tyco International's outstanding litigation matters. We are responsible for 42% of potential liabilities that may arise upon the settlement of such pending litigation. Covidien, Tyco International and Tyco Electronics are jointly and severally liable for the full amount of these liabilities under the Separation and Distribution Agreement. Accordingly, if Tyco International or Tyco Electronics were to default on their obligation to pay their allocated share of these liabilities, we would be required to pay additional amounts. Under the terms of the Separation and Distribution Agreement, Tyco International will manage and control all legal matters related to assumed contingent liabilities, including the defense or settlement thereof, subject to certain limitations and exceptions. Tyco International's various outstanding litigation proceedings are discussed below.

Securities Class Actions Settlement and Legacy Securities Matters

Prior to the separation, Tyco International and certain of its former directors and officers were named as defendants in a number of class actions alleging violations of the disclosure provisions of the federal securities laws and also are named as defendants in several Employee Retirement Income Security Act of 1974, as amended "(ERISA)" related class actions. As previously disclosed, in fiscal 2007, Tyco International entered into an agreement to settle 32 purported securities class action lawsuits in which Tyco International and certain of its former directors and officers were named as defendants, and Covidien contributed its share to a \$2.975 billion escrow account established in connection with the settlement. All legal contingencies that could have affected the final order approving the settlement expired on February 21, 2008. The claims administrator for the settlement class is currently reviewing all of the filed claims to determine whether and to what extent the claims should be

allowed and the portion of the settlement fund allocable to each claimant. The settlement did not, however, resolve the following securities cases discussed below: Hess v. Tyco International Ltd., et al., Stumpf v. Tyco International Ltd., et al., Hall v. Kozlowski, et al., Sciallo v. Tyco International Ltd., et al. and Jasin v. Tyco International Ltd., et al. The settlement also did not resolve claims arising under ERISA which are not common to all class members, including any claims asserted in Overby, et al. v. Tyco International Ltd. In addition, as described below, a number of class members have opted out of the settlement.

Hess v. Tyco International Ltd., et al., was filed on June 3, 2004 in the Superior Court of the State of California for the County of Los Angeles against certain of Tyco International's former directors and officers, Tyco International's former auditors, and Tyco International. The complaint, which was amended on July 9, 2007, asserts claims of fraud, negligent representation, aiding and abetting breach of fiduciary duty, and breach of fiduciary duty in connection with, and subsequent to, an underlying settlement of litigation brought by shareholders in Progressive Angioplasty Systems, Inc. where the plaintiffs received Tyco International's stock as consideration. The amended complaint alleges collective losses of not less than \$20 million and seeks compensatory and punitive damages. Tyco International agreed to contribute \$16 million to settle this case. During the fourth quarter of fiscal 2008, we recorded a charge of \$7 million for our portion of the settlement.

Stumpf v. Tyco International Ltd., et al. was transferred to the United States District Court for the District of New Hampshire by the Judicial Panel on Multidistrict Litigation. The complaint asserts claims against Tyco International based on federal securities laws. In orders dated September 2, 2005 and January 6, 2005, the court denied Tyco International's motion to dismiss. On June 12, 2007, the court certified a purported class consisting of all persons or entities who purchased TyCom stock, either pursuant to a July 26, 2000 registration statement and prospectus for TyCom's initial public offering, or on the open market between July 26, 2000 and December 17, 2001. On June 26, 2007, Tyco International filed a Rule 23(f) petition seeking leave to appeal the class certification order. On September 13, 2007, the United States Court of Appeals for the First Circuit denied Tyco International's petition.

Hall v. Kozlowski, et al. an action relating to plaintiff's employment, 401(k) and pension plans and ownership of Tyco International stock, was also transferred to the United States District Court for the District of New Hampshire by the Judicial Panel on Multidistrict Litigation.

Sciallo v. Tyco International Ltd., et al., was filed on September 30, 2003 in the United States District Court for the Southern District of New York. The plaintiffs purport to be former executives of U.S. Surgical who traded their U.S. Surgical stock options for Tyco International stock options when Tyco International acquired U.S. Surgical on October 1, 1998. Plaintiffs named as defendants Tyco International and certain former Tyco International directors and executives. The complaint asserts causes of action under federal securities laws and for common law fraud and negligence, and violation of New York General Business Law Section 349, which prohibits deceptive acts and practices in the conduct of any business. The complaint alleges that defendants made materially false and misleading statements and omissions concerning, among other things, Tyco International's financial condition and accounting practices. The Judicial Panel on Multidistrict Litigation transferred this action to the United States District Court for the District of New Hampshire. Tyco International agreed to settle this case for \$2 million. During the fourth quarter of fiscal 2008, we recorded a charge of \$1 million for our portion of the settlement.

Jasin v. Tyco International Ltd., et al. was filed on September 2, 2004 in the Court of Common Pleas for Dauphin County, Pennsylvania. This pro se plaintiff named as additional defendants Tyco International (US) Inc. and certain of Tyco International's former executives. Plaintiff's complaint asserts causes of action under federal securities laws and for common law fraud, negligent misrepresentation, unfair trade practice, breach of contract, breach of the duty of good faith and fair dealing, and violation of Section 1-402 of the Pennsylvania Securities Act of 1972. Tyco International removed the complaint to the United States District Court for the Middle District of Pennsylvania and the Judicial Panel on Multidistrict Litigation transferred this action to the United States District Court for the District of New Hampshire. Discovery in this action is ongoing.

Securities Class Action Settlement Opt-Outs

As of September 26, 2008, the following opt-out complaints had been filed which remain outstanding: Franklin Mutual Advisers, LLC v. Tyco International Ltd., filed on September 24, 2007 in the United States District Court for the District of New Jersey, Teachers Retirement System of Texas, et al. v. Tyco International Ltd., et al., filed on November 29, 2007 in the United States District Court for the District of New Jersey, Blackrock Global Allocation Fund, Inc., et al. v. Tyco International Ltd., et al., filed on January 29, 2008 in the United States District Court for the District of New Jersey, Nuveen Balanced Municipal and Stock Fund, et al. v. Tyco International Ltd., et al., filed on January 29, 2008 in the United States District Court for the District of New Jersey, Federated American Leaders Fund, Inc. et al. v. Tyco International Ltd., et al., filed on January 24, 2008 in the United States District Court for the District of New Jersey, and State Treasurer of the State of Michigan, as Custodian of the Michigan Public School Employees Retirement System, State Employees' Retirement System, Michigan State Police Retirement System and Michigan Judges Retirement System v. Tyco International Ltd., et al., filed on February 8, 2008 in the United States District Court for the Eastern District of Michigan.

Generally, the claims asserted by these plaintiffs include claims similar to those asserted by the settling defendants; namely, violations of the disclosure provisions of federal securities laws. It is our understanding that Tyco International intends to vigorously defend any litigation resulting from opt-out claims. At this time, it is not possible to predict the final outcome or to estimate the amount of loss or possible loss, if any, that might result from an adverse resolution of these outstanding asserted claims or from any unasserted claims.

ERISA Litigation

As previously reported in our periodic filings, Tyco International and certain of its current and former employees, officers, and directors have been named as defendants in eight class actions brought under ERISA. Two of the actions were filed in the United States District Court for the District of New Hampshire and the six remaining actions were transferred to that court by the Judicial Panel on Multidistrict Litigation. All eight actions have been consolidated in the District Court in New Hampshire. The consolidated complaint purports to bring claims on behalf of the Tyco International Retirement Savings and Investment Plans and the participants therein and alleges that the defendants breached their fiduciary duties under ERISA by negligently misrepresenting and negligently failing to disclose material information concerning, among other things, the following: related-party transactions and executive compensation; Tyco International's mergers and acquisitions and the accounting therefor, as well as allegedly undisclosed acquisitions; and misstatements of Tyco International's financial results. The complaint also asserts that the defendants breached their fiduciary duties by allowing the Plans to invest in Tyco International's shares when it was not a prudent investment. The complaints seek recovery of alleged plan losses arising from alleged breaches of fiduciary duties. On August 15, 2006, the court entered an order certifying a class "consisting of all Participants in the Plans for whose individual accounts the Plans purchased and/or held shares of Tyco Stock Fund at any time from August 12, 1998 to July 25, 2002." On January 11, 2007, plaintiffs filed a motion, assented to by Tyco International that proposed an agreed upon form of notice of the ERISA class action on potential class members. This matter remains in litigation and we understand that Tyco International intends to vigorously defend it. Our share of any losses resulting from an adverse resolution of this matter is not estimable at this time and could have a material adverse effect on our results of operations, financial condition or cash flows.

Subpoenas and Document Requests from Governmental Entities

Tyco International and others have received various subpoenas and requests from the U.S. Department of Labor, the General Service Administration and others seeking the production of voluminous documents in connection with various investigations into Tyco International's governance, management, operations, accounting and related controls. The Department of Labor is investigating Tyco International and the administrators of certain of its benefit plans. Tyco International cannot predict when these investigations will be

completed, nor can it predict what the results of these investigations may be. It is possible that Tyco International will be required to pay material fines or suffer other penalties. Our share of any losses resulting from an adverse resolution of this matter is not estimable at this time and could have a material adverse effect on our results of operations, financial condition or cash flows.

Compliance Matters

Tyco International has received and responded to various allegations that certain improper payments were made in recent years by Tyco International subsidiaries, including subsidiaries which are now part of Covidien. During 2005, Tyco International reported to the 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 will continue 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 payments identified by us in the course of our ongoing compliance activities. To date, the baseline review has revealed that some business practices may not comply with Covidien and FCPA requirements. At this time, we cannot predict the outcome of these matters or other allegations reported to regulatory and law enforcement authorities and therefore cannot estimate the range of potential loss or extent of risk, if any, which may result from an adverse resolution of these matters. However, it is possible that we may be required to pay judgments, suffer penalties or incur settlements in amounts that may have a material adverse effect on our results of operations, financial condition or cash flows.

Any judgment required to be paid or settlement or other cost incurred in connection with these matters would be subject to the liability sharing provisions of the Separation and Distribution Agreement, which provides that Covidien, Tyco International and Tyco Electronics will retain liabilities primarily related to each of its continuing operations. Any liabilities not primarily related to a particular company will be shared equally among Covidien, Tyco International and Tyco Electronics.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

Listed below are our executive officers as of November 25, 2008, each of whom, unless otherwise indicated below, has been an employee of Covidien or its affiliates and held the position indicated during the past five years. References below to Covidien include the Tyco Healthcare business which, until our separation in June 2007, was part of Tyco International. There are no family relationships between any of the executive officers, and there is no arrangement or understanding between any executive officer and any other person pursuant to which the executive officer was selected. At the annual meeting of the board of directors, the executive officers are elected by the board to hold office for one year and until their respective successors are elected and qualified, or until earlier resignation or removal.

| Name | Age | Position(s) |
|------------------------|-----|---|
| Richard J. Meelia | 59 | Chairman of the Board of Directors, President and Chief Executive |
| | | Officer |
| Charles J. Dockendorff | 54 | Executive Vice President and Chief Financial Officer |
| Jose E. Almeida | 46 | Senior Vice President and President, Medical Devices |
| Timothy R. Wright | 50 | Senior Vice President and President, Pharmaceutical Products and |
| | | Imaging Solutions |
| Eric A. Kraus | 47 | Senior Vice President, Corporate Communications |
| John H. Masterson | 47 | Senior Vice President and General Counsel |
| Amy A. McBride-Wendell | 47 | Senior Vice President, Strategy and Business Development |
| Karen A. Quinn-Quintin | 50 | Senior Vice President, Human Resources |
| Richard G. Brown, Jr | 60 | Vice President, Chief Accounting Officer and Corporate Controller |
| Kevin G. DaSilva | 44 | Vice President and Treasurer |
| Eric C. Green | 50 | Vice President, Chief Tax Officer |
| Coleman N. Lannum | 44 | Vice President, Investor Relations |

Richard J. Meelia—Mr. Meelia has served as the Chairman of our Board of Directors since October of 2008. He has served on our Board of Directors and has been our President and Chief Executive Officer since June 2007. From January 2006 through the separation, Mr. Meelia was the Chief Executive Officer of Covidien and from 1995 through the separation, Mr. Meelia was also the President of Covidien. Mr. Meelia is a director of Haemonetics Corporation.

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

Jose E. Almeida—Mr. Almeida has been our Senior Vice President since June 2007. Mr. Almeida has been President, Medical Devices of Covidien since October 2006 and prior to that was President of Covidien's International business since April 2004. From January 2003 to April 2004, Mr. Almeida was Chief Operating Officer of Greatbatch Technologies and from July 1998 to 2002, he was Vice President, Manufacturing of Covidien.

Timothy R. Wright—Mr. Wright has been our Senior Vice President since June 2007 and has been President, Pharmaceutical Products and Imaging Solutions of Covidien since February 2007. Prior to joining Covidien, Mr. Wright was Non-Executive Chairman of ParagonRx from 2006 to 2007. Mr. Wright was Chief Operating Officer of Xanodyne Pharmaceuticals from 2005 to 2006, Interim Chief Executive Officer, President and Board Member of AAIPharma from 2004 to 2005, President, Global Commercial Operations of Elan Bio-Pharmaceuticals from 2001 to 2004, and Senior Vice President, Healthcare Product Services of Cardinal Health from 1999 to 2001. Prior to joining Cardinal Health, Mr. Wright held senior management positions in the U.S. and abroad at DuPont Merck Pharmaceutical from 1986 to 1999. Mr. Wright is a director of Antigenics Inc., a biotechnology company that develops treatments for cancers and infectious diseases.

- *Eric A. Kraus*—Mr. Kraus has been Senior Vice President, Corporate Communications of Covidien since July 2006. Prior to joining Covidien, Mr. Kraus was Vice President, Corporate Communications and Public Affairs of The Gillette Company from July 1999 to July 2006.
- *John H. Masterson*—Mr. Masterson has been Senior Vice President and General Counsel of Covidien since December 2006. Prior to that, Mr. Masterson served as Vice President and General Counsel of Covidien since 1999.
- *Amy A. McBride-Wendell*—Ms. McBride-Wendell has been Senior Vice President, Strategy and Business Development of Covidien since December 2006. Prior to that, Ms. McBride-Wendell served as Vice President, Business Development of Covidien since 1998.
- *Karen A. Quinn-Quintin*—Ms. Quinn-Quintin has been Senior Vice President, Human Resources of Covidien since October 2006. Prior to joining Covidien, Ms. Quinn-Quintin was Senior Vice President and Chief Human Resources Officer at Andrew Corporation from July 2003 to October 2006. Prior to joining Andrew, she was Vice President, Human Resources of Textron, Inc. from 2002 to March 2003 and Vice President, Human Resources of the Industrial Products division of Textron, Inc. from 1997 to 2002.
- **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 joining Eastman Kodak, Mr. Brown was a partner at Ernst & Young LLP, where he was employed for 32 years.
- *Kevin G. DaSilva*—Mr. DaSilva has been Vice President and Treasurer of Covidien since June 2007. Prior to that, he was Assistant Treasurer of Tyco International from July 2003 to June 2007. Prior to joining Tyco International, Mr. DaSilva was with Lucent Technologies Inc. where he was Financial Vice President and served as Chief Financial Officer of the Worldwide Services Division from 2002 to 2003 and Assistant Treasurer from 1997 to 2002.
- *Eric C. Green*—Mr. Green has been the Vice President and Chief Tax Officer of Covidien since June 2007. Prior to that, he was Vice President, Tax Planning and Analysis of Tyco International from October 2003 to June 2007. 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 senior healthcare analyst for American Express Asset Management. From 1997 to November 2004, he was a senior analyst and portfolio manager of Putnam Investments.

PART II

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

The number of registered holders of Covidien's common shares at November 17, 2008 was 37,983.

Covidien common shares are listed and traded on the New York Stock Exchange (NYSE) and the Bermuda Stock Exchange under the symbol "COV." The following table sets forth the high and low sales prices of Covidien common shares as reported by the NYSE from July 2, 2007, the date on which we commenced "regular way" trading on the NYSE following the consummation of our separation from Tyco International, and the dividends paid on Covidien common shares.

| | Market P | rice Range | Dividend Per Common | | |
|------------------|----------|------------|------------------------|--|--|
| Fiscal Year 2008 | High | Low | Share | | |
| First Quarter | \$45.12 | \$37.73 | \$ — | | |
| Second Quarter | \$46.11 | \$40.15 | \$0.32 | | |
| Third Quarter | \$50.50 | \$43.05 | \$0.16 | | |
| Fourth Quarter | \$57.00 | \$46.34 | \$0.16 | | |
| Fiscal Year 2007 | | | | | |
| Fourth Quarter | \$45.00 | \$36.90 | \$0.16 | | |

Dividend Policy

Covidien paid dividends of \$320 million on its common shares in fiscal 2008. On September 26, 2008, the Board of Directors declared a quarterly cash dividend of \$0.16 per share to shareholders of record at the close of business on October 9, 2008. The dividend was paid on November 6, 2008. We expect that we will continue to pay comparable dividends to holders of our common shares. The timing, declaration and payment of future dividends to holders of our common shares, however, falls within the discretion of our Board of Directors and will depend upon many factors, including the statutory requirements of Bermuda law, our earnings and financial condition, the capital requirements of our businesses, industry practice and any other factors the Board of Directors deems relevant.

Item 6. Selected Financial Data

The following table presents selected financial and other data for Covidien Ltd. The statement of operations data set forth below for fiscal 2008, 2007 and 2006, and the balance sheet data at September 26, 2008 and September 28, 2007, are derived from our audited financial statements included elsewhere in this annual report. The statement of operations data for fiscal 2005 and the balance sheet data at September 29, 2006 are derived from our audited financial statements that are not included in this annual report. The statement of operations data for fiscal 2004 and the balance sheet data at September 30, 2005 and 2004 are derived from our unaudited financial statements that are not included in this annual report. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information set forth herein.

The selected historical financial data presented below should be read in conjunction with our financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report. Our financial information may not be indicative of our future performance and does not necessarily reflect what our results of operations and financial condition would have been had we been operating as an independent, publicly-traded company prior to June 29, 2007.

| | Fiscal Year | | | | | | | | |
|--|-------------|------|---------|-------|-----------|------|-------|-----|-------|
| | 2008 | 20 | 007 | 2 | 006 | | 2005 | - 2 | 2004 |
| | | | (dol | llars | in millio | ons) | | | |
| Statement of Operations Data: | | | | | | | | | |
| Net sales | \$ 9,910 | \$ 8 | ,895 | \$ 8 | 8,313 | \$ | 8,268 | \$ | 7,803 |
| Research and development expenses | 341 | | 260 | | 248 | | 221 | | 204 |
| In-process research and development charges | 22 | | 38 | | 63 | | _ | | _ |
| Restructuring charges | 77 | | 57 | | _ | | _ | | _ |
| Operating income ⁽¹⁾ | 1,946 | | 585 | 2 | 2,052 | | 2,011 | | 2,033 |
| Interest expense, net | (166) |) | (153) | | (139) | | (163) | | (191) |
| Other income (expense), net ⁽²⁾ | 199 | | (135) | | (13) | | (248) | | (70) |
| Income from continuing operations before income | | | | | | | | | |
| taxes | 1,979 | | 297 | | 1,900 | | 1,600 | | 1,772 |
| Income (loss) from continuing operations | 1,443 | | (165) | | 1,430 | | 1,121 | | 1,316 |
| (Loss) income from discontinued operations, net of | | | | | | | | | |
| income taxes | (82) |) | (177) | | (275) | | (86) | | 85 |
| Net income (loss) | 1,361 | | (342) | | 1,155 | | 1,035 | | 1,401 |
| Balance Sheet Data (End of Period): | , | | ` ′ | | , | | ŕ | | |
| Total assets | \$16,003 | \$18 | ,328 | \$14 | 4,108 | \$1 | 4,784 | \$1 | 5,132 |
| Long-term debt | 2,986 | | ,565 | | 2,248 | | 2,544 | | 3,510 |
| Shareholders' equity | 7,747 | | ,742 | | 8,621 | | 8,007 | | 7,611 |
| Common Share Data: | , | | , | | , | | , | | , |
| Basic earnings per share: | | | | | | | | | |
| Income (loss) from continuing operations | \$ 2.89 | \$ (| 0.33) | \$ | 2.88 | \$ | 2.26 | \$ | 2.65 |
| Net income (loss) | 2.72 | | 0.69) | | 2.33 | · | 2.08 | | 2.82 |
| Diluted earnings per share: | | ` | , , , , | | | | | | |
| Income (loss) from continuing operations | \$ 2.86 | \$ (| 0.33) | \$ | 2.88 | \$ | 2.26 | \$ | 2.65 |
| Net income (loss) | 2.70 | | 0.69) | _ | 2.33 | _ | 2.08 | - | 2.82 |
| Cash dividend declared per share | \$ 0.64 | | 0.16 | \$ | _ | \$ | _ | \$ | |
| Basic weighted-average number of shares | 7 | _ | | _ | | _ | | - | |
| outstanding ⁽³⁾ | 500 | | 497 | | 497 | | 497 | | 497 |
| Diluted weighted-average number of shares | 200 | | 177 | | .,, | | 177 | | 1,7 / |
| outstanding ⁽³⁾ | 505 | | 497 | | 497 | | 497 | | 497 |
| Other Data: | 202 | | .,, | | 171 | | .,, | | 1,7,1 |
| Operating margin ⁽¹⁾ | 19.69 | % | 6.6% | 6 | 24.7% | 6 | 24.3% | 'n | 26.1% |
| Number of employees (thousands) | 42 | , - | 44 | - | 43 | - | 41 | - | 39 |
| rumoer of emproyees (mousumes) | -72 | | 77 | | 73 | | 71 | | 5) |

⁽¹⁾ Operating income and margin for fiscal 2008 includes a \$42 million net charge for our portion of Tyco International's shareholder settlements, net of insurance recoveries. Note 19 to our financial statements provides further information regarding these settlements. Operating income and margin for fiscal 2007 includes an allocated class action settlement charge, net of related insurance recoveries of \$1.202 billion and intangible asset impairment charges of \$34 million. Operating income and margin for fiscal 2006 includes a net gain on divestitures of \$48 million and incremental stock option charges of \$33 million required under Statement of Financial Accounting Standards No. 123R, "Share-Based Payment." Operating income and margin for fiscal 2005 includes a charge for a patent litigation settlement of \$277 million.

- (2) Amount for fiscal 2008 relates primarily to the impact of the Tax Sharing Agreement resulting from the adoption of Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." Amounts for fiscal 2007, 2005 and 2004 consist primarily of the allocation of Tyco International's loss on the retirement of debt. Note 17 to our financial statements provides further information regarding these amounts.
- (3) The common shares outstanding immediately following the separation from Tyco International were used to calculate basic and diluted earnings per share for the periods prior to the separation because no common shares, share options or restricted shares of Covidien were outstanding on or before June 29, 2007.

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 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 below and under the headings "Risk Factors" and "Forward-Looking Statements."

Overview

We operate our continuing businesses through the following four segments:

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

Covidien Ltd. was incorporated in Bermuda in 2000 as a wholly-owned subsidiary of Tyco International Ltd. Until June 29, 2007, however, Covidien did not engage in any significant business activities and held minimal assets. As part of a plan to separate Tyco International into three independent companies, Tyco International transferred the equity interests of the entities that held all of the assets and liabilities of its healthcare businesses to Covidien and, on June 29, 2007, distributed all of its shares of Covidien to its shareholders. Our financial results reflect the consolidated operations of Covidien Ltd. as an independent publicly-traded company following June 29, 2007, and a combined reporting entity comprised of the assets and liabilities used in managing Tyco International Ltd.'s healthcare businesses, including Covidien Ltd., prior to and including June 29, 2007.

Our financial statements have been prepared in U.S. dollars, in accordance with accounting principles generally accepted in the United States of America. For periods prior to the separation, certain general corporate overhead, other expenses, debt and related net interest expense and loss on early extinguishment of debt have been allocated to us by Tyco International. Management believes such allocations are reasonable; however, they may not be indicative of the actual expenses we would have incurred had we been operating as an independent, publicly traded company. Note 17 to our financial statements provides additional information regarding allocated expenses.

Strategic Acquisitions and Divestitures

As part of our management of Covidien, 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 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.

Acquisitions

During fiscal 2008, our Medical Devices segment acquired Tissue Science Laboratories plc ("TSL") for \$74 million. TSL is a medical device company dedicated to the research, development and commercialization of tissue implant products for surgical and wound care therapies. The acquisition of TSL provides us with a leading tissue repair technology and accelerates our entry into the biologic hernia repair market. TSL's Permacol(R) product complements our current soft tissue product offerings and allows us to offer a full line of differentiated hernia repair products.

In November 2007, our Medical Devices segment acquired Scandius Biomedical, Inc. ("Scandius"), a developer of medical devices for sports-related surgeries, for \$27 million. The acquisition of Scandius enables us to offer customers innovative soft tissue repair devices for common sports injuries.

In April 2007, our Medical Devices segment acquired intellectual property from Sorbx, LLC ("Sorbx"), a developer of an absorbable tack technology used in hernia repair procedures, for \$30 million. The acquisition of the intellectual property from Sorbx will allow us to expand our surgical devices portfolio, while leveraging our global distribution capabilities.

In September 2006, our Medical Devices segment acquired 59% ownership of Airox S.A. ("Airox") for \$59 million and in November 2006, we acquired the remaining outstanding shares of Airox in a mandatory tender offer for \$47 million. Airox is a developer of home respiratory ventilator systems. The acquisition of Airox expands our ventilator product portfolio.

In August 2006, our Medical Devices segment acquired Confluent Surgical, Inc. ("Confluent"), a developer and supplier of polymer-based technology used in sprayable surgical sealants and anti-adhesion products, for \$236 million. The acquisition of Confluent allows us to offer bio-surgery products that complement our Syneture suture and Autosuture surgical stapler portfolio.

During fiscal 2006, our Medical Devices segment acquired over 90% ownership in Floreane Medical Implants, S.A. ("Floreane") for \$123 million. Floreane, through its Sofradim line, is an innovator in the development of hernia meshes and surgical implants. The acquisition of Floreane expands our surgical product portfolio and allows us to provide our customers with a complementary range of products, while leveraging our global distribution capabilities. Subsequent to fiscal 2006, we acquired the remaining outstanding shares of Floreane for \$12 million.

Divestitures

During fiscal 2008, we approved a plan to sell our Specialty Chemicals business within the Pharmaceutical Products segment and sold our Retail Products segment and our European Incontinence Products business within the Medical Supplies segment. We decided to sell these businesses because their products and customer bases are not aligned with our long-term strategic objectives. These businesses all met the held for sale and discontinued operations criteria and, accordingly, have been included in discontinued operations for all periods presented. See "Discontinued Operations" for further information.

In January 2006, we completed the sale of our Radionics product line within the Medical Devices segment, which included minimally invasive medical instruments in the fields of neurosurgery and radiation therapy. In connection with this sale, we received net proceeds of \$74 million and recorded a gain of \$45 million in continuing operations.

Covidien Business Factors Influencing the Results of Operations

Sales and Marketing Investment

Selling and marketing expenses increased approximately \$303 million and \$186 million in fiscal 2008 and fiscal 2007, respectively, primarily due to an increase in sales and marketing headcount and related compensation programs. The increase in headcount is to support the continuation of our geographic expansion and our increased focus on selling to and supporting customers directly rather than through distributors.

Research and Development Investment

Our research and development expense increased \$81 million during fiscal 2008 and increased \$12 million during fiscal 2007. We expect these expenditures associated with internal initiatives, as well as licensing or acquiring technology from third party, to increase as we continue to make additional investments to support our growth initiatives. We intend to focus our internal and external investments in those fields that we believe will offer the greatest opportunity for growth and profitability.

Restructuring Initiatives

During fiscal 2007, we launched a \$150 million restructuring program, primarily in our Medical Devices segment. This program includes numerous actions designed to improve our competitive position by exiting unprofitable product lines in low-growth and declining-growth markets, reducing excess machine capacity, moving production to lower cost alternatives through plant consolidations and outsourcing initiatives, and relocating certain functions to locations that will enhance our recruiting, development and retention of personnel and lower operating costs. We expect the savings from these restructuring initiatives to partially offset the increased research and development and sales and marketing expenses necessary to support our growth initiatives. During fiscal 2008 and fiscal 2007, we recorded restructuring charges of \$77 million and \$57 million, respectively, as we consolidated certain facilities, primarily within the Medical Devices segment.

On September 26, 2008, we approved another restructuring program also designed to improve our cost structure and to deliver improved operational growth. This program, which will be launched in fiscal 2009, includes actions in all four segments, as well as at corporate. We expect to incur charges as these actions are undertaken of approximately \$200 million under this program, most of which is expected to occur by the end of 2010.

Manufacturing Cost Increases

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 have increased in fiscal 2008, 2007 and 2006, resulting in higher costs to produce and distribute our products.

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 2008 is as follows:

| U.S. Dollar | 57% |
|--------------|------|
| Euro | 20 |
| Japanese Yen | 6 |
| All Other | _17 |
| | 100% |

Currency exchange rates also affect our cost of goods sold. To the extent other currencies depreciate against the U.S. dollar, transaction losses result on any products sourced from the United States in U.S. dollars which are then sold in non-U.S. currencies.

Product Recalls

During fiscal 2006, our results were adversely affected by quality systems and regulatory compliance issues that led to product recalls within the Imaging Solutions segment and to a detention order imposed by the FDA that blocked the import and sale in the United States of several temperature monitoring products within our Medical Devices segment that we manufacture at a facility in Mexico. In addition, we were unable to produce certain Imaging Solutions products for a period of time, which adversely affected our sales and manufacturing performance, resulting in underabsorption of manufacturing overhead costs. In certain instances, despite the fact that we were not able to manufacture the product, we were able to obtain alternative sources, but at higher costs.

In response to these quality systems and regulatory compliance issues, we made substantial capital and headcount investments during fiscal 2006. We increased our quality and regulatory assurance personnel at the affected facilities in an effort to address all of the FDA's concerns. We resumed sales for the majority of the affected Imaging Solutions products in the first quarter of fiscal 2007, and the detention was lifted on our temperature monitoring products. Sales of technetium generators within the Imaging Solutions segment were suspended, however, in the second quarter of fiscal 2007, and we initiated a voluntary recall of such generators manufactured on or after February 23, 2007, as a result of a potential problem identified during routine testing of a production run. This issue was resolved before the end of the second quarter of fiscal 2007, and production of technetium generators resumed on April 2, 2007.

Results of Operations

Fiscal Years Ended 2008, 2007 and 2006

The following table presents results of operations, including percentage of net sales (dollars in millions):

| | Fiscal Year | | | | | | |
|--|-------------|--------|----------|--------|---------|--------|--|
| | 200 | 8 | 200 | 7 | 200 | 6 | |
| Net sales | \$9,910 | 100.0% | \$8,895 | 100.0% | \$8,313 | 100.0% | |
| Cost of goods sold | 4,601 | 46.4 | 4,273 | 48.0 | 4,012 | 48.3 | |
| Gross profit | 5,309 | 53.6 | 4,622 | 52.0 | 4,301 | 51.7 | |
| Selling, general and administrative expenses | 2,881 | 29.1 | 2,446 | 27.5 | 1,986 | 23.9 | |
| Research and development expenses | 341 | 3.4 | 260 | 2.9 | 248 | 3.0 | |
| In-process research and development charges | 22 | 0.2 | 38 | 0.4 | 63 | 0.8 | |
| Restructuring charges | 77 | 0.8 | 57 | 0.6 | _ | _ | |
| Class action and shareholder settlements, net of insurance | | | | | | | |
| recoveries | 42 | 0.4 | 1,202 | 13.5 | _ | | |
| Intangible asset impairment charges | _ | _ | 34 | 0.4 | _ | _ | |
| Gain on divestitures | | _ | | _ | (48) | (0.6) | |
| Operating income | 1,946 | 19.6 | 585 | 6.6 | 2,052 | 24.7 | |
| Interest expense | (209) | (2.1) | (188) | (2.1) | (171) | (2.1) | |
| Interest income | 43 | 0.4 | 35 | 0.4 | 32 | 0.4 | |
| Other income (expense), net | 199 | 2.0 | (135) | (1.5) | (13) | (0.2) | |
| Income from continuing operations before income | | | | | | | |
| taxes | 1,979 | 20.0 | 297 | 3.3 | 1,900 | 22.9 | |
| Income tax expense | 536 | 5.4 | 462 | 5.2 | 470 | 5.7 | |
| Income (loss) from continuing operations | 1,443 | 14.6 | (165) | (1.9) | 1,430 | 17.2 | |
| Loss from discontinued operations, net of income taxes | (82) | (0.8) | (177) | (2.0) | (275) | (3.3) | |
| Net income (loss) | \$1,361 | 13.7 | \$ (342) | (3.8) | \$1,155 | 13.9 | |

Net sales—Our net sales for fiscal 2008 increased \$1.015 billion, or 11.4%, to \$9.910 billion, compared with \$8.895 billion in fiscal 2007. While revenue increased across all segments in fiscal 2008, the increase was primarily attributable to our Medical Devices segment. Favorable currency exchange rate fluctuations contributed \$408 million to the increase in net sales for fiscal 2008.

Our net sales in fiscal 2007 increased \$582 million, or 7.0% to \$8.895 billion, compared with \$8.313 billion in fiscal 2006, with growth across all segments, except Medical Supplies. Currency exchange rate fluctuations contributed \$185 million to the increase in net sales.

Net sales generated by our businesses in the United States were \$5.435 billion, \$5.109 billion and \$4.897 billion in fiscal 2008, 2007 and 2006, respectively. Our non-U.S. businesses generated net sales of \$4.475 billion, \$3.786 billion and \$3.416 billion in fiscal 2008, 2007 and 2006, respectively. Our business outside the United States accounted for approximately 45%, 43% and 41% of our net sales for the fiscal 2008, 2007 and 2006, respectively.

Net sales by geographic area for each of the last three fiscal years are shown in the following table (dollars in millions):

| | | | | | ntage nge |
|----------------|---------|---------|---------|------|--------------|
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| United States | \$5,435 | \$5,109 | \$4,897 | 6.4% | 4.3% |
| Other Americas | 577 | 480 | 433 | 20.2 | 10.9 |
| Europe | 2,750 | 2,320 | 2,046 | 18.5 | 13.4 |
| Asia—Pacific | 1,148 | 986 | 937 | 16.4 | 5.2 |
| | \$9,910 | \$8,895 | \$8,313 | 11.4 | 7.0 |

Costs of goods sold—Cost of goods sold was 46.4% of net sales for fiscal 2008, compared with 48.0% of net sales for fiscal 2007. The decreases in cost of goods sold as a percentage of net sales in fiscal 2008 was primarily attributable to favorable sales mix and currency exchange rate fluctuations, which made products manufactured in the United States less expensive in most non-U.S. markets.

Cost of goods sold was 48.0% of net sales in fiscal 2007, compared with 48.3% of net sales in fiscal 2006. The decrease in cost of goods sold as a percentage of net sales for fiscal 2007 was attributable to favorable sales mix in our Medical Devices and Pharmaceutical Products segments, partially offset by higher raw material costs and incremental royalties associated with a legal settlement in our Medical Devices segment.

Selling, general and administrative expenses—Selling, general and administrative expenses increased \$435 million, or 17.8%, to \$2.881 billion in fiscal 2008, compared with \$2.446 billion in fiscal 2007. Selling, general and administrative expenses were 29.1% of net sales for fiscal 2008, compared with 27.5% of net sales for fiscal 2007. The increase in selling, general and administrative expenses as a percentage of net sales is primarily due to increases in selling and marketing expenses of \$303 million, largely resulting from sales force investments made in our Medical Devices segment to support our growth initiatives.

Selling, general and administrative expenses increased \$460 million, or 23.2%, to \$2.446 billion in fiscal 2007, compared with \$1.986 billion in fiscal 2006. Selling and marketing expenses increased \$186 million, primarily due to incremental headcount in the non-U.S. salesforce within our Medical Devices segment. In addition, incremental domestic employee compensation costs contributed \$67 million to the increase in selling, general and administrative expenses. Further contributing to the increase were costs of approximately \$53 million stemming from the separation associated with the expansion of our corporate infrastructure and the branding of the Covidien name.

Research and development expenses—Research and development expenses increased \$81 million, or 31.2%, to \$341 million in fiscal 2008, compared with fiscal 2007. This increase resulted primarily from increased spending resulting from incremental headcount and new project spending in our Medical Devices segment and, to a lesser extent, increased spending in our Pharmaceutical Products segment. As a percentage of our net sales, research and development expenses were 3.4% for fiscal 2008, compared with 2.9% for fiscal 2007.

Research and development expenses increased \$12 million, or 4.8%, to \$260 million in fiscal 2007, compared with \$248 million in fiscal 2006, despite the realization of savings associated with restructuring activity in our Medical Devices segment. As a percent of our net sales, research and development expenses decreased slightly to 2.9% in fiscal 2007 from 3.0% in fiscal 2006.

In-process research and development charges—During fiscal 2008, our Medical Devices segment recorded a charge of \$12 million for the write-off of in-process research and development associated with the acquisition of Scandius, a developer of medical devices for sports-related surgeries. In addition to this charge, our Medical Devices and Imaging Solutions segments recorded in-process research and development charges totaling \$10 million in connection with two smaller acquisitions.

During fiscal 2007, our Medical Devices segment recorded charges totaling \$38 million for the write-off of in-process research and development, of which \$30 million was associated with the acquisition of intellectual property from Sorbx. In addition, during fiscal 2007 our Medical Devices segment recorded an \$8 million in-process research and development charge associated with the acquisition of the remaining outstanding shares of Airox. The above in-process research and development charges related to the development of second-generation technology that had not yet obtained regulatory approval.

During fiscal 2006, our Medical Devices segment recorded charges totaling \$63 million for the write-off of in-process research and development associated with acquisitions, \$49 million of which related to the acquisition of Confluent. The \$49 million in-process research and development charge related to technology Confluent was developing for numerous applications across several surgical disciplines which had not yet received regulatory approval. As of the date of the Confluent acquisition, there were three projects under development at different stages of completion, none of which were considered to be technologically feasible or to have any alternative future use. We determined the valuation of the in-process research and development using, among other factors, appraisals. The value was based primarily on the discounted cash flow method. Future residual cash flows that could be generated from each of the projects were determined based upon management's estimate of future revenue and expected profitability of the projects and technologies involved. These projected cash flows were then discounted to their present values taking into account management's estimate of future expenses that would be necessary to bring the projects to completion. The discount rates applied ranged from 20% to 23%, depending on the project's stage of completion and the type of FDA approval required.

In addition, during fiscal 2006 our Medical Devices segment recorded an \$11 million in-process research and development charge associated with the acquisition of 59% ownership of Airox and a \$3 million in-process research and development charge associated with the acquisition of over 90% ownership of Floreane. In-process research and development charges for the entire Airox acquisition totaled \$19 million. More information regarding our in-process research and development charges is provided under "Critical Accounting Policies—*Business Combinations.*"

Restructuring charges—During fiscal 2008, we recorded restructuring charges of \$77 million, which is comprised of restructuring charges of \$83 million, partially offset by changes in estimates of \$6 million. The \$83 million of restructuring charges includes asset impairment charges of \$18 million primarily related to the write-down of long-lived assets of a manufacturing facility within our Medical Devices segment, which will be closed as a result of cost savings initiatives. The remaining charges and changes in estimates primarily relate to workforce reductions also within Medical Devices.

During fiscal 2007, we recorded restructuring charges of \$57 million, which included asset impairment charges of \$9 million for the write-down of long-lived assets at several manufacturing facilities within Medical Devices. The remaining \$48 million primarily related to severance costs resulting from workforce reductions also within Medical Devices.

Class action and shareholder settlements, net of insurance recoveries—During fiscal 2008, Tyco International paid \$36 million to the plaintiffs to settle the action captioned Ballard v. Tyco International Ltd., et al. This payment is subject to the sharing percentages included in the Separation and Distribution Agreement discussed below. Accordingly, during the fiscal 2008, we recorded a charge of \$15 million for the payment of our portion of this settlement to Tyco International.

During fiscal 2008, Tyco International paid the State of New Jersey \$73 million in exchange for the plaintiffs' dismissal of the case against Tyco International and certain of its former directors and a former employee. In addition to the settlement charge discussed above, during fiscal 2008, we also recorded a charge of \$31 million for the payment of our portion of this settlement in accordance with the sharing percentages included in the Separation and Distribution Agreement.

In November 2008, Tyco International signed definitive agreements to settle the actions entitled *Hess v. Tyco International Ltd.*, *et al.* and *Sciallo v. Tyco International.*, *et al.* These agreements call for Tyco International to make payments of \$16 million and \$2 million, respectively. These payments are also subject to the sharing percentages included in the Separation and Distribution Agreement. Accordingly, we have recorded charges totaling \$8 million in our fiscal 2008 statement of operations for the payment of our portion of these settlements to Tyco International.

During fiscal 2007, Tyco International entered into a memorandum of understanding with plaintiffs' counsel in connection with the settlement of 32 securities class action lawsuits. Under the terms of the memorandum of understanding, the plaintiffs agreed to release all claims against Tyco International, the other settling defendants and ten other individuals in consideration of the payment to the certified class of \$2.975 billion plus accrued interest. Under the Separation and Distribution Agreement, the companies share in the liability, with Covidien assuming 42%, Tyco International 27% and Tyco Electronics 31% of the total amount. During fiscal 2007, we were allocated a net charge of \$1.202 billion from Tyco International. This amount was comprised of our portion of the class action settlement of \$1.249 billion, net of our portion of the related insurance recoveries of \$47 million. Because Covidien, Tyco International and Tyco Electronics were jointly and severally liable for the full amount of the settlement, at September 28, 2007, we had a \$2.992 billion class action settlement liability for the full amount owed under the settlement, including accrued interest, and a \$1.735 billion receivable from Tyco International and Tyco Electronics for their portion of the liability. In fiscal 2007, we funded our portion of the payment into an escrow account intended to be used to settle the liability. Interest in class action settlement fund on our balance sheet at September 28, 2007, represented our \$1.257 billion interest in Tyco International's funds held in escrow to settle the class action lawsuits.

During fiscal 2008, the United States District Court for the District of New Hampshire entered a final order approving the class action settlement in accordance with the terms of the memorandum of understanding. All legal contingencies that could have affected the final order approving the settlement expired in fiscal 2008. Accordingly, we removed the class action settlement liability and the related class action settlement receivable and interest in class action settlement fund from our balance sheet. While the finalization of the class action settlement resulted in a decrease to our cash flow from continuing operations during fiscal 2008, it did not affect our cash balance because we had previously fully funded our portion of the class action settlement into an escrow account intended to be used to settle the liability, as discussed above.

During fiscal 2008, Tyco International received insurance recoveries related to its class action settlement totaling \$38 million. Tyco International in turn paid us \$16 million for our portion of the recoveries in accordance with the sharing percentages included in the Separation and Distribution Agreement.

Intangible asset impairment charges—In fiscal 2007, we recorded intangible asset impairment charges of \$34 million, primarily related to the impairment of a non-amortizable trademark associated with our Imaging Solutions segment. This impairment stemmed from a shift in branding strategy that resulted in discontinuing the use of the trademark.

Gain on divestitures—In fiscal 2006, we recorded a net gain on divestitures of \$48 million, \$45 million of which relates to the sale of our Radionics product line within our Medical Devices segment.

Operating income—In fiscal 2008, operating income was \$1.946 billion, compared with \$585 million in fiscal 2007. Operating income for fiscal 2008 included net shareholder settlement charges totaling \$42 million, while operating income for fiscal 2007 included a net charge of \$1.202 billion allocated to us by Tyco International for our portion of the Tyco International-related class action settlement. The remaining \$201 million increase in operating income was primarily attributable to higher sales, increased gross profit, partially offset by increased selling and marketing expenses of \$303 million and increased research and development expenses of \$81 million.

In fiscal 2007, operating income was \$585 million, compared with \$2.052 billion in fiscal 2006. Operating income for fiscal 2007 included a net charge of \$1.202 billion allocated to us by Tyco International for our portion of the class action settlement and related insurance recoveries. The remaining \$265 million decrease in operating income was attributable an increase in selling and marketing expense of \$186 million, primarily due to incremental headcount in the non-U.S. salesforce within the Medical Devices segment, restructuring charges of \$57 million, intangible asset impairment charges of \$34 million and the absence of a gain on the divestiture of our Radionics product line of \$45 million that was recorded in fiscal 2006. Further contributing to the decline in operating income were costs of approximately \$53 million stemming from the separation associated with the expansion of our corporate infrastructure and the branding of the Covidien name. Higher sales, increased gross profit and a \$25 million decrease in in-process research and development charges partially offset the increase in operating expenses.

Analysis of Operating Results by Segment

Net sales by segment for each of the last three fiscal years are shown in the following table (dollars in millions):

| | | | | Percei Cha | |
|-------------------------|---------|---------|---------|---------------|-------|
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| Medical Devices | \$6,763 | \$6,023 | \$5,585 | 12.3% | 7.8% |
| Imaging Solutions | 1,214 | 1,077 | 994 | 12.7 | 8.4 |
| Pharmaceutical Products | 1,013 | 908 | 840 | 11.6 | 8.1 |
| Medical Supplies | 920 | 887 | 894 | 3.7 | (0.8) |
| | \$9,910 | \$8,895 | \$8,313 | 11.4 | 7.0 |

Operating income by segment and as a percentage of segment net sales for each of the last three fiscal years is shown in the following table (dollars in millions):

| | | | Fiscal Y | ear | | |
|-------------------------|---------|-------|----------|-------|---------|-------|
| | 200 | 8 | 2007 | | 200 | 6 |
| Medical Devices | \$1,828 | 27.0% | \$ 1,719 | 28.5% | \$1,812 | 32.4% |
| Imaging Solutions | 104 | 8.6 | 100 | 9.3 | 138 | 13.9 |
| Pharmaceutical Products | 332 | 32.8 | 284 | 31.3 | 259 | 30.8 |
| Medical Supplies | 140 | 15.2 | 145 | 16.3 | 146 | 16.3 |
| Corporate | (458) | | (1,663) | | (303) | |
| | \$1,946 | 19.6 | \$ 585 | 6.6 | \$2,052 | 24.7 |

Medical Devices

Net sales for Medical Devices by groups of products and by geography for each of the last three fiscal years is as follows (dollars in millions):

| | | | | Percen Char | |
|--------------------------------|---------|---------|---------|----------------|--------|
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| Endomechanical Instruments | \$2,138 | \$1,858 | \$1,727 | 15.1% | 7.6% |
| Soft Tissue Repair Products | 580 | 494 | 420 | 17.4% | 17.6% |
| Energy Devices | 805 | 638 | 533 | 26.2% | 19.7% |
| Oximetry & Monitoring Products | 636 | 597 | 559 | 6.5% | 6.8% |
| Airway & Ventilation Products | 806 | 766 | 730 | 5.2% | 4.9% |
| Vascular Devices | 533 | 482 | 454 | 10.6% | 6.2% |
| SharpSafety Products | 463 | 460 | 429 | 0.7% | 7.2% |
| Clinical Care Products | 407 | 372 | 352 | 9.4% | 5.7% |
| Other Products | 395 | 356 | 381 | 11.0% | (6.6)% |
| | \$6,763 | \$6,023 | \$5,585 | 12.3% | 7.8% |
| | | | | Percen Char | |
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| U.S | \$2,882 | \$2,722 | \$2,608 | 5.9% | 4.4% |
| Non-U.S. | 3,881 | 3,301 | 2,977 | 17.6% | 10.9% |
| | \$6,763 | \$6,023 | \$5,585 | 12.3% | 7.8% |

Net sales for fiscal 2008 increased \$740 million, or 12.3%, to \$6,763 million, compared with fiscal 2007. Favorable currency exchange rate fluctuations contributed \$361 million to the increase in net sales for the segment. Net sales for Endomechanical instruments in fiscal 2008 increased \$280 million, of which currency exchange rate fluctuations had a favorable impact of \$127 million. The remaining increase in sales of Endomechanical products was primarily driven by continued demand for our laparoscopic instruments in the United States and Europe. Energy devices net sales for fiscal 2008 increased \$167 million, of which currency exchange rate fluctuations had a favorable impact of \$41 million. The remaining increase in Energy devices net sales was primarily due to higher sales volume of vessel sealing products worldwide and, to a lesser extent, higher sales of capital equipment. Net sales of Soft Tissue Repair products increased \$86 million, of which currency exchange rate fluctuations had a favorable impact of \$38 million. The remaining increase in Soft Tissue Repair products resulted from increased sales volume of mesh hernia repair products and, to a lesser extent, biosurgery products.

Net sales in fiscal 2007 increased \$438 million, or 7.8%, to \$6,023 million, compared with fiscal 2006. Currency exchange rate fluctuations contributed \$159 million to the increase in net sales. Net sales increased across all product groups, particularly within Endomechanical Instruments, Energy Devices and Soft Tissue Repair Products. Endomechanical Instruments net sales for fiscal 2007 increased \$131 million, of which currency exchange rate fluctuations had a favorable impact of \$60 million. Growth in Endomechanical Instruments was driven by continued demand for our Autosuture laparoscopic instruments in Europe and the United States. Energy Devices net sales for fiscal 2007 increased \$105 million, primarily due to continued market growth of vessel sealing products, and to a lesser extent, new product launches in capital equipment and favorable currency exchange rate fluctuations. Soft Tissue Repair Products net sales for fiscal 2007 increased \$74 million, of which currency exchange rate fluctuations had a favorable impact of \$19 million. The increase in Soft Tissue Repair Products was primarily due to strong sales of biosurgery products in the United States.

Operating income for fiscal 2008 increased \$109 million, or 6.3%, to \$1,828 million, compared with fiscal 2007. Our operating margin was 27.0% for fiscal 2008, compared with 28.5% for fiscal 2007. The increase in our

operating income was primarily attributable to increased gross profit on the favorable sales performance discussed above. This increase was partially offset by higher operating expenses, primarily an increase in selling and marketing expenses of \$270 million, resulting principally from our sales force investment, growth initiatives and acquisitions. In addition, research and development expenses increased \$61 million.

Operating income decreased \$93 million, or 5.1%, to \$1,719 million in fiscal 2007, compared with \$1,812 million in fiscal 2006. Our operating margin was 28.5% for fiscal 2007, compared with 32.4% in fiscal 2006. The decrease in our operating income and margin was attributable to an increase in selling and marketing expenses of \$170 million primarily related to an increase in sales force headcount, restructuring charges of \$54 million and the absence of a gain on the divestiture of the Radionics product line of \$45 million recorded in fiscal 2006. Increased gross profit on the favorable sales performance discussed above and a decrease in in-process research and development charges of \$25 million partially offset the increase in operating expenses.

Imaging Solutions

Net sales for Imaging Solutions by groups of products and by geography for each of the last three fiscal years is as follows (dollars in millions):

| | | | | Percen Char | |
|----------------------|--------------------|--------------------|---------------|----------------|--------------|
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| Radiopharmaceuticals | \$ 559 | \$ 487 | \$432 | 14.8% | 12.7% |
| Contrast Products | 655 | 590 | 562 | 11.0% | 5.0% |
| | <u>\$1,214</u> | <u>\$1,077</u> | <u>\$994</u> | 12.7% | 8.4% |
| | | | | Percen | |
| | | | | Char | ige |
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| U.S | 2008 \$ 718 | 2007 \$ 671 | 2006 \$633 | | |
| U.S Non-U.S. | | | | 2008 | 2007 6.0% |

Net sales for fiscal 2008 increased \$137 million, or 12.7%, to \$1,214 million, compared with fiscal 2007. Radiopharmaceutical net sales increased \$72 million, primarily due to higher sales volume, favorable pricing in the United States and favorable currency exchange rate fluctuations. In addition, contrast products net sales increased \$65 million, resulting primarily from non-U.S. sales volume and favorable currency exchange rate fluctuations, partially offset by pricing pressure in the United States. Currency exchange rate fluctuations contributed \$46 million to the increase in net sales for the segment.

Imaging Solutions net sales increased \$83 million, or 8.4%, to \$1,077 million in fiscal 2007, compared with fiscal 2006. Favorable currency exchange rate fluctuations contributed \$21 million to the net sales increase and was experienced across both product groups. Radiopharmaceuticals net sales increased \$55 million due to higher sales volume of technetium generators that were under a voluntary recall during a portion of fiscal 2006 and higher sales volume from GPO contracts.

Operating income of \$104 million for fiscal 2008 was slightly higher than operating income of \$100 million for fiscal 2007. Our operating margin was 8.6% for fiscal 2008, compared with 9.3% for fiscal 2007. Increased gross profit on the favorable sales performance discussed above was largely offset by higher operating expenses, primarily attributable to increased legal costs of \$26 million, the majority of which related to a \$17 million legal settlement and higher selling and marketing expenses. The increase in operating expenses was partially offset by the absence of a \$33 million intangible asset impairment recorded in fiscal 2007.

Operating income for Imaging Solutions decreased \$38 million, or 27.5%, to \$100 million in fiscal 2007, compared with \$138 million in fiscal 2006. Our operating margin was 9.3% for fiscal 2007, compared with 13.9% for fiscal 2006. The decrease in operating income was primarily due to the impairment of an indefinite-lived trademark, which resulted in a \$33 million charge.

Pharmaceutical Products

Net sales for Pharmaceutical Products by groups of products and by geography for each of the last three fiscal years is as follows (dollars in millions):

| | | | | Percen Chan | |
|-----------------------------------|----------------|---------------|---------------|----------------|------------|
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| Dosage Pharmaceuticals | \$ 582 | \$468 | \$436 | 24.4% | 7.3% |
| Active Pharmaceutical Ingredients | 431 | 440 | 404 | (2.0)% | 8.9% |
| | <u>\$1,013</u> | <u>\$908</u> | <u>\$840</u> | 11.6% | 8.1% |
| | | | | | |
| | | | | Percen Chan | |
| | 2008 | 2007 | 2006 | | |
| U.S | 2008 \$ 915 | 2007 \$829 | 2006 \$762 | Chan | ge |
| U.S | | | | 2008 | ge 2007 |

Net sales for fiscal 2008 increased \$105 million, or 11.6%, to \$1,013 million, compared with fiscal 2007. Net sales increased \$114 million in Dosage Pharmaceuticals driven by generic pharmaceutical and, to a lesser extent, branded pharmaceutical sales. The increase in generic pharmaceutical sales resulted primarily from a license agreement entered into during the fourth quarter of fiscal 2008, which allows us to sell limited quantities of oxycodone hydrochloride extended-release tablets for a limited period of time ending in 2009. Active Pharmaceutical Ingredients sales decreased compared with fiscal 2007 as higher sales of peptide products were more than offset by lower sales of narcotic products. We expect sales for our Pharmaceutical Products segment to increase significantly in fiscal 2009, primarily as a result of the license agreement previously discussed, which could contribute over \$250 million in sales.

Net sales increased \$68 million, or 8.1%, to \$908 million in fiscal 2007, compared with fiscal 2006. Net sales increased across both product groups. Net sales of Active Pharmaceuticals Ingredients increased \$36 million due to stronger demand for narcotic products and acetaminophen. Dosage Pharmaceuticals net sales increased \$32 million, primarily due to higher sales volume of brand pharmaceuticals.

Operating income for fiscal 2008 increased \$48 million, or 16.9%, to \$332 million, compared with fiscal 2007. Our operating margin was 32.8% for fiscal 2008, compared with 31.3% for fiscal 2007. The increase in operating income and margin was primarily due to favorable sales mix, partially offset by increased research and development expenses and higher selling expenses. We expect our operating income and margin to increase significantly in fiscal 2009, primarily as a result of the license agreement discussed above.

Operating income increased \$25 million, or 9.7%, to \$284 million in fiscal 2007, compared with \$259 million in fiscal 2006. Our operating margin was 31.3% for fiscal 2007, compared with 30.8% for fiscal 2006. The increase in operating income was primarily due to increased sales and gross profit due to favorable sales mix and plant performance resulting from cost reduction programs.

Medical Supplies

Net sales for Medical Supplies by groups of products for each of the last three fiscal years is as follows (dollars in millions):

| | | | | Percent Chang | |
|--|-------|-------|-------|------------------|---------|
| | 2008 | 2007 | 2006 | 2008 | 2007 |
| Nursing Care Products | \$497 | \$477 | \$470 | 4.2% | 1.5% |
| Medical Surgical Products | 276 | 275 | 275 | 0.4% | — % |
| Original Equipment Manufacturer Products | 147 | 134 | 136 | 9.7% | (1.5)% |
| Other Products | | 1 | 13 | (100.0)% | (92.3)% |
| | \$920 | \$887 | \$894 | 3.7% | (0.8)% |

Net sales for fiscal 2008 increased \$33 million, or 3.7%, to \$920 million, compared with fiscal 2007. This increase was primarily due to higher sales volume of Nursing Care products, resulting largely from sales of new incontinent care products, and increased sales of Original Equipment Manufacturer products.

Net sales for fiscal 2007 decreased \$7 million to \$887 million, compared with fiscal 2006. The decrease in net sales was primarily due to the impact of a product line divested in the prior year, partially offset by increased sales of Nursing Care Products, driven by pricing strategies in alternate site markets.

Operating income of \$140 million for fiscal 2008 was slightly lower than the \$145 million for fiscal 2007. Our operating margin was 15.2% for fiscal 2008, compared with 16.3% for fiscal 2007. The decrease in operating income and margin was primarily due to higher raw material and transportation costs.

Operating income of \$145 million for fiscal 2007 remained relatively level with operating income for fiscal 2006. Our operating margin was 16.3% for both fiscal 2007 and 2006. Strong plant cost reduction programs helped offset increasing raw material costs.

Corporate

Corporate expense was \$458 million for fiscal 2008, compared with \$1.663 billion for fiscal 2007. Corporate expense for fiscal 2007 included a net charge of \$1.202 billion allocated to us by Tyco International for our portion of the class action settlement, while corporate expense for fiscal 2008 included net shareholder settlement charges totaling \$42 million. Insurance recoveries and a decrease in costs associated with branding the Covidien name contributed to the remaining decrease in corporate expense.

Corporate expense was \$1.663 billion in fiscal 2007, compared with \$303 million for fiscal 2006. Corporate expense for fiscal 2007 included a net charge of \$1.202 billion allocated to us by Tyco International for our portion of the class action settlement and related insurance recoveries. The primary drivers of the remaining \$158 million increase in Corporate expense consisted of \$53 million of costs stemming from the separation associated with the expansion of our corporate infrastructure and the branding of the Covidien name. In addition, other general and administrative costs increased \$72 million primarily driven by higher legal and environmental expenses and employee compensation costs.

Non-Operating Items

Interest Expense and Interest Income

During fiscal 2008, 2007 and 2006, interest expense was \$209 million, \$188 million and \$171 million, respectively, of which Tyco International allocated to us \$93 million and \$144 million in fiscal 2007 and 2006, respectively. In addition, during fiscal 2008, 2007 and 2006, interest income was \$43 million, \$35 million and \$32 million, respectively, of which Tyco International allocated to us \$16 million and \$20 million in fiscal 2007 and 2006, respectively.

Other Income (Expense), net

During fiscal 2008, other income, net was \$199 million, compared to other expense, net of \$135 million and \$13 million in fiscal 2007 and 2006, respectively. Other income, net in fiscal 2008 includes income of \$214 million related to an increase in our receivable from Tyco International and Tyco Electronics in accordance with the Tax Sharing Agreement, \$231 million (\$0.46 for both basic and diluted earnings per share) of which reflects the indirect effect of adopting FIN 48 discussed in "Recently Adopted Accounting Pronouncements." There was also a corresponding increase to our receivable from Tyco International and Tyco Electronics, in accordance with the Tax Sharing Agreement discussed in Note 17 to our financial statements. In addition, other income net for fiscal 2008 includes income of \$21 million related to an increase in our receivable from Tyco International and Tyco Electronics in accordance with the Tax Sharing Agreement, primarily interest. However, these amounts are partially offset by adjustments to certain pre-separation tax contingencies and an audit settlement, which resulted in a \$38 million decrease to our receivable from Tyco International and Tyco Electronics and a corresponding charge to other expense. Other expense, net of \$135 million for fiscal 2007 includes a \$146 million charge for the loss on early extinguishment of debt allocated by Tyco International. This allocation was also based on the amount of Tyco International's debt that management believes we used historically.

Income Tax Expense

Income tax expense was \$536 million, \$462 million and \$470 million on income from continuing operations before income taxes of \$1.979 billion, \$297 million and \$1.900 billion for fiscal 2008, 2007 and 2006, respectively. Our effective tax rate was 27.1%, 155.6% and 24.7% for fiscal 2008, 2007 and 2006, respectively. The decrease in the effective tax rate for fiscal 2008, compared with fiscal 2007, was primarily due to charges incurred in fiscal 2007 related to the net class action settlement and allocated loss on early extinguishment of debt, for which no tax benefit was realized. In addition, the rate in fiscal 2008 was favorably impacted by the settlement of certain income tax matters and adjustments to income tax liabilities pre-dating the separation. These decreases in the fiscal 2008 tax rate were partially offset by increased interest costs incurred in connection with the adoption of FIN 48 discussed in "Other Income (Expense), net," changes in certain non-U.S. tax laws, and the expiration of the U.S. research and development tax credit as of December 31, 2007. The increase in our effective tax rate in fiscal 2007 as compared to fiscal 2006 was primarily due to charges related to the net class action settlement and loss on allocated early extinguishment of debt, for which no tax benefit was realized. In addition, the rate was adversely impacted by certain tax costs incurred in connection with our separation from Tyco International and other adjustments to legacy income tax liabilities. These increases were somewhat offset by a decrease in our effective tax rate due to a release in deferred tax valuation allowances related to changes in non-U.S. tax law.

Discontinued Operations

Retail Products segment—During fiscal 2008, we divested our Retail Products segment for gross cash proceeds of \$330 million, subject to working capital adjustments. Deal costs and other adjustments resulted in net cash proceeds of \$308 million, which was used to repay a portion of the outstanding borrowings under our revolving credit facility. During fiscal 2008, we recorded a \$111 million pre-tax loss on sale from discontinued operations related to our Retail Products segment, which included charges totaling \$75 million recorded during the first six months of fiscal 2008, to write down the business to its fair value less cost to sell. Fair value used for the impairment assessment was based on the sale agreement. The loss on sale of our Retail Products segment is expected to be adjusted in future reporting periods by a \$4 million contingent payment due to Covidien. In addition, the Company expects to receive proceeds from the sale of a remaining Retail Products facility. However, the additional proceeds will likely be offset by incremental costs associated with selling the facility.

During fiscal 2007, we performed an asset impairment analysis in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." As a result of this impairment analysis we recorded a goodwill impairment charge of \$256 million associated with our former Retail Products segment,

which is included in loss on sale of discontinued operations. The estimated fair value of the Retail Products segment was evaluated based on discounted expected future cash flows of the related assets and reflects the adverse trends in raw material and energy costs, and a higher discount rate to represent current market conditions. As a result of this assessment, we determined that the book value of the Retail Products segment was in excess of its estimated fair value and, accordingly, recorded the impairment charge.

European Incontinence business—During fiscal 2008, we sold our European Incontinence business. As a condition of the sale, we were required to contribute cash of \$43 million into the business prior to the closing of the transaction. During fiscal 2008, we recorded a \$75 million pre-tax loss on sale from discontinued operations related to our European Incontinence business, which includes charges totaling \$23 million recorded during the first six months of fiscal 2008, to write down the business to its fair value less costs to sell. Fair value used for the impairment assessment was based on the sale agreement.

Plastics, Adhesives and Ludlow Coated Products businesses—During fiscal 2006, the Plastics, Adhesives and Ludlow Coated Products businesses and the A&E Products business were sold for \$975 million and \$6 million in gross cash proceeds, respectively. Working capital and other adjustments resulted in net proceeds of \$882 million for the sale of the Plastics, Adhesives and Ludlow Coated Products businesses in fiscal 2006. During fiscal 2007, \$30 million was collected from the purchaser of the Plastics, Adhesives and Ludlow Coated Products businesses pursuant to a post-closing adjustment related to the decline in average resin prices. Net cash proceeds received for the sale of the A&E Products business were \$2 million in fiscal 2006. Working capital adjustments of \$6 million were agreed upon and collected in fiscal 2007. Both businesses met the held for sale and discontinued operations criteria and have been included in discontinued operations for all periods presented.

During fiscal 2006, we recorded a \$260 million and \$26 million pre-tax loss on sale from discontinued operations related to the Plastics, Adhesives and Ludlow Coated Products businesses and A&E Products business, respectively, which include \$275 million and \$22 million, respectively, of pre-tax impairment charges to write the businesses down to their fair values less costs to sell. Fair values used for the respective impairment assessments were based on existing market conditions and the terms and conditions included or expected to be included in the respective sale agreement.

Liquidity and Capital Resources

Factors driving our liquidity position include cash flows generated from operating activities, capital expenditures and investments in businesses and technologies. Through the first quarter of fiscal 2007, as part of Tyco International, our cash was swept regularly by Tyco International at its discretion. Tyco International also funded our operating and investing activities as needed. Transfers of cash both to and from Tyco International's cash management system have been reflected as Net transfers to Tyco International Ltd. in our Combined Statements of Cash Flow. In fiscal 2007, subsequent to the separation, we received an \$85 million true up payment from Tyco International to adjust for differences between our cash balance at June 29, 2007 and our final cash allocation in accordance with the Separation and Distribution Agreement. This amount is included in Net transfers to Tyco International Ltd. in our statement of cash flow for fiscal 2007.

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. The capital markets worldwide, including the United States, have been severely impacted by credit losses, asset write-downs and failures of some financial institutions. This disruption has impacted credit spreads and pricing on new securities issuances. Our commercial paper program and credit facility are predominately with institutions that to date, appear to be relatively unaffected by the disruptions. We believe that our cash and other sources of liquidity, primarily our commercial paper program and committed credit facility, will be sufficient to allow us to continue to invest in growth opportunities and fund operations for the foreseeable future.

Fiscal 2008 Cash Flow Activity

The net cash provided by continuing operating activities of \$591 million was primarily attributable to income from continuing operations for fiscal 2008, as adjusted for depreciation and amortization and the change in related party receivable on the Tax Sharing Agreement discussed in "Other Income (Expense), net." An increase in accrued and other liabilities of \$190 million, a significant portion of which relates to accrued interest, also contributed to cash provided by continuing operating activities. These amounts were partially offset by the finalization of Tyco International's class action settlement of \$1.257 billion, an increase in inventories of \$190 million and an increase in accounts receivable of \$138 million. The finalization of the class action settlement did not affect our cash balance, however, as the funds had previously been set aside in an escrow account during fiscal 2007.

The net cash provided by continuing investing activities of \$996 million was primarily due to the release of our interest in Tyco International's class action settlement fund of \$1.257 billion and net proceeds from the divestiture of our Retail Products segment and European Incontinence business totaling \$263 million. These amounts were partially offset by capital expenditures of \$409 million and acquisition activity of \$157 million, primarily related to the acquisitions of TSL and Scandius.

The net cash used in continuing financing activities of \$1.245 billion was primarily the result of the repayment of debt of \$4.008 billion, primarily associated with borrowings under our bridge loan facility and dividend payments of \$320 million. These payments were largely offset by the issuance of debt of \$2.728 billion discussed in "*Capitalization*" below, net proceeds from commercial paper of \$171 million and proceeds from option exercises of \$157 million.

Fiscal 2007 Cash Flow Activity

The net cash provided by continuing operating activities of \$2.096 billion was primarily attributable to income from continuing operations for fiscal 2007, as adjusted for the net class action settlement charge, depreciation and amortization, loss on early extinguishment of debt, non-cash compensation expenses and an increase in accrued and other liabilities of \$271 million, primarily due to an increase in incentive compensation.

The net cash used in continuing investing activities of \$1.713 billion was primarily due to our interest in the class action settlement fund of \$1.257 billion, capital expenditures of \$356 million and acquisition activity of \$117 million, primarily related to the acquisition of Airox for \$47 million and the acquisition of intellectual property from Sorbx for \$30 million. Acquisition activity also included \$17 million of cash paid relating to holdback liabilities, primarily associated with the fiscal 2006 acquisition of Confluent. Holdback liabilities represent a portion of the purchase price that is withheld from the seller pending finalization of the acquisition balance sheet and other contingencies.

The net cash provided by continuing financing activities of \$227 million was primarily the result of the issuance of external debt of \$4.298 billion discussed in "*Capitalization*" below, partially offset by allocated debt activity of \$2.291 billion, net transfers to Tyco International of \$1.316 billion and the repayment of external debt of \$525 million also discussed in "*Capitalization*" below.

Fiscal 2006 Cash Flow Activity

The net cash provided by continuing operating activities of \$1.296 billion was primarily attributable to income from continuing operations for fiscal 2006, as adjusted for deferred income taxes, depreciation and amortization, purchased research and development and non-cash compensation expense. This source of cash was partially offset by a \$370 million decrease in accrued and other liabilities, driven by payments of \$324 million for two patent infringement matters, a decrease in income taxes payable of \$264 million and an increase in inventories of \$160 million.

The net cash used in continuing investing activities of \$751 million was primarily due to capital expenditures of \$400 million and business acquisitions of \$382 million, partially offset by net proceeds of \$74 million from the sale of our Radionics product line. Cash paid for acquisitions consisted of: \$200 million for the acquisition of Confluent; \$123 million for the acquisition of over 90% ownership in Floreane and \$59 million for the acquisition of 59% ownership of Airox.

The net cash used in continuing financing activities of \$451 million was primarily the result of net transfers to Tyco International of \$601 million and allocated debt activity of \$548 million, partially offset by transfers from discontinued operations of \$636 million, largely due to net proceeds from the sale of discontinued operations.

Capitalization

Shareholders' equity was \$7.747 billion, or \$15.40 per share, at September 26, 2008, compared with \$6.742 billion, or \$13.55 per share, at September 28, 2007. This increase was primarily due to net income of \$1.361 billion, partially offset by a decrease of \$355 million resulting from the adoption of FIN 48 as discussed in "Recently Adopted Accounting Pronouncements" and dividends of \$320 million.

At September 26, 2008, total debt was \$3.005 billion, compared with total debt at September 28, 2007 of \$4.088 billion. Total debt as a percentage of total capitalization (total debt and shareholders' equity) was 28% at September 26, 2008, compared with 38% at September 28, 2007. In October 2007, we completed a private placement of \$2.750 billion aggregate principal amount of fixed rate senior notes, consisting of the following: \$250 million of 5.2% notes due 2010; \$500 million of 5.5% notes due 2012; \$1.150 billion of 6.0% notes due 2017; and \$850 million of 6.6% notes due 2037. We used the net proceeds of \$2.727 billion to repay a portion of the borrowings under our \$4.250 billion unsecured bridge loan facility. During fiscal 2008, we repaid the remaining \$474 million outstanding under the unsecured bridge loan facility which matured in April 2008.

During fiscal 2008, in accordance with the terms of the original issuance, we completed an exchange offering of the \$2.750 billion aggregate principal amount of fixed rate unregistered senior notes described above for public notes. The form and terms of the public notes are identical in all material respects to the form and terms of the corresponding unregistered notes, except that the public notes do not bear legends restricting their transfer under the Securities Act of 1933, as amended.

In February 2008, we initiated a commercial paper program. The notes issued under the commercial paper program are fully and unconditionally guaranteed by Covidien Ltd. Proceeds from the sale of the notes are used for working capital and other corporate purposes. We are required to maintain an available unused balance under our \$1.425 billion revolving credit facility sufficient to support amounts outstanding under the commercial paper program. At September 26, 2008, we had \$171 million of commercial paper outstanding. While we can still issue commercial paper, given the recent volatility in the financial markets, the maturity of commercial paper borrowings could be very short and the interest rates unfavorable to us.

We have a \$1.425 billion five-year unsecured senior revolving credit facility expiring in 2012. Borrowings under this credit facility bear interest, at our option, at a base rate or LIBOR, plus a margin dependent on our credit ratings and the amount drawn under the facility. We are required to pay an annual facility fee ranging from 4.5 to 12.5 basis points, depending on our credit ratings. During fiscal 2008, we repaid the \$724 million of borrowings that were outstanding under the revolving credit facility as of September 28, 2007.

Our revolving 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

Dividend payments were \$320 million during fiscal 2008. On September 26, 2008, the board of directors declared a quarterly cash dividend of \$0.16 per share to shareholders of record on October 9, 2008. This dividend, totaling \$81 million, was paid on November 6, 2008.

We expect that we will continue to pay comparable dividends to holders of our common shares. The timing, declaration and payment of future dividends to holders of our common shares, however, falls within the discretion of our Board of Directors and will depend upon many factors, including the statutory requirements of Bermuda law, our earnings and financial condition, the capital requirements of our businesses, industry practice and any other factors the Board of Directors deems relevant.

Commitments and Contingencies

Contractual Obligations

A summary of our contractual obligations and commitments for external debt, minimum lease payment obligations under non-cancelable operating leases and other obligations at September 26, 2008 is presented in the following table (dollars in millions).

| | Total | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter |
|--|---------|-------|-------|-------|-------|-------|------------|
| Debt ⁽¹⁾ | \$5,347 | \$167 | \$167 | \$405 | \$325 | \$628 | \$3,655 |
| Capital lease obligations ⁽¹⁾ | 83 | 22 | 7 | 7 | 6 | 6 | 35 |
| Operating leases | 351 | 88 | 61 | 48 | 37 | 29 | 88 |
| Purchase obligations ⁽²⁾ | 309 | 159 | 52 | 51 | 21 | 15 | 11 |
| Total contractual cash obligations | \$6,090 | \$436 | \$287 | \$511 | \$389 | \$678 | \$3,789 |

⁽¹⁾ Interest on debt and capital lease obligations are projected for future periods using interest rates in effect as of September 26, 2008. Certain of these projected interest payments may differ in the future based on changes in market interest rates.

The table above does not include \$1.209 billion of unrecognized tax benefits for uncertain tax positions and \$347 million of associated accrued interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash flows, we are unable to reasonably estimate the amount and period in which these liabilities might be paid. In addition, other liabilities of \$733 million, primarily consisting of liabilities pertaining to pension and postretirement benefits, environmental liabilities, insurable liabilities and deferred compensation, are excluded from this table because the timing of their future cash outflow is uncertain. However, the minimum required contributions to our pension plans are expected to be \$27 million in fiscal 2009. In addition, we expect to make contributions of \$11 million to our postretirement benefit plans in fiscal 2009.

At September 26, 2008, we had outstanding letters of credit and letters of guarantee in the amount of \$294 million.

Legal Proceedings

We are subject to various legal proceedings and claims, including patent infringement claims, antitrust 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

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

adverse effect on our financial condition. However, one or more of the proceedings could have a material adverse effect on our results of operations or cash flows for a future period. Item 3—Legal Proceedings and Note 19 to our financial statements provide further information regarding legal proceedings.

Income Taxes

Our income tax returns are periodically examined by various tax authorities. During 2007, the U.S. Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's, including our U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent's Reports in May and June of 2007, which reflected the IRS's determination of proposed tax adjustments for the periods under audit. Tyco International has appealed certain of the proposed tax adjustments totaling approximately \$1 billion. It is our understanding that Tyco International intends to vigorously defend its previously filed tax return positions.

In December 2007, the IRS commenced an examination of Tyco International's, including our U.S. federal income tax returns for the years 2001 through 2004. In connection with the examination, Tyco International has submitted amendments to its U.S. federal income tax returns for the periods through 2004.

We are currently in the process of adjusting our U.S. federal tax returns for the periods 2005 through 2007. These filings primarily reflect the impact of adjustments that have been agreed to with the IRS in prior examinations or have been reflected in prior U.S. federal income tax returns. The impact of these adjustments was to decrease non-current income taxes payable by \$53 million with corresponding adjustments to our non-current deferred income taxes and long-term receivable resulting from the Tax Sharing Agreement discussed in Note 17 to our financial statements. Such adjustments did not have a material impact on our results of operations or cash flows.

We may be required to make additional adjustments resulting from examinations and further analysis of our historical filing positions. However, we do not believe any additional adjustments resulting from the ultimate resolution of these matters will have a material impact on our results of operations, financial condition or cash flows. We may also be required to accrue and pay additional taxes for contingencies not related to us as a result of the Tax Sharing Agreement.

We are the primary obligor to the taxing authorities for \$1.398 billion of contingent tax liabilities which were recorded on the balance sheet at September 26, 2008. In accordance with the Tax Sharing Agreement, we share certain contingent liabilities relating to unresolved tax matters of legacy Tyco International, with Covidien assuming 42%, Tyco International 27% and Tyco Electronics 31% of the total amount. 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, which may not occur for several years.

In addition, pursuant to the terms of the Tax Sharing Agreement, we recorded a long-term receivable from Tyco International and Tyco Electronics of \$585 million which is classified as due from former parent and affiliates on our balance sheet at September 26, 2008. This receivable primarily reflects 58% of the non-current income taxes payable subject to the Tax Sharing Agreement. If Tyco International and Tyco Electronics default on their obligations to us under the Tax Sharing Agreement, we would be liable for the entire amount of these liabilities.

Off-Balance Sheet Arrangements

Guarantees

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Tyco Electronics. These guarantee arrangements and indemnifications primarily relate to certain contingent tax liabilities; we assumed and are responsible for 42% of these liabilities. Regarding the guarantees, if any of the companies responsible for all or a

portion of such liabilities were to default in its payment of costs related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. These arrangements were valued upon our separation from Tyco International using appraisals and liabilities amounting to \$760 million related to these guarantees were recorded on our balance sheet, the offset of which was reflected as a reduction in shareholders' equity. Each reporting period, we evaluate the potential loss which we believe is probable as a result of our commitments under the Agreements. To the extent such potential loss exceeds the amount recorded on our balance sheet, an adjustment will be required to increase the recorded liabilities to the amount of such potential loss. This guarantee is not amortized because no predictable pattern of performance exists. As a result, the liability generally will be reduced upon release from our obligations under the Agreements, which may not occur for some years. In addition, as payments are made to indemnified parties, such payments are recorded as reductions to the liability and the impact of such payments is considered in the periodic evaluation of the sufficiency of the liability. Following an analyses of the tax contingency reserves allocated to us and Tyco Electronics at the separation date, we adjusted our guaranteed tax liability to correct the initial amount recorded upon separation, based on the net reallocation of income tax reserves between the companies. This adjustment resulted in a \$53 million decrease to our guaranteed tax liability in fiscal 2008. As of September 26, 2008, \$707 million relating to these guarantees remained on our balance sheet.

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. We 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 adverse effect on our results of operations, financial condition or cash flows.

We have recorded liabilities for known indemnifications included as part of environmental liabilities. Note 19 to our financial statements provide further information with respect to these liabilities.

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.

Critical Accounting Policies and Estimates

The preparation of our 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.

In certain circumstances, we enter into arrangements in which we provide multiple deliverables to our 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 sales of the individual deliverables to other third parties.

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 reduction of sales when revenue is recognized and are included in our reserve for returns, rebates and sales allowances within accounts receivable trade on our balance sheets. We estimate rebates based on sales terms, historical experience and trend analysis. 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 analysis, 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 significant and we do not expect significant revisions of these estimates in the future. Rebates charged against gross sales in fiscal 2008 amounted to \$2.357 billion.

Inventories—Inventories are recorded at the lower of cost (primarily first-in, first-out) or market value. We reduce the carrying value of inventory based on estimates of what is excess, slow-moving and obsolete, as well as inventory whose carrying value is in excess of net realizable value. These write-downs are based on current assessments about future demands, market conditions and related management initiatives. If future market conditions and actual demands ultimately are less favorable than those projected, we would further reduce the carrying value of the inventory and record a charge to earnings at the time such determination was made. Subsequent changes in the estimates used to determine what is excess, slow-moving or obsolete may result in an increase to earnings. Actual results historically have not differed materially from management's estimates.

Property, Plant and Equipment—Management periodically evaluates the net realizable value of property, plant and equipment relying on a number of factors including operating results, business plans, economic projections and anticipated future cash flows. We review property, plant and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. When indicators of potential impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and estimated future undiscounted cash flows of the underlying business. We assess the recoverability of assets using undiscounted cash flows. If an asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's fair value. The fair value is estimated based upon the present value of discounted future cash flows or other reasonable estimates of fair value. Fair values are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. Since judgment is involved in determining the fair value and useful lives of property, plant and equipment, there is a risk that the carrying value of our property, plant and equipment may be overstated or understated.

Intangible Assets—Intangible assets include intellectual property consisting primarily of patents, trademarks and unpatented technology. We record intangible assets at cost and amortize certain of such assets using the straight-line method over ten to forty years. Amortization expense is included in selling, general and administrative expenses. We evaluate the remaining useful life of intangible assets on a periodic basis to determine whether events and circumstances warrant a revision to the remaining useful life. If the estimate of an intangible asset's remaining useful life is changed, we amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. Intangible assets that are not subject to amortization, which are comprised primarily of certain trademarks, are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We review intangible assets subject to amortization for impairment in the same manner as property, plant and equipment which is discussed above.

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. We then allocate 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. We allocate any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill.

Purchased research and development represents the estimated fair value as of the acquisition date of in-process projects that have not reached technological feasibility and have no alternative future use. The primary basis for determining technological feasibility of these projects is obtaining regulatory approval. We expense the value attributable to in-process research and development projects at the time of acquisition.

The valuation of in-process research and development is determined using the discounted cash flow method. In determining the value of in-process research and development, we consider, 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.

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. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. 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 is the implied fair value of goodwill.

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 19 to our 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 known. Accordingly, we are often initially unable to develop a best estimate of loss, and therefore we record the minimum amount, which could be zero. As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also resulting in additional loss provisions. Occasionally, a best estimate amount is changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected. 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 represents the market rate for high-quality fixed income investments and is used to calculate the present value of the expected future cash flows for benefit obligations under our pension plans. A decrease in the discount rate increases the present value of pension benefit obligations and increases pension expense. A 25 basis point decrease in the discount rate would increase our present value of pension obligations by approximately \$29 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 \$4 million.

Guarantees—We have, from time to time, provided guarantees and indemnifications to unrelated parties. These guarantees have not been material to our financial statements and the maximum potential payments are not material.

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.

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Tyco Electronics. See "Off-Balance Sheet Information—*Guarantees*" for more information.

Income Taxes—In determining income for financial statement purposes, we must make certain 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 have recorded significant valuation allowances that we intend to maintain unless it becomes more likely than not that some or all of the deferred tax assets will be realized. Our valuation allowances for deferred tax assets of \$6.617 billion and \$443 million at September 26, 2008 and September 28, 2007, 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 26, 2008 is approximately \$6.027 billion 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 jurisdiction to realize the tax benefits related to the net deferred tax assets in our 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 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.

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. In accordance with FIN 48, 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 contingency. To the extent a full benefit is not realized on the uncertain tax position, an income tax liability is established. Interest and penalties on income tax obligations are included in income tax expense. We adjust these liabilities in light 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. Substantially all of our potential tax liabilities are recorded in non-current income taxes payable on our balance sheets as payment is not expected within one year.

Finally, changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future. However, management is not aware of any such changes that would have a material effect on our results of operations, financial condition or cash flows.

Recently Adopted Accounting Pronouncements

On September 29, 2007, we adopted FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of adopting FIN 48 was a \$355 million reduction in accumulated earnings, a \$197 million increase in deferred tax assets, primarily due to interest and state specific items, and a \$642 million and \$90 million increase in income taxes payable and receivable, respectively. In addition, we recorded an increase in amounts due from former parent and affiliates pursuant to the Tax Sharing Agreement of \$231 million as other income, representing the indirect effect of adoption. These amounts include both the impact of the initial adoption of FIN 48 recorded during the first quarter, as well as, the adjustments to the adoption of FIN 48 identified and recorded during the fourth quarter as discussed in Note 21 to our financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires that employers recognize the funded status of defined benefit pension and other postretirement benefit plans as a net asset or liability on the balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as a component of net periodic benefit cost. Under SFAS No. 158 additional financial statement disclosures are also required. We adopted the recognition and disclosure provisions of SFAS No. 158 at the end of fiscal 2007, and accordingly, recognized an after-tax reduction of \$51 million in accumulated other comprehensive income, a component of shareholders' equity. In addition, under SFAS No. 158, companies are required to measure plan assets and benefit obligations as of their fiscal year end within two fiscal years after the initial adoption of the accounting standard. Currently, we use a measurement date of August 31st; however, we will transition to a measurement date that coincides with our fiscal year end in fiscal 2009. The adoption of the measurement date provision will result in a reduction to shareholders' equity, the amount of which will not be significant.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The enhanced disclosures set forth in SFAS No. 161 are effective for us in the second quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) expands the definition of a business combination and requires acquisitions to be accounted for at fair value, including any interests retained by the seller. These fair value provisions will be applied to contingent consideration, in-process research and development and acquisition contingencies. Purchase accounting adjustments will be reflected during the period in which an acquisition was originally recorded. Additionally, the new standard requires transaction costs and restructuring charges to be expensed. Finally, post-acquisition changes in deferred tax asset valuation allowances and acquired income tax uncertainties will be recognized as income tax expense or benefit. SFAS No. 141(R) is effective for us for acquisitions closing during and subsequent to the first quarter of fiscal 2010.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits an entity, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than at historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for us in the first quarter of fiscal 2009. We did not elect to use the fair value option on any qualifying items upon adoption.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for us in fiscal 2009, except with respect to certain non-financial assets and liabilities, for which the effective date is fiscal 2010. We are currently assessing the impact SFAS No. 157 will have on our results of operations, financial condition and cash flows.

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 similar 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 adverse 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 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 forward currency exchange 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 forward contracts outstanding at September 26, 2008, a 10% appreciation of the U.S. dollar from the September 26, 2008 market rates would decrease the unrealized value of our forward contracts on our balance sheet by \$86 million, while a 10% depreciation of the U.S. dollar would increase the unrealized value of forward contracts on our balance sheet by \$105 million. 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.

Interest rate risk primarily results from variable rate debt obligations. Based on a sensitivity analysis of the variable rate financial obligations in our debt portfolio as of September 26, 2008, a 25 basis point interest rate movement in the average market interest rates (either higher or lower) in fiscal 2009 would not have a significant impact on our financial statements, as our variable rate debt instruments represent only 6% of our total debt as of September 26, 2008. However, over time, we may seek to adjust the percentage of variable rate financial obligations in our debt portfolio through the use of swaps or other financial instruments.

We are exposed to volatility in the prices of commodities used in the production of our products and may enter into hedging contracts to manage those exposures. As of September 26, 2008, we had entered into derivative contracts for certain commodities. These contracts qualified for hedge accounting and did not have a significant impact on our financial statements.

Concentration of Credit Risk

We utilize established risk management policies and procedures in executing derivative financial instrument transactions. Although the instruments may not necessarily be designated as accounting hedges, we do not execute transactions or hold derivative financial instruments for trading or speculative purposes. Counterparties

to our derivative financial instruments are limited to major financial institutions with at least an A/A2 long-term debt rating. There is no significant concentration of exposures with any counterparty. None of our derivative financial instruments outstanding at year end would result in a significant loss to us if a counterparty failed to perform according to the terms of its agreement. At this time, we do not require collateral or other security to be furnished by the counterparties to our derivative financial instruments.

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:

Reports of Independent Registered Public Accounting Firm

Consolidated and Combined Statements of Operations for fiscal years ended September 26, 2008, September 28, 2007 and September 29, 2006

Consolidated Balance Sheets at September 26, 2008 and September 28, 2007

Consolidated and Combined Statements of Shareholders' Equity for fiscal years ended September 26, 2008, September 28, 2007 and September 29, 2006

Consolidated and Combined Statements of Cash Flows for fiscal years ended September 26, 2008, September 28, 2007 and September 29, 2006

Notes to Consolidated and Combined 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 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 21 to our financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure None.

Item 9A. Controls and Procedures

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 not effective at the reasonable assurance level because of the identification of a material weakness in our internal control over financial reporting, which we view as an integral part of our disclosure controls and procedures.

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;
- 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 26, 2008. 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 not effective as a result of a material weakness related to certain aspects of accounting for income taxes as of September 26, 2008.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. We have identified a material weakness in our internal controls over accounting for income taxes. Control deficiencies exist related to processes to analyze, record and reconcile income tax accounts, both current and deferred, and procedures with respect to classification of tax amounts on the consolidated balance sheet. These deficiencies stem from our reliance on the processes inherited from Tyco International, our former parent, for periods following our separation from Tyco International, which themselves contained material weaknesses. We are working to develop sustainable processes of our own and have made progress towards completion of this effort; however, the complexity of our separation from Tyco International, including related tax sharing agreement accounting, has made it difficult for us to quickly design, implement and test sustainable processes adequate to remediate the material weaknesses present. As a result of these deficiencies, it is reasonably possible that internal controls over financial reporting may not have prevented or detected errors that could have been material, either individually or in the aggregate.

We are continuing to build our tax accounting resources and implement reconciliations and review processes in response to this weakness. We are also addressing weaknesses relating to our reconciliation process for determining the tax bases of assets and liabilities used in the computation of deferred income taxes, including the impact of amended returns on such tax bases. While we continue to develop and implement new control processes and procedures to address these weaknesses and become compliant with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and SEC regulations, we have determined that further improvements are required in our tax accounting processes before we can consider the material weakness remediated.

Our internal control over financial reporting as of September 26, 2008, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm that audited and reported on our consolidated financial statements included in this Form 10-K, and their attestation report on our internal control over financial reporting is also included in this Form 10-K.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts described below, there have been no changes in our internal control over financial reporting that have materially affected, or are likely to materially affect, our internal control over financial reporting.

We continue to undertake steps to strengthen our controls over accounting for income taxes, including:

- Increasing oversight by our management in the calculation and reporting of certain tax balances of our non-U.S. operations;
- Enhancing policies and procedures relating to account reconciliation and analysis;
- Augmenting our tax accounting resources;
- · Increasing communication to information providers for tax jurisdiction specific information; and
- Strengthening communication and information flows between our tax department and controllers group.

While progress has been made, several new tax accounting and control procedures have only recently been implemented. Our material weaknesses in controls over accounting for income taxes will not be considered remediated until new internal controls are operational for a period of time and are tested, and management and our independent registered public accounting firm conclude that these controls are operating effectively. Due to the nature of and time necessary to effectively remediate the material weakness identified to date, we have concluded that a material weakness in our internal control over financial reporting for accounting for income taxes continues to exist as of September 26, 2008.

We plan to implement further improvements to achieve appropriate levels of controls, reliability and sustainability in this area. We have ongoing initiatives to standardize, consolidate and upgrade various financial operating systems and eliminate many of the manual and redundant tasks previously performed under older systems or processes. These changes will be implemented in stages over the next several years.

Item 9B. Other Information

None.

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 Number One—Election of Directors," "Board of Directors and Board Committees," and "Corporate Governance," in our definitive proxy statement for our 2009 Annual General Meeting of Shareholders (the "2009 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 2009 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 2009 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" of our 2009 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 2009 Proxy Statement set forth under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

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

The information in our 2009 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 2009 Proxy Statement set forth under the captions "Proposal Number Three—Appointment of Independent Auditors and Authorization of the Audit Committee to Set Their Remuneration," "—Audit and Non-Audit Fees" and "—Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Auditors" is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a) (1) and (2) See Item 8—Financial Statements and Supplementary Data.
- (3) Exhibit Index:

| (3) LAIII | it flaca. |
|-------------------|--|
| 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 of Association of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 10 filed on June 4, 2007). |
| 3.2 | Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form 10 filed on January 18, 2007). |
| 3.3 | Bye-Laws (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). |
| 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). |
| 4.2 | Exchange and Registration Rights Agreement by and among Covidien International Finance S.A. (as |

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.

Issuer), Covidien Ltd. (as Guarantor) and Banc of America Securities LLC and Deutsche Bank Securities (as representatives of the Purchasers), dated as of October 22, 2007 (Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on October 22, 2007).

| 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 | Settlement Agreement, dated December 29, 2006, between Tyco International Ltd. and Richard J. Meelia (Incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form 10 filed on January 18, 2007). (1) |
| 10.3 | Employment Agreement, dated December 29, 2006, between Tyco Healthcare Ltd. and Richard J. Meelia (Incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form 10 filed on January 18, 2007). (1) |
| 10.4 | Covidien Ltd. 2007 Stock and Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 filed on July 3, 2007). (1) |
| 10.5 | Covidien Ltd. Employee Stock Purchase Plan, as amended (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 28, 2008 (filed on May 9, 2008). (1) |
| 10.6 | 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) |
| 10.7 | Founders' Grant Standard Restricted Stock Unit Terms and Conditions (Incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). (1) |
| 10.8 | Severance Plan for U.S. Officers and Executives (Incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). (1) |
| 10.9 | Change in Control Severance Plan for Certain U.S. Officers and Executives (Incorporated by reference to Exhibit 10.10 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). (1) |
| 10.10 | Supplemental Savings and Retirement Plan (Incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). (1) |
| 10.11 | Founders' Grant Restricted Stock Unit Form of Letter Agreement for Directors (Incorporated by reference to Exhibit 10.12 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). (1) |
| 10.12 | 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) |
| 10.13 | Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.14 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). |
| 10.14 | Five-Year Senior Credit Agreement among Tyco International, Covidien International Finance S.A., Covidien, the lenders party thereto and Citibank, N.A., as administrative agent dated as of April 25, 2007 (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). |
| 10.15 | Amendment No. 1 to Five-Year Senior Credit Agreement among Covidien International Finance S.A., Covidien, the lenders party thereto and Citibank, N.A., as administrative agent dated as of November 6, 2007 (Incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed on December 13, 2007). |
| 10.16 | Guarantor Assumption Agreement by and among Tyco International Ltd. and Covidien Ltd., dated as of June 29, 2007 (Incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on July 5, 2007). |
| 10.17 | Purchase Agreement and Plan of Merger dated as of December 14, 2007 by and among the parties named therein (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2007 filed on February 11, 2008). (2) |

| Exhibit Number | Exhibit |
|-------------------|---|
| 21.1 | Subsidiaries of the registrant (filed herewith). |
| 23.1 | Consent of Deloitte and Touche LLP (filed herewith). |
| 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). |

⁽¹⁾ Management contract or compensatory plan.

- (b) See Item 15(a)(3) above.
- (c) See Item 15(a)(2) above.
- (2) 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.

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 LTD.

By: /s/ Richard G. Brown, Jr.

Richard G. Brown, Jr.

Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)

Dated: November 21, 2008

/s/ Charles J. Dockendorff

Charles J. Dockendorff

Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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 | <u>Date</u> |
|---|--|-------------------|
| /s/ RICHARD J. MEELIA Richard J. Meelia | Chairman, Chief Executive Officer and President (Principal Executive Officer) | November 21, 2008 |
| /s/ CHARLES J. DOCKENDORFF Charles J. Dockendorff | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | November 21, 2008 |
| /s/ RICHARD G. BROWN, JR. Richard G. Brown, Jr. | Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer) | November 21, 2008 |
| /s/ CRAIG ARNOLD Craig Arnold | Director | November 21, 2008 |
| /s/ ROBERT H. BRUST Robert H. Brust | Director | November 21, 2008 |
| /s/ JOHN M. CONNORS, JR. John M. Connors, Jr. | Director | November 21, 2008 |
| /s/ CHRISTOPHER J. COUGHLIN Christopher J. Coughlin | Director | November 21, 2008 |
| /s/ TIMOTHY M. DONAHUE Timothy M. Donahue | Director | November 21, 2008 |
| /s/ KATHY J. HERBERT Kathy J. Herbert | Director | November 21, 2008 |
| /s/ RANDALL J. HOGAN, III Randall J. Hogan, III | Director | November 21, 2008 |

| Name | <u>Title</u> | <u>Date</u> |
|--------------------------|--------------|-------------------|
| /s/ Dennis H. Reilley | Director | November 21, 2008 |
| Dennis H. Reilley | | |
| /s/ Tadataka Yamada | Director | November 21, 2008 |
| Tadataka Yamada | | |
| /s/ Joseph A. Zaccagnino | Director | November 21, 2008 |
| Joseph A. Zaccagnino | | |

Index to Consolidated and Combined Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Covidien Ltd.:

We have audited the accompanying consolidated balance sheets of Covidien Ltd. and subsidiaries (previously the healthcare businesses of Tyco International Ltd.) (collectively the "Company") as of September 26, 2008 and September 28, 2007 and the related consolidated and combined statements of operations, shareholders' equity, and cash flows for each of the three fiscal years in the period ended September 26, 2008. Our audits also included the financial statement schedule listed in the Index at Item 8. These consolidated and combined financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated and combined financial statements and financial statement schedule 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 and combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated and combined financial statements present fairly, in all material respects, the financial position of the Company as of September 26, 2008 and September 28, 2007, and the results of its operations and its cash flows for each of the three fiscal years in the period ended September 26, 2008, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated and combined financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated and combined financial statements, prior to the separation of the Company from Tyco International Ltd. on June 29, 2007, the Company was comprised of the assets and liabilities used in managing and operating the healthcare businesses of Tyco International Ltd. The consolidated and combined financial statements also included allocations of corporate overhead, net interest expense and other expenses from Tyco International Ltd. These allocations may not be reflective of the actual level of costs which would have been incurred had the Company operated as a separate entity apart from Tyco International Ltd.

As discussed in Note 1 to the consolidated and combined financial statements, on September 29, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. Also, as discussed in Note 1 to the consolidated financial statements, in 2007 the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No.* 87, 88, 106 and 132(R).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 26, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 21, 2008 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ Deloitte & Touche LLP November 21, 2008 Boston, Massachusetts

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Covidien Ltd.:

We have audited Covidien Ltd. and subsidiaries' (the "Company's") internal control over financial reporting as of September 26, 2008 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 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 the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

The Company did not maintain effective internal controls over accounting for income taxes. Control deficiencies exist related to processes to analyze, record and reconcile income tax accounts, both current and deferred, and procedures with respect to classification of tax amounts on the consolidated balance sheet. The design and operation of procedural and monitoring controls may not have prevented or detected errors from occurring that could have been material, either individually or in the aggregate.

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the fiscal year ended September 26, 2008, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of September 26, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended September 26, 2008 of the Company and our report dated November 21, 2008 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph related to the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

/s/ Deloitte & Touche LLP November 21, 2008 Boston, Massachusetts

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS Fiscal Years Ended September 26, 2008, September 28, 2007 and September 29, 2006 (in millions, except per share data)

| | 2008 | 2007 | 2006 |
|---|---------|-----------|---------|
| Net sales | \$9,910 | \$8,895 | \$8,313 |
| Cost of goods sold | 4,601 | 4,273 | 4,012 |
| Gross profit | 5,309 | 4,622 | 4,301 |
| Selling, general and administrative expenses | 2,881 | 2,446 | 1,986 |
| Research and development expenses | 341 | 260 | 248 |
| In-process research and development charges | 22 | 38 | 63 |
| Restructuring charges | 77 | 57 | _ |
| Class action and shareholder settlements, net of insurance recoveries | 42 | 1,202 | _ |
| Intangible asset impairment charges | _ | 34 | _ |
| Gain on divestitures | | | (48) |
| Operating income | 1,946 | 585 | 2,052 |
| Interest expense | (209) | (188) | (171) |
| Interest income | 43 | 35 | 32 |
| Other income (expense), net | 199 | (135) | (13) |
| Income from continuing operations before income taxes | 1,979 | 297 | 1,900 |
| Income tax expense | 536 | 462 | 470 |
| Income (loss) from continuing operations | 1,443 | (165) | 1,430 |
| Loss from discontinued operations, net of income taxes | (82) | (177) | (275) |
| Net income (loss) | \$1,361 | \$ (342) | \$1,155 |
| Basic earnings per share: | | | |
| Income (loss) from continuing operations | \$ 2.89 | \$ (0.33) | \$ 2.88 |
| Loss from discontinued operations | (0.16) | (0.36) | (0.55) |
| Net income (loss) | 2.72 | (0.69) | 2.33 |
| Diluted earnings per share: | | | |
| Income (loss) from continuing operations | \$ 2.86 | \$ (0.33) | \$ 2.88 |
| Loss from discontinued operations | (0.16) | (0.36) | (0.55) |
| Net income (loss) | 2.70 | (0.69) | 2.33 |
| Weighted-average number of shares outstanding (Note 6): | | | |
| Basic | 500 | 497 | 497 |
| Diluted | 505 | 497 | 497 |

CONSOLIDATED BALANCE SHEETS

At September 26, 2008 and September 28, 2007 (in millions, except share data)

| | 2008 | 2007 |
|--|----------|----------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,208 | \$ 872 |
| Accounts receivable trade, less allowance for doubtful accounts of \$46 and \$44 | 1,704 | 1,546 |
| Inventories | 1,280 | 1,126 |
| Interest in class action settlement fund | _ | 1,257 |
| Class action settlement receivables | | 1,735 |
| Prepaid expenses and other current assets | 317 | 365 |
| Income taxes receivable | 105 | 50 |
| Deferred income taxes | 328 | 268 |
| Assets held for sale | 347 | 879 |
| Total current assets | 5,289 | 8,098 |
| Property, plant and equipment, net | 2,476 | 2,393 |
| Goodwill | 5,821 | 5,767 |
| Intangible assets, net | 1,218 | 1,242 |
| Income taxes receivable | 126 | 22 |
| Deferred income taxes | 64 | 67 |
| Due from former parent and affiliates | 585 | 306 |
| Other assets | 424 | 433 |
| Total Assets | \$16,003 | \$18,328 |
| | ==== | ==== |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 19 | \$ 523 |
| Accounts payable | 522 | 444 |
| Accrued payroll and payroll related costs | 357 | 297 |
| Class action settlement liability | 1 002 | 2,992 |
| Accrued and other current liabilities | 1,003 | 844 |
| Income taxes payable | 92 | 138 |
| Liabilities associated with assets held for sale | 105 | 147 |
| Total current liabilities | 2,098 | 5,385 |
| Long-term debt | 2,986 | 3,565 |
| Income taxes payable | 1,398 | 517 |
| Guaranteed contingent tax liabilities | 707 | 760 |
| Deferred income taxes | 334 | 576 |
| Other liabilities | 733 | 783 |
| Total Liabilities | 8,256 | 11,586 |
| Commitments and contingencies (Note 19) | , | , |
| Shareholders' Equity: | | |
| Preference shares, \$0.20 par value, 125,000,000 authorized; none outstanding | _ | _ |
| Common shares, \$0.20 par value, 1,000,000,000 authorized; 503,162,277 and 497,530,181 | | |
| outstanding | 101 | 100 |
| Share premium | 172 | 16 |
| Contributed surplus | 6,086 | 5,983 |
| Accumulated earnings | 681 | |
| Accumulated other comprehensive income | 707 | 643 |
| Total Shareholders' Equity | 7,747 | 6,742 |
| Total Liabilities and Shareholders' Equity | \$16,003 | \$18,328 |
| • • | | |

See Notes to Consolidated and Combined Financial Statements.

CONSOLIDATED AND COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY Fiscal Years September 26, 2008, September 28, 2007 and September 29, 2006 (in millions)

| | Common | Shares | | | Parent | | Accumulated Other | Total |
|---|--------|--------------|------------------|---------|----------|--------|-------------------------|--------------|
| | Number | Par Value | Share Premium | | | | Comprehensive Income | |
| Balance at October 1, 2005 Comprehensive income: | | \$— | \$— | \$ — | \$ 7,901 | \$ — | \$106 | \$ 8,007 |
| Net income | _ | _ | _ | _ | 1,155 | _ | | 1,155 |
| Currency translation | | _ | _ | _ | | | 155 | 155 |
| Minimum pension liability, net of | | | | | | | | |
| tax | _ | _ | | _ | _ | _ | 40 | 40 |
| Total comprehensive income | | | | | | | | \$ 1,350 |
| Net transfers to parent | | _ | _ | _ | (736) | _ | _ | (736) |
| Balance at September 29, 2006 | _ | _ | _ | | 8,320 | | 301 | 8,621 |
| Comprehensive income: Net income | | | | | | 2.4 | 301 | |
| Currency translation | | | | _ | (376) | 34 | 351 | (342) 351 |
| Minimum pension liability, net of | | _ | _ | _ | _ | _ | | |
| tax | _ | _ | _ | _ | _ | _ | 96 | 96 |
| derivatives | _ | _ | _ | _ | _ | _ | (54) | (54) |
| Total comprehensive income Net transfer to parent and assumption of liabilities and forgiveness of Tyco International intercompany | | | | | | | | \$ 51 |
| balances | | _ | _ | _ | (1,237) | _ | _ | (1,237) |
| Guaranteed contingent tax liabilities Due from affiliates recorded under Tax | _ | _ | _ | (760) | _ | _ | _ | (760) |
| Sharing Agreement | | _ | _ | 290 | _ | _ | _ | 290 |
| Separation | _ | _ | _ | (138) | _ | _ | _ | (138) |
| to contributed surplus Issuance of common shares upon | _ | _ | _ | 6,707 | (6,707) | _ | _ | _ |
| Separation | 497 | 99 | | (99) | | _ | _ | _ |
| Dividends declared | | | _ | (46) | _ | (34) | _ | (80) |
| Repurchase of common shares | | _ | _ | (2) | _ | _ | _ | (2) |
| Share options exercised | | 1 | 16 | | _ | _ | _ | 17 |
| Equity-based compensation expense | | _ | _ | 31 | _ | _ | _ | 31 |
| Adjustment to apply the recognition provision of SFAS No. 158, net of | | | | | | | | |
| tax | _ | _ | _ | _ | _ | _ | (51) | (51) |
| Balance at September 28, 2007 | 498 | 100 | 16 | 5,983 | | | 643 | 6,742 |
| Comprehensive income: | .,, | 100 | 10 | 2,502 | | | 0.5 | 0,7 .2 |
| Net income | _ | _ | | _ | _ | 1,361 | _ | 1,361 |
| Currency translation | _ | _ | _ | _ | _ | _ | 73 | 73 |
| net of tax | _ | _ | _ | _ | _ | _ | (5) | (5) |
| derivatives | _ | _ | _ | _ | _ | _ | (4) | (4) |
| Total comprehensive income | | | | | | | | \$ 1,425 |
| Dividends declared | _ | _ | _ | _ | _ | (320) | _ | (320) |
| Repurchase of common shares | | <u> </u> | | (1) | _ | (5) | _ | (6) |
| Share options exercised | | 1 | 156 | 7 | _ | _ | _ | 164 |
| Equity-based compensation expense | | _ | _ | 79 | _ | (255) | _ | 79 |
| Adoption of FIN 48 (Note 1) | | _ | _ | | _ | (355) | _ | (355) |
| upon Separation | | | | 18 | | | _ | 18 |
| Balance at September 26, 2008 | 503 | \$101 | \$172 | \$6,086 | <u> </u> | \$ 681 | \$707 | \$ 7,747 |

See Notes to Consolidated and Combined Financial Statements.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS Fiscal Years September 26, 2008, September 28, 2007 and September 29, 2006 (in millions)

| (in millions) | | | |
|---|----------------|-----------------|-----------------|
| | 2008 | 2007 | 2006 |
| Cash Flows From Operating Activities: | | | |
| Net income (loss) | \$ 1,361 82 | \$ (342) 177 | \$ 1,155 275 |
| Income (loss) from continuing operations | 1,443 | (165) | 1,430 |
| Adjustments to reconcile net cash provided by continuing operating activities: Change in related party receivable related to Tax Sharing Agreement | (214) | (16) | _ |
| In-process research and development charges | 22 | 38 | 63 |
| Non-cash restructuring charges | 18 | 9 | _ |
| Intangible asset impairment charges | _ | 34 | (40) |
| Gain on divestitures Depreciation and amortization | 398 | 369 | (48) 325 |
| Non-cash compensation expense | 76 | 75 | 56 |
| Deferred income taxes | (4) | (50) | 317 |
| Provision for losses on accounts receivable and inventory | 71 | 52 | 41 |
| Class action settlement charge, net of insurance recoveries | _ | 1,243 | _ |
| Loss on the early extinguishment of debt Other non-cash items | | 155 | 33 |
| Changes in assets and liabilities, net of the effects of acquisitions and divestitures: | 32 | (24) | 33 |
| Accounts receivable, net | (138) | (41) | 11 |
| Inventories | (190) | (67) | (160) |
| Accounts payable | 72 | (3) | (25) |
| Income taxes | 19 | 130 | (264) |
| Accrued and other liabilities | 190 (1,257) | 271 | (370) |
| Other | 33 | 86 | (113) |
| Net cash provided by continuing operating activities | 591 | 2,096 | 1,296 |
| Net cash provided by (used in) discontinued operating activities | 69 | 113 | (92) |
| Net cash provided by operating activities | 660 | 2,209 | 1,204 |
| Cash Flows From Investing Activities: | | | |
| Capital expenditures | (409) | (356) | (400) |
| Acquisition-related payments, net of cash acquired | (157) | (117) | (382) |
| Divestitures, net of cash retained by businesses sold | 263 | | 74 |
| Decrease (increase) in restricted cash | 24 | (7) | (34) |
| Release of interest in class action settlement fund Interest in class action settlement fund | 1,257 | (1,257) | _ |
| Other | 18 | 24 | (9) |
| Net cash provided by (used in) continuing investing activities | 996 | (1,713) | (751) |
| Net cash (used in) provided by discontinued investing activities | (30) | 4 | 827 |
| Net cash provided by (used in) investing activities | 966 | (1,709) | 76 |
| Cash Flows From Financing Activities: | | (1,707) | |
| Net proceeds from commercial paper program | 171 | _ | _ |
| Repayment of external debt | (4,008) | (525) | (25) |
| Issuance of external debt | 2,728 | 4,298 | 1 |
| Allocated debt activity | (220) | (2,291) | (548) |
| Dividends paid Proceeds from exercise of share options | (320) 157 | 16 | _ |
| Net transfers to Tyco International Ltd. | | (1,316) | (601) |
| Transfers from discontinued operations | 38 | 82 | 636 |
| Other | (11) | (37) | 86 |
| Net cash (used in) provided by continuing financing activities | (1,245) | 227 | (451) |
| Net cash used in discontinued financing activities | (38) | (117) | (726) |
| Net cash (used in) provided by financing activities | (1,283) | 110 | (1,177) |
| Effect of currency rate changes on cash | (7) | 20 | 7 |
| Net increase in cash and cash equivalents Less: net increase in cash related to discontinued operations | 336 | 630 | 110 |
| Cash and cash equivalents at beginning of year | | 242 | (9) 141 |
| Cash and cash equivalents at end of year | \$ 1,208 | \$ 872 | \$ 242 |
| Supplementary Cash Flow Information: | | | |
| Interest paid | \$ 138 | \$ 199 | \$ 177 |
| Income taxes paid, net of refunds | \$ 514 | \$ 425 | \$ 253 |

See Notes to Consolidated and Combined Financial Statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Separation from Tyco International Ltd.—Effective June 29, 2007, Covidien Ltd. ("Covidien" or the "Company"), a company organized under the laws of Bermuda, became the parent company owning the former healthcare businesses of Tyco International Ltd. ("Tyco International"). Prior to June 29, 2007, the assets of the healthcare businesses of Tyco International were transferred to Covidien. On June 29, 2007, Tyco International distributed one common share of Covidien for every four common shares of Tyco International, as well as its shares of its former electronics businesses ("Tyco Electronics"), to the holders of Tyco International common shares on the record date for the distribution, which was June 18, 2007 (the "Separation").

Basis of Presentation—The accompanying financial statements reflect the consolidated operations of Covidien Ltd. and its subsidiaries as an independent publicly-traded company following June 29, 2007, and a combined reporting entity comprising the assets and liabilities used in managing and operating Tyco International's healthcare businesses, including Covidien Ltd., prior to and including June 29, 2007. For periods prior to the Separation, certain general corporate overhead, net interest expense, loss on early extinguishment of debt and other expenses have been allocated to the Company by Tyco International. Management believes such allocations are reasonable; however, they may not be indicative of the actual expenses the Company would have incurred had the Company been operating as an independent, publicly-traded company. Following the Separation, the Company performs these functions using internal resources or purchased services, certain of which may be provided by Tyco International during a transitional period pursuant to the Separation and Distribution Agreement dated June 29, 2007, among Covidien, Tyco International, and Tyco Electronics (the "Separation and Distribution Agreement"). Note 17 provides additional information regarding allocated expenses and the Separation and Distribution Agreement.

The 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 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.

Principles of Consolidation—The Company consolidates companies 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 companies acquired or disposed of are included in the 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.

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 sales of the individual deliverables to other third parties.

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 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 \$2.357 billion, \$2.016 billion and \$2.302 billion in fiscal 2008, 2007 and 2006, respectively.

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 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 other intangible assets, net of accumulated amortization.

Advertising—Advertising costs are expensed when incurred. Advertising expense was \$87 million, \$74 million and \$73 million in fiscal 2008, 2007 and 2006, respectively, and is included in selling, general and administrative expenses in the statements of operations.

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 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, inventories and property, plant and equipment, including related expenses, are translated at the rate of exchange in effect on the date the assets were acquired, while other assets and liabilities are translated at year-end exchange rates. Translation adjustments of these subsidiaries are included in net income. Losses resulting from such foreign currency translation and transactions not qualifying for hedge accounting discussed in Note 12 are included in selling, general and administrative expenses in the statements of operations and aggregated \$44 million, \$26 million and \$19 million in fiscal 2008, 2007 and 2006, respectively.

Cash and Cash Equivalents—All highly liquid investments purchased with maturities of three months or less from the time of purchase are considered to be cash equivalents.

On occasion, the Company is required to provide cash collateral to secure contractual obligations related to acquisitions, divestitures or other legal obligations. The amount of restricted cash in collateral was \$27 million and \$50 million at the end of fiscal 2008 and 2007, respectively. Restricted cash is included in prepaid expenses and other current assets or other assets based on the nature of the restriction.

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 first-in, first-out. 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. The Company generally utilizes the straight-line method of depreciation over the following estimated useful lives of the assets:

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

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 reviews property, plant and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. The Company assesses the recoverability of assets using undiscounted cash flows. If an asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's fair value. The fair value is estimated based upon the present value of discounted future cash flows or other reasonable estimates of fair value.

Intangible Assets—Intangible assets include intellectual property consisting primarily of patents, trademarks and unpatented technology. The Company records intangible assets at cost and amortizes certain of such assets using the straight-line method over ten to forty years. Amortization expense is included in selling, general and administrative expenses. The Company evaluates the remaining useful life of intangible assets on a periodic basis to determine whether events and circumstances warrant a revision to the remaining useful life. If the estimate of an intangible asset's remaining useful life is changed, the Company amortizes the remaining carrying value of the intangible asset prospectively over the revised remaining useful life. Intangible assets that are not subject to amortization, which are comprised primarily of certain trademarks, are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company reviews intangible assets subject to amortization for impairment in the same manner as property, plant and equipment discussed above.

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 and have no alternative future use. The primary basis for determining technological feasibility of these projects is obtaining regulatory approval. The Company expenses the value attributable to in-process research and development ("IPR&D") projects at the time of acquisition.

The valuation of 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.

Goodwill—The Company tests 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. 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. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination is determined. 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 is the implied fair value of goodwill.

Income Taxes—The income tax benefits of a consolidated income tax return have been reflected where such returns have or could be filed based on the entities and jurisdictions included in the financial statements.

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the 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.

As discussed under "Recently Adopted Accounting Policies," on September 29, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes." In accordance with FIN 48, 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 contingency. To the extent a full benefit is not realized on the uncertain tax position, an income tax liability is established. Interest and penalties on income tax obligations 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. Substantially all of these potential tax liabilities are recorded in non-current income taxes payable on the balance sheets as payment is not expected within one year.

Share Premium and Contributed Surplus—In accordance with the Bermuda Companies Act 1981, when the Company issues shares for cash at a premium to their par value, the resulting premium is credited to a share premium account, a non-distributable reserve. When the Company issues shares in exchange for shares of

another company, the excess of the fair value of the shares acquired over the par value of the shares issued by the Company is credited, where applicable, to contributed surplus, which is, subject to certain conditions, a distributable reserve.

Recently Adopted Accounting Pronouncements—On September 29, 2007, the Company adopted FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of adopting FIN 48 was a \$355 million reduction in accumulated earnings, a \$197 million increase in deferred tax assets, primarily due to interest and state specific items, and a \$642 million and \$90 million increase in income taxes payable and receivable, respectively. In addition, the Company recorded an increase in amounts due from former parent and affiliates pursuant to the Tax Sharing Agreement of \$231 million as other income, representing the indirect effect of adoption. These amounts include both the impact of the initial adoption of FIN 48 recorded during the first quarter, as well as, the adjustments to the adoption of FIN 48 identified and recorded during the fourth quarter as discussed in Note 21. Notes 5 and 17 provide additional information regarding income taxes and the Tax Sharing Agreement, respectively.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires that employers recognize the funded status of defined benefit pension and other postretirement benefit plans as a net asset or liability on the balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as a component of net periodic benefit cost. Under SFAS No. 158 additional financial statement disclosures are also required. The Company adopted the recognition and disclosure provisions of SFAS No. 158 at the end of fiscal 2007, and accordingly, recognized an after-tax reduction of \$51 million in accumulated other comprehensive income, a component of shareholders' equity. In addition, under SFAS No. 158, companies are required to measure plan assets and benefit obligations as of their fiscal year end within two fiscal years after the initial adoption of the accounting standard. Currently, the Company uses a measurement date of August 31st; however, the Company will transition to a measurement date that coincides with its fiscal year end in fiscal 2009. The adoption of the measurement date provision will result in a reduction to shareholders' equity, the amount of which will not be significant.

Recently Issued Accounting Pronouncements—In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities, with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The enhanced disclosures set forth in SFAS No. 161 are effective for the Company in the second quarter of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) expands the definition of a business combination and requires acquisitions to be accounted for at fair value, including any interests retained by the seller. These fair value provisions will be applied to contingent consideration, in-process research and development and acquisition contingencies. Purchase accounting adjustments will be reflected during the period in which an acquisition was originally recorded. Additionally, the new standard requires transaction costs and restructuring charges to be expensed.

Finally, post-acquisition changes in deferred tax asset valuation allowances and acquired income tax uncertainties will be recognized as income tax expense or benefit. SFAS No. 141(R) is effective for the Company for acquisitions closing during and subsequent to the first quarter of fiscal 2010.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits an entity, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than at historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective for the Company in the first quarter of fiscal 2009. The Company did not elect to use the fair value option on any qualifying items upon adoption.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company in fiscal 2009, except with respect to certain non-financial assets and liabilities, for which the effective date is fiscal 2010. The Company is currently assessing the impact SFAS No. 157 will have on its results of operations, financial condition and cash flows.

2. Discontinued Operations and Divestiture

Discontinued Operations

During the first quarter of fiscal 2008, the Company approved plans to sell its Specialty Chemical business within the Pharmaceutical Products segment, its Retail Products segment and its European Incontinence Products business within the Medical Supplies segment. The Company decided to sell these businesses because their products and customer bases are not aligned with the Company's long-term strategic objectives. These businesses have all met the held for sale and discontinued operations criteria and, accordingly, are included in discontinued operations for all periods presented.

Retail Products segment—During fiscal 2008, the Company divested its Retail Products segment for gross cash proceeds of \$330 million, subject to working capital adjustments. Deal costs and other adjustments resulted in net cash proceeds of \$308 million, which was used to repay a portion of the Company's outstanding borrowings under its revolving credit facility. During fiscal 2008, the Company recorded a \$111 million pre-tax loss on sale from discontinued operations related to the Retail Products segment, which included charges totaling \$75 million recorded during the first six months of fiscal 2008, to write down the business to its fair value less cost to sell. Fair value used for the impairment assessment was based on the sale agreement. The loss on sale is expected to be adjusted in future reporting period by a \$4 million contingent payment due to Covidien. In addition, the Company expects to receive proceeds from the sale of a remaining Retail Products facility. However, the additional proceeds will likely be offset by incremental costs associated with selling the facility.

During fiscal 2007, the Company performed an asset impairment analysis in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." As a result of the impairment analysis the Company recorded a goodwill impairment charge of \$256 million associated with the former Retail Products segment, which is included in loss on sale of discontinued operations. The estimated fair value of the Retail Products segment was evaluated based on discounted expected future cash flows of the related assets and reflects the adverse trends in raw material and energy costs, and a higher discount rate to represent current market conditions. As a result of this assessment, the Company determined that the book value of the Retail Products segment was in excess of its estimated fair value and, accordingly, recorded the impairment charge.

European Incontinence business—During fiscal 2008, the Company also sold its European Incontinence business. As a condition of the sale, the Company was required to contribute cash of \$43 million into the

business prior to the closing of the transaction. During fiscal 2008, the Company recorded a \$75 million pre-tax loss on sale from discontinued operations related to the European Incontinence business, which includes charges totaling \$23 million recorded during the first six months of fiscal 2008, to write down the business to its fair value less costs to sell. Fair value used for the impairment assessment was based on the sale agreement.

Plastics, Adhesives and Ludlow Coated Products businesses—During fiscal 2006, the Plastics, Adhesives and Ludlow Coated Products businesses and the A&E Products business were sold for \$975 million and \$6 million in gross cash proceeds, respectively. Working capital and other adjustments resulted in net proceeds of \$882 million for the sale of the Plastics, Adhesives and Ludlow Coated Products businesses in fiscal 2006. During fiscal 2007, \$30 million was collected from the purchaser of the Plastics, Adhesives and Ludlow Coated Products businesses pursuant to a post-closing adjustment related to the decline in average resin prices. Net cash proceeds received for the sale of the A&E Products business were \$2 million in fiscal 2006. Working capital adjustments of \$6 million were agreed upon and collected in fiscal 2007. Both businesses met the held for sale and discontinued operations criteria and have been included in discontinued operations for all periods presented.

During fiscal 2006, the Company recorded a \$260 million and \$26 million pre-tax loss on sale from discontinued operations related to the Plastics, Adhesives and Ludlow Coated Products businesses and A&E Products business, respectively, which include \$275 million and \$22 million, respectively, of pre-tax impairment charges to write the businesses down to their fair values less costs to sell. Fair values used for the respective impairment assessments were based on existing market conditions and the terms and conditions included or expected to be included in the respective sale agreements.

Financial information—Net sales, income from operations, loss on sale and income taxes for all discontinued operations for fiscal 2008, 2007 and 2006 are as follows (dollars in millions):

| | 2008 | 2007 | 2006 |
|--|---------|----------|----------|
| Net sales | \$ 870 | \$1,275 | \$2,103 |
| Pre-tax income from discontinued operations | \$ 71 | \$ 110 | \$ 85 |
| Pre-tax loss on sale of discontinued operations | (188) | (262) | (286) |
| Income tax benefit (expense) | 35 | (25) | (74) |
| Loss from discontinued operations, net of income taxes | \$ (82) | \$ (177) | \$ (275) |

Balance sheet information for assets classified as held for sale at the end of fiscal 2008 and 2007 are as follows (dollars in millions):

| | 2008 | 2007 |
|--|--------------|--------------|
| Accounts receivable, net | \$ 54 | \$118 |
| Inventories | 67 | 183 |
| Prepaid expenses and other current assets | 17 | 34 |
| Property, plant and equipment, net | 119 | 300 |
| Goodwill | 25 | 165 |
| Other intangibles, net | 55 | 58 |
| Other non-current assets | 10 | 21 |
| Assets held for sale | | _ |
| Accounts payable | \$ 36 | \$ 84 |
| Accrued and other current liabilities | | 45 |
| Other liabilities | 54 | 18 |
| Liabilities associated with assets held for sale | <u>\$105</u> | <u>\$147</u> |

Divestiture

In January 2006, the Company completed the sale of the Radionics product line within the Medical Devices segment, which included minimally invasive medical instruments in the fields of neurosurgery and radiation therapy. In connection with this sale, the Company received net proceeds of \$74 million and recorded a gain of \$45 million in continuing operations.

3. Acquisitions

Fiscal 2008

During fiscal 2008, the Company's Medical Devices segment acquired Tissue Science Laboratories plc ("TSL") for \$74 million. TSL is a medical device company dedicated to the research, development and commercialization of tissue implant products for surgical and wound care therapies. The acquisition of TSL provides the Company with a leading tissue repair technology and accelerates its entry into the biologic hernia repair market. TSL's Permacol(R) product complements Covidien's current soft tissue product offerings and allows the Company to offer a full line of differentiated hernia repair products.

In November 2007, the Company's Medical Devices segment acquired Scandius Biomedical, Inc. ("Scandius"), a developer of medical devices for sports-related surgeries, for \$27 million. The acquisition of Scandius enables the Company to offer customers innovative soft tissue repair devices for common sports injuries. The Company recorded an IPR&D charge of \$12 million in connection with this acquisition.

In addition, the Company completed two smaller acquisitions during fiscal 2008 and recorded IPR&D charges totaling \$10 million.

Fiscal 2007

In April 2007, the Company's Medical Devices segment acquired intellectual property from Sorbx, LLC ("Sorbx"), a developer of an absorbable tack technology used in hernia repair procedures, for \$30 million. The acquisition of the intellectual property from Sorbx will allow the Company to expand its surgical devices portfolio, while leveraging its global distribution capabilities. The Company recorded an IPR&D charge of \$30 million in connection with the acquisition of intellectual property from Sorbx. This charge related to the development of second-generation technology that had not yet obtained regulatory approval.

In September 2006, the Company's Medical Devices segment acquired 59% ownership of Airox S.A. ("Airox") for \$59 million, net of cash acquired of \$4 million, and commenced consolidating this investment in October 2007. In November 2006, the Company's Medical Devices segment acquired the remaining outstanding shares of Airox in a mandatory tender offer for approximately \$47 million. Airox is a developer of home respiratory ventilator systems. The acquisition of Airox expands the Company's ventilator product portfolio.

The Company's allocation of the total purchase price of Airox is as follows (dollars in millions):

| Current assets (including cash of \$4) | \$ 15 |
|--|-------|
| Intangible assets (including IPR&D) | 61 |
| Other non-current assets | 1 |
| Goodwill (non-tax deductible) | 59 |
| Total assets acquired | 136 |
| Current liabilities | 11 |
| Deferred tax liabilities (non-current) | 10 |
| Other non-current liabilities | 5 |
| Total liabilities assumed | 26 |
| Net assets acquired | \$110 |

Intangible assets acquired include \$19 million assigned to IPR&D that was written off at the dates of acquisition, \$8 million of which occurred during fiscal 2007 and \$11 million of which occurred during fiscal 2006. These charges related to the development of second-generation technology that had not yet obtained regulatory approval. As of the acquisition dates, the IPR&D was not considered to be technologically feasible or to have any alternative future use. The remaining intangible assets, which are valued at \$42 million, relate to unpatented technology and have useful lives of 15 years.

Fiscal 2006

In August 2006, the Company's Medical Devices segment acquired Confluent Surgical, Inc. ("Confluent"), a developer and supplier of polymer-based technology used in sprayable surgical sealants and anti-adhesion products, for \$236 million, net of cash acquired of \$12 million. The acquisition of Confluent allows the Company to offer bio-surgery products that complement its Syneture suture and Autosuture surgical stapler portfolio.

The Company's allocation of the total purchase price of Confluent is as follows (dollars in millions):

| Current assets (including cash of \$12) Intangible assets (including IPR&D) | 216 |
|--|-------|
| Other non-current assets | 1 |
| Goodwill (non-tax deductible) | 63 |
| Total assets acquired | 303 |
| Current liabilities | |
| Deferred tax liabilities (non-current) | 53 |
| Total liabilities assumed | |
| Net assets acquired | \$248 |

Intangible assets acquired include \$49 million assigned to IPR&D that was written off at the date of acquisition. The remaining \$167 million of intangible assets, which relate to patents, have useful lives of 12 or 14 years.

The \$49 million IPR&D charge is related to technology Confluent is developing for numerous applications across several surgical disciplines which have not yet received regulatory approval. As of the date of acquisition, there were three projects under development at different stages of completion, none of which were considered to be technologically feasible or to have any alternative future use. The Company determined the valuation of the

IPR&D using, among other factors, appraisals. The value was based primarily on the discounted cash flow method. Future residual cash flows that could be generated from each of the projects were determined based upon management's estimate of future revenue and expected profitability of the projects and technologies involved. These projected cash flows were then discounted to their present values taking into account management's estimate of future expenses that would be necessary to bring the projects to completion. The discount rates applied ranged from 20% to 23%, depending on the project's stage of completion and the type of U.S. Food and Drug Administration approval required.

During fiscal 2006, the Company's Medical Devices segment acquired over 90% ownership in Floreane Medical Implants, S.A. ("Floreane") for \$123 million in cash, net of cash acquired of \$3 million. Floreane, through its Sofradim line, is an innovator in the development of hernia meshes and surgical implants. The acquisition of Floreane expands the Company's surgical product portfolio and allows the Company to provide its customers with a complementary range of products, while leveraging its global distribution capabilities. Subsequent to fiscal 2006, the Company's Medical Devices segment acquired the remaining outstanding shares of Floreane for \$12 million.

The Company's allocation of the total purchase price of Floreane is as follows (dollars in millions):

| Current assets (including cash of \$3) | \$ 24 |
|--|-------|
| Intangible assets (including IPR&D) | 94 |
| Goodwill (non-tax deductible) | 57 |
| Other non-current assets | 14 |
| Total assets acquired | 189 |
| Current liabilities | 19 |
| Deferred tax liabilities (non-current) | 29 |
| Other non-current liabilities | 3 |
| Total liabilities assumed | 51 |
| Net assets acquired | \$138 |

Intangible assets acquired include \$3 million assigned to IPR&D that was written off in fiscal 2006 at the date of acquisition. The remaining \$91 million of intangible assets acquired include \$72 million of patents with useful lives of 7 or 19 years and \$19 million of customer lists with a useful life of 12 years.

The acquisitions described above in all periods did not have a material effect on the Company's results of operations, financial condition or cash flows. Accordingly, pro forma information for periods prior to the acquisitions has not been presented.

4. Restructuring Charges

2008 Activity

In fiscal 2007, the Company launched a \$150 million restructuring program, primarily in its Medical Devices segment. This program includes exiting unprofitable product lines in low-growth and declining-growth markets, reducing excess machine capacity, moving production to lower cost alternatives through plant consolidations and outsourcing initiatives, and relocating certain functions.

During fiscal 2008, the Company recorded restructuring charges of \$77 million pursuant to the program, which is comprised of restructuring charges of \$83 million, partially offset by changes in estimates of \$6 million.

The \$83 million of restructuring charges includes asset impairment charges of \$18 million primarily related to the write-down of long-lived assets of a manufacturing facility within the Medical Devices segment, which will be closed as a result of cost savings initiatives. The remaining charges and changes in estimates primarily relate to workforce reductions also within the Medical Devices segment.

Restructuring activity for fiscal 2008 is as follows (dollars in millions):

| | Employee Severance and Benefits | Other | Asset Impairment Charges | Total |
|-------------------------------|---------------------------------------|-------|--------------------------------|-------|
| Balance at September 28, 2007 | \$ 27 | \$ 1 | \$ | \$ 28 |
| Charges | 58 | 7 | 18 | 83 |
| Utilization | (18) | (7) | (18) | (43) |
| Changes in estimate | (6) | _ | | (6) |
| Currency translation | (4) | | | (4) |
| Balance at September 26, 2008 | \$ 57 | \$ 1 | <u>\$—</u> | \$ 58 |

At September 26, 2008, restructuring liabilities of \$58 million remained on the balance sheet, \$41 million of which are included in accrued and other current liabilities and the remainder of which are included in other liabilities.

2007 Activity

During fiscal 2007, the Company recorded restructuring charges of \$57 million under the \$150 million restructuring program previously discussed, which included asset impairment charges of \$9 million for the writedown of long-lived assets at several manufacturing facilities within the Medical Devices segment. The remaining \$48 million primarily related to severance costs resulting from workforce reductions also within the Medical Devices segment. The Company utilized \$29 million during fiscal 2007.

5. Income Taxes

Significant components of income taxes related to continuing operations for each fiscal year are as follows (dollars in millions):

| | 2008 | 2007 | 2006 |
|-------------------------------|-------|-------|------------|
| Current: | | | |
| United States: | | | |
| Federal | \$367 | \$301 | \$ (46) |
| State | 29 | 36 | 33 |
| Non-U.S. | 139 | 178 | 168 |
| Current income tax provision | 535 | 515 | 155 |
| Deferred: | | | |
| United States: | | | |
| Federal | 38 | (63) | 302 |
| State | 15 | (6) | 22 |
| Non-U.S. | (52) | 16 | <u>(9)</u> |
| Deferred income tax provision | 1 | (53) | 315 |
| | \$536 | \$462 | \$470 |

Non-U.S. income from continuing operations was \$1.055 billion for fiscal 2008. Non-U.S. loss from continuing operations was \$306 million for fiscal 2007. Non-U.S. income from continuing operations was \$1.326 billion for fiscal 2006.

The reconciliation between U.S. federal income taxes at the statutory rate and the Company's provision for income taxes on continuing operations is as follows (dollars in millions):

| | 2008 | 2007 | 2006 |
|---|--------|--------|---------------|
| Notional U.S. federal income taxes at the statutory rate | \$ 693 | \$ 104 | \$ 664 |
| Adjustments to reconcile to the income tax provision: | | | |
| U.S. state income tax provision, net | 37 | 20 | 19 |
| Rate differences between non-U.S. and U.S. jurisdictions ⁽¹⁾ | (303) | (220) | (252) |
| Settlement costs | 18 | 421 | _ |
| Valuation allowances | 1 | (43) | 42 |
| Adjustments to accrued income tax liabilities | 68 | 71 | 79 |
| Allocated loss on the retirement of debt ⁽²⁾ | _ | 43 | (58) |
| Tax costs incurred to effect the separation | _ | 12 | _ |
| Other | 22 | 54 | (24) |
| Provision for income taxes | \$ 536 | \$ 462 | <u>\$ 470</u> |

- (1) Excludes non-deductible charges and other items which are broken out separately in the statutory rate reconciliation presented.
- (2) Included in the loss on retirement of debt in 2006 is a cumulative one-time benefit associated with the receipt of a favorable tax ruling in the fourth quarter of 2006 permitting the deduction of prior year debt retirement costs not previously benefited. This benefit is partially offset by a valuation allowance on the net operating losses created by the debt retirement deductions.

As discussed in Note 1, in fiscal 2008, the Company adopted FIN 48, and, accordingly, recorded a \$355 million reduction in accumulated earnings, a \$197 million increase in deferred tax assets, primarily due to interest and state specific items, and a \$642 million and \$90 million increase in income taxes payable and receivable, respectively.

At September 26, 2008, the total amount of the Company's unrecognized tax benefits was \$1.209 billion, substantially all of which would impact the effective tax rate, if recognized. Interest and penalties associated with uncertain tax positions are recognized as components of income tax expense. The Company accrued \$89 million of interest and \$3 million of penalties during fiscal 2008. The total amount of accrued interest related to uncertain tax positions was \$329 million and \$215 million at September 26, 2008 and September 29, 2007, respectively. In addition, the total amount of accrued penalties related to uncertain tax positions was \$18 million and \$15 million at September 26, 2008 and September 29, 2007, respectively.

A tabular reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (dollars in millions):

| Balance at September 29, 2007 | \$ 1,162 |
|--|----------|
| Additions based on tax positions taken during a prior period | 42 |
| Reductions based on tax positions taken during a prior period | (3) |
| Additions based on tax positions taken during the current period | 43 |
| Reductions related to settlement of tax matters | (28) |
| Reductions related to a lapse of applicable statute of limitations | (7) |
| Balance at September 26, 2008 | \$ 1,209 |

The Company and its subsidiaries' income tax returns are periodically examined by various tax authorities. During 2007, the U.S. Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's, including Covidien's, U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent's Reports in May and June of 2007, which reflected the IRS's determination of proposed tax adjustments for the periods under audit. Tyco International has appealed certain of the proposed tax adjustments totaling approximately \$1 billion. It is Covidien's understanding that Tyco International intends to vigorously defend its previously filed tax return positions.

In December 2007, the IRS commenced an examination of Tyco International's, including Covidien's, U.S. federal income tax returns for the years 2001 through 2004. In connection with the examination, Tyco International has submitted amendments to its U.S. federal income tax returns for the periods through 2004.

The Company is currently in the process of adjusting its U.S. federal tax returns for the periods 2005 through 2007. These filings primarily reflect the impact of adjustments that have been agreed to with the IRS in prior examinations or have been reflected in prior U.S. federal income tax returns. The impact of these adjustments was to decrease non-current income taxes payable by \$53 million with corresponding adjustments to our non-current deferred income taxes and long-term receivable resulting from the Tax Sharing Agreement discussed in Note 17. Such adjustments did not have a material impact on the Company's results of operations or cash flows.

The Company may be required to make additional adjustments resulting from examinations and further analysis of our historical filing positions. However, the Company does not believe any additional adjustments resulting from the ultimate resolution of these matters will have a material impact on its results of operations, financial condition or cash flows. The Company may also be required to accrue and pay additional taxes for contingencies not related to Covidien as a result of the Tax Sharing Agreement discussed in Note 17.

As of September 26, 2008, a summary of tax years that remain subject to examination in the Company's major tax jurisdictions are as follows:

| United States—federal | 1997 and forward |
|-----------------------|------------------------|
| United States—state | 1996 and forward |
| Australia | 2001 and forward |
| Belgium | 2004 and forward |
| France | 2001 and forward |
| Germany | 2002 and forward |
| Greece | 2006 and forward |
| Italy | 2002 and forward |
| Japan | 1998 and forward |
| Switzerland | 2005 and forward |
| United Kingdom | 2004, 2006 and forward |

As of September 26, 2008, the Company does not expect any significant changes to its unrecognized tax benefits within the next 12 months.

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The components of the net deferred tax asset (liability) at the end of fiscal 2008 and 2007 are as follows (dollars in millions):

| | 2008 | 2007 |
|--|---------|----------|
| Deferred tax assets: | | |
| Accrued liabilities and reserves | \$ 314 | \$ 345 |
| Tax loss and credit carryforwards | 6,714 | 543 |
| Inventories | 63 | 72 |
| Postretirement benefits | 41 | 66 |
| Leases | 37 | 40 |
| Federal and state benefit of uncertain tax positions | 180 | _ |
| Investment in subsidiaries | 60 | _ |
| Other | 139 | 95 |
| | 7,548 | 1,161 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (305) | (317) |
| Intangible assets | (564) | (591) |
| Other | (8) | (63) |
| | (877) | (971) |
| Net deferred tax asset before valuation allowances | 6,671 | 190 |
| Valuation allowances | (6,617) | (443) |
| Net deferred tax asset (liability) | \$ 54 | \$ (253) |

Deferred tax assets (liabilities) are reported in the following components on the balance sheets (dollars in millions):

| | 2008 | 2007 |
|---------------------------------------|--------|---------|
| Deferred income taxes (current) | \$ 328 | \$ 268 |
| Deferred income taxes (non-current) | 64 | 67 |
| Accrued and other current liabilities | (4) | (12) |
| Deferred income taxes (non-current) | (334) | (576) |
| Net deferred tax asset (liability) | \$ 54 | \$(253) |

At September 26, 2008, the Company had approximately \$22.5 billion of net operating loss carryforwards in certain non-U.S. jurisdictions, of which \$21.5 billion have no expiration, and the remaining \$1.0 billion will expire in future years through 2028. Included in these net operating loss carryforwards are approximately \$20 billion of net operating losses that the Company recorded in fiscal 2008 as a result of the receipt of a favorable tax ruling from certain non-U.S. taxing authorities. The Company has recorded a full valuation allowance against this net operating loss as the Company believes that it is highly unlikely that any of this net operating loss will be utilized. Since there was no impact on the Company's effective tax rate, the net operating loss and corresponding valuation allowance have been excluded from the rate reconciliation previously presented. The Company had \$203 million of federal net operating loss carryforwards and \$214 million of federal capital loss carryforwards at September 26, 2008, which will expire during 2011 through 2027. For state purposes, the Company had \$1.7 billion of net operating loss carryforwards and \$214 million of capital loss carryforwards at September 26, 2008, which will also expire during 2011 through 2027.

At September 26, 2008, the Company also had \$12 million of tax credits available to reduce future income taxes payable, primarily in jurisdictions within the United States, of which \$2 million have no expiration, and the remaining \$10 million expire during 2009 through 2027.

The valuation allowances for deferred tax assets of \$6.617 billion and \$443 million at September 26, 2008 and September 28, 2007, respectively, relate principally to the uncertainty of the utilization of certain deferred tax assets, primarily tax loss and credit carryforwards in various jurisdictions. The Company believes that it will generate sufficient future taxable income to realize the tax benefits related to the remaining net deferred tax assets.

At September 26, 2008, the Company had certain potential non-U.S. tax attributes that had not been recorded in the Company's financial statements. These attributes include \$10.9 billion of non-U.S. special deductions with an indefinite carryforward period. The Company has treated these amounts as special deductions for financial statement purposes since utilization is contingent upon the annual performance of certain economic factors. The Company intends to recognize the applicable portion of the special deduction annually at an estimated tax rate of between 1% and 3% when and if these economic factors are met.

Except for earnings that are currently distributed, no additional provision has been made for U.S. or non-U.S. income taxes on the undistributed earnings of subsidiaries or for unrecognized deferred tax liabilities for temporary differences related to investments in subsidiaries, as such earnings are expected to be reinvested indefinitely, the investments are essentially permanent in duration, or the Company has concluded that no additional tax liability will arise as a result of the distribution of such earnings. A liability could arise if the Company's intention to permanently reinvest such earnings were to change and amounts were distributed by such subsidiaries or if such subsidiaries are ultimately disposed. It is not practicable to estimate the additional income taxes related to permanently reinvested earnings or the earnings for which additional taxes could be due.

6. Earnings Per Share

Following the separation from Tyco International, the Company had 496,869,055 common shares outstanding. This amount is being utilized to calculate earnings per share for the periods prior to the Separation. The same number of shares has been used to calculate diluted earnings per share and basic earnings per share for periods prior to the Separation because no common shares of Covidien were publicly traded prior to July 2, 2007, and no Covidien restricted shares nor share options were outstanding prior to the Separation.

The following sets forth the computation of basic and diluted earnings per share for fiscal 2008, 2007 and 2006 is as follows (in millions, except per share data):

| | | 2008 | | | 2007 | | | 2006 | |
|------------------------------------|----------------|--------|---------------------|----------------|--------|---------------------|----------------|------------|---------------------|
| | Income | Shares | Per Share Amount | Loss | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic earnings (loss) per common | | | | | | | | | |
| share: | | | | | | | | | |
| Income (loss) from continuing | | | | | | | | | |
| operations | \$1,443 | 500 | \$2.89 | \$(165) | 497 | \$(0.33) | \$1,430 | 497 | \$2.88 |
| Diluted earnings (loss) per common | | | | | | | | | |
| share: | | | | | | | | | |
| Share options and restricted | | | | | | | | | |
| shares | | 5 | | | _ | | | _ | |
| Income (loss) from continuing | | | | | | | | | |
| operations giving effect to | | | | | | | | | |
| dilutive adjustments | <u>\$1,443</u> | 505 | \$2.86 | <u>\$(165)</u> | 497 | \$(0.33) | <u>\$1,430</u> | 497 === | \$2.88 |

The computation of diluted earnings per share for fiscal 2008 and fiscal 2007 excludes the effect of the potential exercise of options to purchase 5 million and 29 million shares, respectively, because the effect would be anti-dilutive. In addition, the computation of diluted earnings per share for fiscal 2007 excludes restricted share awards of 4 million, as the effect would have been anti-dilutive.

7. Inventories

At the end of fiscal 2008 and 2007, inventories were comprised of (dollars in millions):

| | 2008 | 2007 |
|--|---------|---------|
| Purchased materials and manufactured parts | \$ 256 | \$ 215 |
| Work in process | 238 | 200 |
| Finished goods | | 711 |
| Inventories | \$1,280 | \$1,126 |

Aggregate reductions in the carrying value with respect to inventories that were still on hand at September 26, 2008 and September 28, 2007, that were deemed to be excess, obsolete, slow-moving or that had a carrying value in excess of market, were \$116 million and \$105 million, respectively.

8. Property, plant and equipment

At the end of fiscal 2008 and 2007 property, plant and equipment at cost and accumulated depreciation were (dollars in millions):

| | 2008 | 2007 |
|------------------------------------|----------|----------|
| Land | \$ 130 | \$ 127 |
| Buildings and related improvements | 830 | 796 |
| Machinery and equipment | 2,753 | 2,566 |
| Property under capital lease | 224 | 221 |
| Leasehold improvements | 175 | 151 |
| Construction in progress | 378 | 288 |
| Accumulated depreciation | (2,014) | (1,756) |
| Property, plant and equipment, net | \$ 2,476 | \$ 2,393 |

Property under capital lease consists primarily of buildings. Accumulated amortization of capitalized lease assets was \$161 million and \$153 million at the end of fiscal 2008 and 2007, respectively.

Depreciation expense was \$322 million, \$291 million and \$265 million in fiscal 2008, 2007 and 2006, respectively. These amounts include depreciation expense on demonstration equipment which is included in other assets on the balance sheet. Maintenance and repair expenditures are charged to expense when incurred and were \$101 million in fiscal 2008, \$92 million in fiscal 2007 and \$93 million in fiscal 2006.

9. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for fiscal 2008 and 2007 are as follows (dollars in millions):

| | Medical Devices | Imaging Solutions | Pharma- ceutical Products | Medical Supplies | Total |
|---------------------------------|--------------------|----------------------|---------------------------------|---------------------|---------|
| Goodwill at September 30, 2006 | \$4,960 | \$255 | \$252 | \$227 | \$5,694 |
| Acquisitions | 40 | _ | _ | _ | 40 |
| Purchase accounting adjustments | (3) | _ | _ | _ | (3) |
| Currency translation | 36 | | | | 36 |
| Goodwill at September 28, 2007 | 5,033 | 255 | 252 | 227 | 5,767 |
| Acquisitions | 51 | _ | _ | _ | 51 |
| Currency translation | 3 | | | | 3 |
| Goodwill at September 26, 2008 | \$5,087 | \$255 | \$252 | \$227 | \$5,821 |

The gross carrying amount and accumulated amortization of intangible assets at the end of fiscal 2008 and 2007 are as follows (dollars in millions):

| | | 2008 | | 2007 | | | | |
|-------------------------|-----------------------------|-----------------------------|---|-----------------------------|-----------------------------|---|--|--|
| | Gross Carrying Amount | Accumulated Amortization | Weighted Average Amortization Period | Gross Carrying Amount | Accumulated Amortization | Weighted Average Amortization Period | | |
| Amortizable: | | | | | | | | |
| Unpatented technology | \$ 549 | \$195 | 21 years | \$ 536 | \$168 | 21 years | | |
| Patents and trademarks | 659 | 310 | 18 years | 637 | 280 | 18 years | | |
| Other | 260 | 101 | 25 years | 246 | 85 | 25 years | | |
| Total | 1,468 | 606 | 20 years | 1,419 | 533 | 20 years | | |
| Non-Amortizable: | | | | | | | | |
| Trademarks | 356 | | | 356 | | | | |
| Total intangible assets | \$1,824 | \$606 | | \$1,775 | \$533 | | | |

During the fourth quarter of fiscal 2007, the Company recorded a charge of \$33 million for the impairment of a non-amortizable trademark associated with its Imaging Solutions segment. The impairment was due to a shift in branding strategy that resulted in discontinuing the use of the trademark.

Intangible asset amortization expense for fiscal 2008, 2007 and 2006 was \$76 million, \$78 million and \$60 million, respectively. The estimated aggregate amortization expense is expected to be \$70 million for fiscal 2009, \$66 million for fiscal 2010, \$64 million for fiscal 2011, \$64 million for fiscal 2012 and \$62 million for fiscal 2013.

10. Debt

Debt at the end of fiscal 2008 and 2007 is as follows (dollars in millions):

| | 2008 | 2007 |
|--|---------|---------|
| Current maturities of long-term debt: | | |
| Unsecured bridge loan facility | \$ — | \$ 474 |
| Capital lease obligations | 19 | 21 |
| Other | | 28 |
| Total | 19 | 523 |
| Long-term debt: | | |
| Commercial paper program | 171 | _ |
| Unsecured bridge loan facility | _ | 2,727 |
| Unsecured senior revolving credit facility | _ | 724 |
| 5.2% senior notes due December 2010 | 250 | _ |
| 5.5% senior notes due December 2012 | 500 | _ |
| 6.0% senior notes due December 2017 | 1,150 | _ |
| 6.6% senior notes due December 2037 | 850 | _ |
| Capital lease obligations | 45 | 63 |
| Other | 20 | 51 |
| Total | 2,986 | 3,565 |
| Total debt | \$3,005 | \$4,088 |

In October 2007, Covidien International Finance S.A. ("CIFSA"), a wholly owned subsidiary of the Company, completed a private placement offering of \$2.750 billion aggregate principal amount of fixed rate senior notes, comprised of the following: \$250 million of 5.2% notes due 2010; \$500 million of 5.5% notes due 2012; \$1.150 billion of 6.0% notes due 2017; and \$850 million of 6.6% notes due 2037. The notes are fully and unconditionally guaranteed on a senior unsecured basis by Covidien Ltd. The net proceeds of \$2.727 billion were used to repay a portion of the Company's borrowings under its \$4.250 billion unsecured bridge loan facility. During fiscal 2008, the Company repaid the remaining \$474 million outstanding under the unsecured bridge loan facility which matured in April 2008.

During fiscal 2008, in accordance with the terms of the original issuance, CIFSA completed an exchange offering of its \$2.750 billion aggregate principal amount of fixed rate unregistered senior notes described above for public notes. The form and terms of the public notes are identical in all material respects to the form and terms of the corresponding unregistered notes, except that the public notes do not bear legends restricting their transfer under the Securities Act of 1933, as amended.

The Company has a \$1.425 billion five-year unsecured senior revolving credit facility expiring in 2012. Borrowings under this credit facility bear interest, at the Company's option, at a base rate or LIBOR, plus a margin dependent on the Company's credit ratings and the amount drawn under the facility. The Company is required to pay an annual facility fee ranging from 4.5 to 12.5 basis points, depending on its credit ratings. The credit facility agreement contains a covenant limiting the Company's ratio of debt to earnings before interest, income taxes, depreciation and amortization. In addition, the agreement contains other customary covenants, none of which are considered restrictive to the Company's operations. During fiscal 2008, the Company repaid the \$724 million of borrowings that were outstanding under the revolving credit facility as of September 28, 2007.

In February 2008, CIFSA initiated a commercial paper program. The notes issued under the commercial paper program are fully and unconditionally guaranteed by Covidien Ltd. Proceeds from the sale of the notes are used for working capital and other corporate purposes. CIFSA is required to maintain an available unused balance under its \$1.425 billion revolving credit facility sufficient to support amounts outstanding under the commercial paper program. At September 26, 2008, the Company had \$171 million of commercial paper outstanding.

The aggregate amounts of external debt, including capital lease obligations, maturing during the next five fiscal years and thereafter are as follows: \$19 million, \$5 million, \$255 million, \$175 million, \$504 million and \$2.047 billion.

11. Guarantees

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, the Company entered into certain guarantee commitments and indemnifications with Tyco International and Tyco Electronics, which are discussed in Note 17.

In disposing of assets or businesses, the Company often provides 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. The Company does not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, the Company has no reason to believe that these uncertainties would have a material adverse effect on its results of operations, financial condition or cash flows.

The Company has recorded liabilities for known indemnifications included as part of environmental liabilities. Note 19 provides further information regarding these liabilities.

The Company is liable for product performance; however in the opinion of management, such obligations will not significantly affect the Company's results of operations, financial condition or cash flows.

12. Financial Instruments

Derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met. Derivatives used for hedging purposes are designated as an effective hedge of the identified risk exposure at the inception of the contract.

The Company uses forward agreements with financial institutions to manage its exposure to foreign currency exchange rates, principally the Euro, Japanese yen, British pound and Canadian dollar. All of these forward agreements are designated as cash flow hedges. Gains and losses from the ineffective portion of hedges are recorded as adjustments to selling, general and administrative expenses. Gains and losses resulting from the effective portion of hedges, the amounts of which are not material in any period presented, are initially recorded in accumulated other comprehensive income on the balance sheets. Amounts are reclassified from accumulated other comprehensive income to earnings and recorded as an adjustment to selling, general and administrative expenses when the underlying transaction impacts earnings.

The Company also uses various option and forward contracts not designated as accounting hedges to manage foreign currency exposures on accounts and notes receivable, accounts payable, intercompany loans and forecasted transactions denominated in certain foreign currencies.

At September 26, 2008, total contracts outstanding had notional amounts of \$947 million and were in a net liability position of \$11 million on the balance sheet.

The Company is exposed to volatility in the prices of commodities used in the production of its products and may enter into hedging contracts to manage those exposures. As of September 26, 2008, the Company had entered into derivative contracts for certain commodities. These contracts qualified for hedge accounting and did not have a significant impact on the financial statements.

Interest Rate Locks

In July 2007, CIFSA entered into a series of forward interest rate lock agreements (the "rate locks") with an aggregate notional value of \$1.3 billion and a termination date of September 28, 2007. CIFSA designated the rate locks as cash flow hedges against the risk of variability in market interest rates prior to its anticipated issuance of fixed rate senior notes (the "notes"). The notes were originally forecasted to be issued by the end of fiscal 2007, but instead were issued in October 2007 (see Note 10). This delay combined with the termination of the rate locks resulted in exposure to potential market interest rate variability from the period subsequent to September 28, 2007 until the issuance of the notes. To offset this risk, CIFSA entered into a new series of forward interest rate lock agreements to replace the rate locks (the "replacement rate locks"). The replacement rate locks were executed in September 2007 with an aggregate notional value of \$1.3 billion and a termination date of October 2007, and were likewise designated as cash flow hedges against the risk of variability in market interest rates prior to the issuance of the notes. The hedging relationships designated for both the rate locks and the replacement rate locks qualified as effective cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."

The termination of the rate locks resulted in a \$44 million loss in fiscal 2007. Substantially all of the loss was attributable to the effective portion of the cash flow hedges and was recorded within accumulated other comprehensive income on the balance sheet at September 28, 2007. Additionally, an insignificant portion of the loss from the termination of the rate locks was attributable to hedge ineffectiveness and was recorded as interest expense in fiscal 2007.

The fair value of the replacement locks at September 28, 2007 was a loss of \$9 million and was recorded within accumulated other comprehensive income. In fiscal 2008, the termination of the replacement rate locks resulted in an additional \$8 million loss. The losses recorded within accumulated other comprehensive income associated with both the rate locks and the replacement rate locks are currently being reclassified into net income over the terms of the notes as additional interest expense, the amount of which was not significant for fiscal 2008.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, investments, amounts due from former parent and affiliates, accounts payable, debt and derivative financial instruments. The fair value of cash and cash equivalents, accounts receivable, investments, accounts payable, debt and derivative financial instruments approximated their carrying values at the end of fiscal 2008 and 2007. It is not practicable to estimate the fair value of the amounts due from former parent and affiliates.

Concentration of Credit Risk

The Company utilizes established risk management policies and procedures in executing derivative financial instrument transactions. Although the instruments may not necessarily be designated as accounting hedges, the Company does not execute transactions or hold derivative financial instruments for trading or speculative purposes. Counterparties to the Company's derivative financial instruments are limited to major financial institutions with at least an A/A2 long-term debt rating. There is no significant concentration of exposures with any counterparty. None of the Company's derivative financial instruments outstanding at year end would result in a significant loss to the Company if a counterparty failed to perform according to the terms of its agreement. At this time, the Company does not require collateral or other security to be furnished by the counterparties to its derivative financial instruments.

13. Retirement Plans

Defined Benefit Pension Plans—The Company has a number of noncontributory and contributory defined benefit retirement plans covering certain of its U.S. and non-U.S. employees, designed in accordance with conditions and practices in the countries concerned. Net periodic pension benefit cost is based on periodic actuarial valuations which use the projected unit credit method of calculation and is charged to expense on a systematic basis over the expected average remaining service lives of current participants. Contribution amounts are determined based on the advice of professionally qualified actuaries in the countries concerned. The benefits under the defined benefit plans are based on various factors, such as years of service and compensation.

Prior to the Separation, in limited circumstances, the Company participated in certain co-mingled plans through Tyco International that included plan participants of other Tyco International subsidiaries. Expenses for these plans were accounted for pursuant to administrative cooperation arrangements with Tyco International. During fiscal 2007, these plans were separated and, accordingly, the Company recorded its portion of the co-mingled plans, assets and the related obligations, which were actuarially determined based on the Employee Retirement Income Security Act of 1974, as amended ("ERISA") prescribed calculation.

The net periodic benefit cost for all U.S. and non-U.S. defined benefit pension plans is as follows (dollars in millions):

| | U.S. Plans | | | Nor | ins | |
|---|--------------|-------|-------|-------|-------|-------|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Service cost | \$ 6 | \$ 7 | \$ 7 | \$ 14 | \$ 13 | \$ 13 |
| Interest cost | 34 | 33 | 32 | 16 | 13 | 11 |
| Expected return on plan assets | (40) | (39) | (36) | (13) | (10) | (9) |
| Amortization of prior service cost | 1 | 2 | 1 | _ | _ | |
| Amortization of net actuarial loss | 6 | 10 | 19 | 2 | 2 | 3 |
| Plan settlements, curtailment and special termination benefits | 5 | 4 | | 1 | 1 | 1 |
| Net periodic benefit cost | <u>\$ 12</u> | \$ 17 | \$ 23 | \$ 20 | \$ 19 | \$ 19 |
| Weighted-average assumptions used to determine net pension cost | | | | | | |
| during the year: | | | | | | |
| Discount rate | 6.3% | 6.0% | 5.3% | 5.0% | 4.4% | 4.0% |
| Expected return on plan assets | 8.0% | 8.0% | 8.0% | 5.6% | 5.4% | 5.3% |
| Rate of compensation increase | 4.3% | 4.0% | 4.0% | 3.8% | 3.6% | 3.5% |

The estimated net loss and prior service cost for all U.S. and non-U.S. defined benefit pension plans that will be amortized from accumulated comprehensive income into net periodic benefit cost in fiscal 2009 are \$12 million and \$2 million, respectively.

The following table represents the changes in benefit obligations, plan assets and the net amounts recognized on the balance sheet for all U.S. and non-U.S. defined benefit plans the end of 2008 and 2007 (dollars in millions):

| | U.S. I | | Non-U.S | |
|---|------------------|------------------|---------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Change in benefit obligations: | | | | |
| Benefit obligations at beginning of year | \$566 | \$589 | \$ 316 | \$297 |
| Service cost | 6 | 7 | 14 | 13 |
| Interest cost | 34 | 33 | 16 | 13 |
| Employee contributions | _ | | 2 | 2 |
| Plan amendments | _ | _ | _ | (4) |
| Actuarial gain | (26) | (7) | (19) | (17) |
| Benefits and administrative expenses paid | (37) | (37) | (12) | (11) |
| New plans | — | 1 | _ | _ |
| Plan settlements, curtailments and special termination benefits | (25) | (20) | (1) | (2) |
| Currency translation | | | 3 | 25 |
| Benefit obligations at end of year | \$518 | \$566 | \$ 319 | \$316 |
| | | | | |
| Change in plan assets: | \$525 | \$462 | \$ 221 | \$192 |
| Fair value of plan assets at beginning of year Actual return on plan assets | (30) | 56 | (12) | 8 |
| Employer contributions | 11 | 5 | 18 | 16 |
| Employee contributions | | | 2 | 2 |
| Divestitures | | 59 | | |
| Plan settlements | (25) | (20) | (2) | (2) |
| Benefits and administrative expenses paid | (37) | (37) | (12) | (11) |
| Currency translation | _ | _ | 2 | 16 |
| Fair value of plan assets at end of year | | \$525 | \$ 217 | \$221 |
| | | === | | Ψ221 |
| Funded status at end of year | \$ (74) | \$(41) | \$(102) | \$ (95) |
| Contributions after the measurement date | 1 | | 1 | 1 |
| Net amount recognized on the balance sheets | <u>\$ (73)</u> | <u>\$ (41)</u> | \$(101) | <u>\$ (94)</u> |
| Amounts recognized on the consolidated balance sheets: | | | | |
| Non-current assets | \$ | \$ 12 | \$ 2 | \$ 5 |
| Current liabilities | (3) | (5) | (3) | (3) |
| Non-current liabilities | (70) | (48) | (100) | (96) |
| Net amount recognized on the balance sheets | \$(73) | \$(41) | \$(101) | \$ (94) |
| | Ψ(73) | Ψ(11) | === | Ψ(Σ1) |
| Amounts recognized in accumulated other comprehensive income consist of: | | | | |
| Net actuarial loss | _ | | \$ 50 | |
| Prior service cost (credit) | 6 | 8 | (4) | <u>(3)</u> |
| Net amount recognized in accumulated other comprehensive income | \$148 | \$117 | \$ 46 | \$ 43 |
| Weighted-average assumptions used to determine pension benefit obligations at | | | | |
| year end: | | | | |
| Discount rate | | 6.3% | | 5.0% |
| Rate of compensation increase | 3.8% | 4.3% | 3.8% | 3.8% |

The accumulated benefit obligation for all U.S. plans at September 26, 2008 and September 28, 2007 was \$518 million and \$566 million, respectively. The accumulated benefit obligation for all non-U.S. plans as of September 26, 2008 and September 28, 2007 was \$288 million and \$276 million, respectively.

The accumulated benefit obligation and fair value of plan assets for U.S. pension plans with accumulated benefit obligations in excess of plan assets were \$518 million and \$444 million, respectively, at September 26, 2008 and \$298 million and \$245 million, respectively, at September 28, 2007.

The accumulated benefit obligation and fair value of plan assets for non-U.S. pension plans with accumulated benefit obligations in excess of plan assets were \$236 million and \$151 million, respectively, at September 26, 2008 and \$200 million and \$123 million, respectively, at September 28, 2007.

In determining the expected return on plan assets, the Company considers the relative weighting of plan assets by class and individual asset class performance expectations as provided by external advisors. The Company's investment strategy for its pension plans is to obtain a long-term return on plan assets that is consistent with the level of investment risk that is considered appropriate. The Company's U.S. pension plans have a target allocation of either 60% equity securities and 40% debt securities or 30% equity securities and 70% debt securities, depending on the status and duration of liabilities of the plan. Various asset allocation strategies are in place for non-U.S. pension plans depending upon local law, status, funding level and duration of liabilities. The Company's non-U.S. pension plans have a weighted-average target allocation of 43% equity securities, 50% debt securities and 7% other asset classes, primarily cash and cash equivalents.

Pension plans have the following weighted-average asset allocations at the end of fiscal 2008 and 2007:

| | U.S. P | lans | Non-U.S | . Plans |
|---------------------------|--------|-----------|---------|---------|
| | 2008 | 2008 2007 | | 2007 |
| Asset Category: | | | | |
| Equity securities | 46% | 59% | 40% | 41% |
| Debt securities | 53 | 38 | 50 | 44 |
| Real estate | | _ | 2 | 3 |
| Cash and cash equivalents | _1 | 3 | 8 | _12 |
| Total | 100% | 100% | 100% | 100% |

Covidien common shares are not a direct investment of the Company's pension funds; however, the pension funds may indirectly include Covidien common shares. The aggregate amount of the Covidien common shares would not be considered material relative to the total pension fund assets.

The Company's funding policy is to make contributions in accordance with the laws and customs of the various countries in which it operates as well as to make discretionary voluntary contributions from time-to-time. The Company anticipates that at a minimum it will make the minimum required contributions of \$27 million to its U.S. and non-U.S. pension plans in fiscal 2009.

Benefit payments expected to be paid, including those amounts to be paid out of corporate assets and reflecting future expected service as appropriate, are as follows (dollars in millions):

| | U.S. Plans | Non-U.S. Plans |
|------------------|------------|----------------|
| Fiscal 2009 | \$ 51 | \$13 |
| Fiscal 2010 | 45 | 13 |
| Fiscal 2011 | 45 | 12 |
| Fiscal 2012 | 45 | 13 |
| Fiscal 2013 | 44 | 15 |
| Fiscal 2014-2018 | 215 | 85 |

Defined Contribution Retirement Plans—The Company maintains voluntary 401(k) retirement plans, in which the Company matches a percentage of each employee's contributions. Total Company matching contributions to the plans were \$63 million, \$54 million and \$49 million for fiscal 2008, 2007 and 2006, respectively.

Deferred Compensation Plans—The Company maintains one active nonqualified deferred compensation plan in the United States, which permits eligible employees to defer a portion of their compensation. A record keeping account is set up for each participant and the participant chooses from a variety of measurement funds for the deemed investment of their accounts. The measurement funds generally correspond to the funds offered in the Company's U.S. tax-qualified retirement plan and the account balance fluctuates with the investment returns on those funds. Deferred compensation expense for each period presented was insignificant. Total deferred compensation liabilities were \$52 million and \$65 million at the end of fiscal 2008 and 2007, respectively.

Rabbi Trusts and Other Investments—The Company maintains several rabbi trusts, the assets of which may be used to pay non-qualified deferred compensation plan benefits. The trusts primarily hold debt securities. The value of the assets held by these trusts was \$33 million and \$44 million at September 26, 2008 and September 28, 2007, respectively, which were included in other assets on the balance sheets. The rabbi trust assets, which are consolidated, are subject to the claims of the Company's creditors in the event of the Company's insolvency. Plan participants are general creditors of the Company with respect to these benefits. In addition, the Company has other investments which serve as collateral for certain pension plan benefits amounting to \$40 million and \$38 million at September 26, 2008 and September 28, 2007, respectively. These amounts were also included in other assets in the balance sheets.

Postretirement Benefit Plans—The Company generally does not provide postretirement benefits other than retirement plan benefits for its employees. However, certain acquired operations provide postretirement medical benefits to employees who were eligible at the date of acquisition, and a small number of U.S. and Canadian operations provide eligibility for such benefits.

Net periodic postretirement benefit cost is as follows (dollars in millions):

| | 200 | 8 | 2007 | 2006 | |
|---|-----|----|------|------|---|
| Service cost | \$ | 1 | \$ 1 | \$ 1 | |
| Interest cost | | 8 | 9 | 8 | |
| Amortization of prior service credit | | | | (4) | |
| Amortization of net actuarial loss | | 1 | 1 | 1 | |
| Net periodic postretirement benefit cost | \$ | 4 | \$ 6 | \$ 6 | |
| Weighted-average assumptions used to determine net postretirement benefit cost during | | | | | |
| the year: | | | | | |
| Discount rate | 6. | 1% | 5.8% | 4.8% |) |

The estimated net loss and prior service credit of \$5 million for postretirement benefit plans will be amortized from accumulated comprehensive income into net periodic benefit cost in fiscal 2009.

The following table presents the components of the accrued postretirement benefit obligations, all of which are unfunded, at the end of fiscal 2008 and 2007 (dollars in millions):

| | 2008 | 2007 |
|--|----------------|----------------|
| Change in benefit obligations: | | |
| Benefit obligations at beginning of year | \$ 139 | \$ 159 |
| Service cost | 1 | 1 |
| Interest cost | 8 | 9 |
| Plan amendments | (5) | (6) |
| Actuarial gain | (15) | (17) |
| Benefits paid | (8) | (11) |
| Acquisitions | | |
| Benefit obligations at end of year | \$ 120 | \$ 139 ==== |
| Change in plan assets: | | |
| Fair value of assets at beginning of year | \$ — | \$ — |
| Employer contributions | 8 | 11 |
| Benefits paid | (8) | (11) |
| Fair value of plan assets at end of year | <u>\$ —</u> | <u>\$ —</u> |
| Funded status at end of year | \$(120) | \$(139) |
| Contributions after the measurement date | 1 | 1 |
| Accrued postretirement benefit cost | <u>\$(119)</u> | <u>\$(138)</u> |
| Amounts recognized on the balance sheets: | | |
| Current liabilities | \$ (11) | \$ (11) |
| Non-current liabilities | (108) | (127) |
| Total amount recognized on the balance sheets | <u>\$(119)</u> | <u>\$(138)</u> |
| Amounts recognized in accumulated other comprehensive income consist of: | | |
| Net actuarial loss | \$ 8 | \$ 23 |
| Prior service credit | (40) | (41) |
| Net amounts recognized in accumulated other comprehensive income | \$ (32) | \$ (18) |
| Weighted-average assumptions used to determine postretirement benefit obligations at year end: | | |
| Discount rate | 7.0% | 6.3% |

For measurement purposes, a 9.6% composite annual rate of increase in the per capita cost of covered health care benefits was assumed at both September 26, 2008 and September 28, 2007, respectively. These rates were assumed to decrease gradually to 5.0% by the year 2015 and remain at that level thereafter. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects (dollars in millions):

| | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|--|--------------------------------|--------------------------------|
| Effect on total of service and interest cost | 1 | (1) |
| Effect on postretirement benefit obligation | 8 | (7) |

The Company expects to make contributions to its postretirement benefit plans of \$11 million in fiscal 2009.

Benefit payments expected to be paid, including those amounts to be paid out of corporate assets and reflecting future expected service as appropriate, are as follows (dollars in millions):

| Fiscal 2009 | \$11 |
|------------------|------|
| Fiscal 2010 | 11 |
| Fiscal 2011 | 11 |
| Fiscal 2012 | 11 |
| Fiscal 2013 | 10 |
| Fiscal 2014-2018 | 53 |

14. Equity

Parent Company Investment— Prior to June 29, 2007, Tyco International's investment in the healthcare businesses, the Company's accumulated net earnings after taxes and the net effect of transactions with and allocations from Tyco International is shown as parent company investment in the Combined Financial Statements. Note 17 provides additional information regarding the allocation to the Company of various expenses incurred by Tyco International. After Separation adjustments were recorded, the remaining parent company investment balance, which includes all earnings prior to the Separation, was transferred to contributed surplus. In addition, during fiscal 2008, following an analyses of the tax contingency reserves allocated to the Company and Tyco Electronics at the separation date, the Company recorded an \$18 million increase in contributed surplus. This adjustment reflected the net reallocation of income tax reserves between the companies. Net income subsequent to the Separation is included in accumulated earnings.

Preference Shares—Covidien has authorized 125,000,000 preference shares, par value of \$0.20 per share, none of which were issued and outstanding at September 26, 2008 and September 28, 2007. Rights as to dividends, return of capital, redemption, conversion, voting and otherwise with respect to the preference shares may be determined by Covidien's Board of Directors on or before the time of issuance. In the event of the liquidation of the Company, the holders of any preference shares then outstanding would be entitled to payment to them of the amount for which the preference shares were subscribed and any unpaid dividends prior to any payment to the common shareholders.

Dividends—On September 26, 2008, the board of directors declared a quarterly cash dividend of \$0.16 per share to shareholders of record at the close of business on October 9, 2008. The dividend, totaling \$81 million, was paid on November 6, 2008. Covidien paid cash dividends totaling \$320 million during fiscal 2008.

15. Share Plans

Equity Awards Converted from Tyco International Awards

Prior to the Separation, all employee incentive equity awards were granted by Tyco International. At the time of Separation, Tyco International's outstanding equity awards issued to Covidien employees converted into equity awards of Covidien. Covidien equity awards issued upon completion of the conversion on June 29, 2007 and the related weighted-average grant-date fair value is presented below:

| | Shares | Weighted-Average Grant-Date Fair Value |
|-------------------------|------------|--|
| Share options | 24,789,245 | \$15.06 |
| Restricted share awards | 3,040,792 | \$38.67 |

The conversion of existing Tyco International equity awards into Covidien equity awards was considered a modification of an award in accordance with SFAS No. 123R, "Share Based Payment." As a result, the Company compared the fair value of the award immediately prior to the Separation to the fair value immediately after the Separation to measure incremental compensation cost. The conversion resulted in an increase in the fair value of the awards and, accordingly, the Company recorded non-cash compensation expense, the amount of which was not significant.

Stock Compensation Plans

Prior to the Separation, the Company adopted the Covidien Ltd. 2007 Stock and Incentive Plan (the "2007 Plan"). The 2007 Plan provides for the award of stock options, stock appreciation rights, annual performance bonuses, long-term performance awards, restricted units, restricted stock, deferred stock units, promissory stock and other stock-based awards (collectively, "Awards"). The 2007 Plan provides for a maximum of 25 million common shares to be issued as Awards, subject to adjustment as provided under the terms of the 2007 Plan.

Share Options—Options are granted to purchase common shares at prices that are equal to the fair market value of the common shares on the date the option is granted. Conditions of vesting are determined at the time of grant under the 2007 Plan. Options granted under the 2007 Plan generally vest in equal annual installments over a period of four years and generally expire 10 years after the date of grant.

The activity related to the Company's share options from the date of separation to September 26, 2008 is presented below:

*** * * * *

| | Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (dollars in millions) |
|--|-------------|---|--|---|
| Outstanding at June 29, 2007 | 24,789,245 | \$40.38 | | |
| Granted | 5,327,600 | 43.03 | | |
| Exercised | (600,547) | 26.63 | | |
| Expired/Forfeited | (854,046) | 60.39 | | |
| Outstanding at September 28, 2007 | 28,662,252 | 40.57 | 6.21 | \$156 |
| Granted | 518,035 | 41.69 | | |
| Exercised | (4,819,292) | 32.59 | | |
| Expired/Forfeited | (2,349,562) | 48.47 | | |
| Outstanding at September 26, 2008 | 22,011,433 | 41.49 | 5.61 | 319 |
| Exercisable as of September 26, 2008 | 16,189,725 | 41.54 | 4.58 | 240 |
| Expected to vest at September 26, 2008 | 5,101,052 | 41.30 | 8.47 | 69 |
| | | | | |

As of September 26, 2008, there was \$44 million of total unrecognized compensation cost related to non-vested share options granted under the Company's share option plan. The cost is expected to be recognized over a weighted-average period of 1.4 years.

The Company utilized the Black-Scholes pricing model to estimate the fair value of each option on the date of each grant. The fair value is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. The Company utilized the historical and implied volatility of

its peer group with similar business models to estimate the Company's volatility. The average expected life was based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. The expected annual dividend per share was based on the Company's expected dividend rate. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The compensation expense recognized is net of estimated forfeitures. Forfeitures are estimated based on voluntary termination behavior, as well as an analysis of actual option forfeitures. The weighted-average assumptions used in the Black-Scholes pricing model for options granted in 2008 and in 2007 following the Separation were as follows:

| | 2008 | 2007 |
|------------------------------------|---------|---------|
| Expected stock price volatility | 26.66% | 26.00% |
| Risk free interest rate | 3.37% | 4.87% |
| Expected annual dividend per share | \$ 0.64 | \$ 0.64 |
| Expected life of options (years) | 5.00 | 5.14 |

The weighted-average grant-date fair values of Covidien options granted in fiscal 2008 and in fiscal 2007 following the Separation was \$8.70 and \$11.96, respectively. The total intrinsic value of Covidien options exercised during fiscal 2008 and 2007 was \$74 and \$9 million, respectively. The related excess cash tax benefit classified as a financing cash inflow for fiscal 2008 and 2007 was not significant.

Restricted Stock Unit Awards—Restricted stock unit awards are granted subject to certain restrictions. Conditions of vesting are determined at the time of grant under the 2007 Plan. Restrictions on awards generally lapse upon normal retirement, death or disability of the employee. Recipients of restricted stock units have no voting rights and receive dividend equivalents.

For grants that vest through passage of time, the fair market value of the award at the time of the grant is amortized to expense over the period of vesting. For grants which vest based on performance criteria, none of which were outstanding as of September 26, 2008, the fair market value of the award would be expensed over the period of performance. The fair market value of restricted stock unit awards is determined based on the market value of the Company's shares on the grant date. Restricted stock unit awards granted under the 2007 Plan generally vest in equal annual installments over a four-year period. The compensation expense recognized for restricted stock unit awards is net of estimated forfeitures.

The activity related to the Company's restricted stock awards from the date of separation to September 26, 2008 is presented below:

| | Shares | Weighted-Average Grant-Date Fair Value |
|----------------------------------|-------------|--|
| Non-vested at June 29, 2007 | 3,040,792 | \$38.67 |
| Granted | 2,123,352 | 43.30 |
| Vested | (717,963) | 39.51 |
| Forfeited | (44,274) | 40.01 |
| Non-vested at September 28, 2007 | 4,401,907 | 40.80 |
| Granted | 255,924 | 44.10 |
| Vested | (1,308,618) | 41.40 |
| Forfeited | (407,903) | 40.76 |
| Non-vested at September 26, 2008 | 2,941,310 | 40.82 |

The weighted-average grant-date fair value per share of Covidien restricted stock unit awards granted in fiscal 2008 and in fiscal 2007 following the Separation was \$44.10 and \$43.30, respectively. The total fair value of Covidien restricted share awards vested during fiscal 2008 and 2007 was \$54 million and \$28 million, respectively. As of September 26, 2008, there was \$64 million of total unrecognized compensation cost related to non-vested restricted shares granted. The cost is expected to be recognized over a weighted-average period of 1.4 fiscal years.

Equity-Based Compensation—Compensation costs related to share-based transactions are recognized in the financial statements based on fair value. Total equity-based compensation cost related to continuing operations was \$77 million, \$75 million and \$57 million for fiscal 2008, 2007 and 2006, respectively, which has been included in the statements of operations within selling, general and administrative expenses. The Company has recognized a related tax benefit associated with its equity-based compensation arrangements of \$24 million, \$22 million and \$20 million during fiscal 2008, 2007 and 2006, respectively.

Employee Stock Purchase Plans—Substantially all full-time employees of the Company's U.S. subsidiaries and employees of certain qualified non-U.S. subsidiaries are eligible to participate in an employee stock purchase plan. Eligible employees authorize payroll deductions to be made for the purchase of shares. The Company matches the first \$25 thousand of an employee's contribution by contributing an additional 15% of the employee's payroll deduction. This plan provides for a maximum of 5 million common shares to be issued; as of September 26, 2008, there were 4.9 million shares available for future issuance. All shares purchased under the plan are purchased on the open market by a designated broker.

Covidien also maintains a Save as You Earn Plan for the benefit of employees of certain qualified non-U.S. subsidiaries in the United Kingdom. The terms of this plan provides for the Company to grant to certain employees the right to purchase shares of the Company at a stated price and receive certain tax benefits. Under this plan, eligible employees in the United Kingdom are granted options to purchase shares at the end of three years of service at 85% of the market price at the time of grant. Options under the plan are generally exercisable after a period of three years and expire six months after the date of vesting. This plan provides for a maximum of 1 million common shares to be issued, all of which were available for future issuance as of September 26, 2008.

16. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows (dollars in millions):

| | Currency Translation | Unrecognized Loss on Derivatives | Retirement Plans | Accumulated Other Comprehensive Income |
|---|-------------------------|--|---------------------|---|
| Balance at October 1, 2005 | \$290 | \$ | \$(184) | \$106 |
| Pretax current period change | 155 | _ | 56 | 211 |
| Income tax expense | | | (16) | (16) |
| Balance at September 29, 2006 | 445 | _ | (144) | 301 |
| Pretax current period change | 351 | (54) | 158 | 455 |
| Income tax expense | _ | _ | (62) | (62) |
| SFAS No. 158 | | _ | (78) | (78) |
| Income tax benefit for SFAS No. 158 adjustment | | | 27 | 27 |
| Balance at September 28, 2007 after adoption of the | | | | |
| recognition provision of SFAS No. 158 | 796 | (54) | (99) | 643 |
| Pretax current period change | 73 | (4) | (1) | 68 |
| Income tax expense | | | (4) | (4) |
| Balance at September 26, 2008 | <u>\$869</u> | \$ (58) | <u>\$(104)</u> | <u>\$707</u> |

17. Transactions with Former Parent and Affiliates

Cash Management—Tyco International used a centralized approach to cash management and financing of operations. Prior to the Separation, the Company's cash was available for use and was regularly "swept" by Tyco International at its discretion. Tyco International also funded the Company's operating and investing activities as needed. Transfers of cash both to and from Tyco International's cash management system are reflected as a component of parent company investment within shareholders' equity in the financial statements.

Trade Activity—Prior to separation, the Company purchased certain raw materials and components from Tyco International and its affiliates, at prices which approximated fair value. These purchases totaled \$58 million for the first nine months of fiscal 2007 and \$73 million for fiscal 2006.

Allocated Expenses—The Company was allocated corporate overhead expenses from Tyco International for corporate-related functions based on a pro-rata percentage of Tyco International's consolidated net revenue. General corporate overhead expenses primarily related to centralized corporate functions, including treasury, tax, legal, internal audit, human resources and risk management functions. During fiscal 2007 and 2006, the Company was allocated general corporate expenses incurred by Tyco International of \$109 million and \$141 million, respectively, which is included within selling, general and administrative expenses. As discussed in Note 1, the Company believes the assumptions and methodologies underlying the allocations of general corporate overhead from Tyco International are reasonable. However, such expenses may not be indicative of the actual level of expenses that the Company would have incurred had the Company been operating as an independent, publicly-traded company for the periods prior to the Separation. As such, the financial information for fiscal 2007 and 2006 may not necessarily reflect the results of operations and cash flows of the Company had the Company been an independent, publicly-traded company.

Interest Expense and Interest Income—For periods prior to the Separation, Tyco International's consolidated debt, exclusive of amounts incurred directly by the Company, was proportionately allocated to the Company based on the historical funding requirements of the Company using historical data. Net interest expense was allocated in the same proportions as debt through June 1, 2007, at which time Covidien assumed its portion of Tyco International's debt. Interest expense on the allocated debt was calculated using Tyco International's historical weighted-average interest rate on its debt, including the impact of interest rate swap agreements. For fiscal 2007 and 2006, Tyco International allocated to the Company interest expense of \$93 million and \$144 million, respectively, and interest income of \$16 million and \$20 million, respectively.

Loss on Early Extinguishment of Debt—Tyco International allocated to the Company loss on early extinguishment of debt in the amount of \$146 million for fiscal 2007, for which no tax benefit was realized. This amount is included in other income (expense), net for fiscal 2007. The method utilized to allocate loss on early extinguishment of debt is consistent with the method used to allocate debt and net interest expense as described above. Management believes the allocation basis for debt, net interest expense and loss on early extinguishment of debt is reasonable based on the historical financing needs of the Company. However, these amounts may not be indicative of the actual amounts that the Company would have incurred had the Company been operating as an independent, publicly-traded company for the periods prior to the Separation.

Separation and Distribution Agreement—On June 29, 2007, the Company entered into a Separation and Distribution Agreement and other agreements with Tyco International and Tyco Electronics to effect the Separation and provide a framework for the Company's relationships with Tyco International and Tyco Electronics after the Separation. These agreements govern the relationships among Covidien, Tyco International and Tyco Electronics subsequent to the Separation and provide for the allocation to Covidien and Tyco Electronics of certain of Tyco International's assets, liabilities and obligations attributable to periods prior to the Separation.

Under the Separation and Distribution Agreement and other agreements, subject to certain exceptions contained in the Tax Sharing Agreement, Covidien, Tyco International and Tyco Electronics assumed 42%, 27% and 31%, respectively, of certain of Tyco International's contingent and other corporate liabilities. All costs and expenses associated with the management of these contingent and other corporate liabilities will be shared equally among the parties. These contingent and other corporate liabilities primarily relate to consolidated securities litigation and any actions with respect to the Separation brought by any third party. Contingent and other corporate liabilities do not include liabilities that are specifically related to one of the three separated companies, which will be allocated 100% to the relevant company. If any party responsible for such liabilities were to default in its payment, when due, of any of these assumed obligations, each non-defaulting party would be required to pay equally with any other non-defaulting party the amounts in default. Accordingly, under certain circumstances, Covidien may be obligated to pay amounts in excess of its agreed-upon share of the assumed obligations related to such contingent and other corporate liabilities, including associated costs and expenses.

Tax Sharing Agreement—On June 29, 2007, the Company entered into a Tax Sharing Agreement, under which the Company shares responsibility for certain of its, Tyco International's and Tyco Electronics' income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. Covidien, Tyco International and Tyco Electronics share 42%, 27% and 31%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to its, Tyco International's and Tyco Electronics' 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. All costs and expenses associated with the management of these shared tax liabilities will be shared equally among the parties. The Company is responsible for all of its own taxes that are not shared pursuant to the Tax Sharing Agreement's sharing formula. Similarly, Tyco International and Tyco Electronics are responsible for their tax liabilities that are not subject to the Tax Sharing Agreement's sharing formula.

All the tax liabilities of Tyco International that were associated with the former Healthcare businesses of Tyco International became Covidien's tax liabilities following the Separation. Although Covidien agreed to share certain of these tax liabilities with Tyco International and Tyco Electronics pursuant to the Tax Sharing Agreement, Covidien remains primarily liable for all of these liabilities. If Tyco International and Tyco Electronics default on their obligations to Covidien under the Tax Sharing Agreement, Covidien 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, the Company could be legally liable under applicable tax law for such liabilities and be required to make additional tax payments. Accordingly, under certain circumstances, the Company may be obligated to pay amounts in excess of its agreed upon share of its, Tyco International's and Tyco Electronics' tax liabilities.

The Company has used available information to develop its best estimates for certain assets and liabilities related to periods prior to Separation, including amounts subject to or impacted by the provisions of the Tax Sharing Agreement. Final determination of the balances will be made in subsequent periods, primarily related to certain pre-Separation tax liabilities and tax years open for examination. It also includes the impact of filing final or amended income tax returns in certain jurisdictions where those returns include a combination of Tyco International, Covidien and/or Tyco Electronics legal entities for periods prior to the Separation. Substantially all adjustments will be recorded as either distributions to or contributions from either Tyco International or Tyco Electronics through shareholders' equity in subsequent periods as tax returns are finalized and other related activities are completed.

Income Tax Receivables—The Company is the primary obligor to the taxing authorities for \$1.398 billion of contingent tax liabilities which were recorded on the balance sheet at September 26, 2008. In accordance with the Tax Sharing Agreement, the Company shares certain contingent liabilities relating to unresolved tax matters of legacy Tyco International. 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, which may not occur for several years. Adjustments to income tax receivables related to the Tax Sharing Agreement are recorded in other income (expense), net.

In addition, pursuant to the terms of the Tax Sharing Agreement, the Company recorded a long-term receivable from Tyco International and Tyco Electronics of \$585 million which is classified as due from former parent and affiliates on the balance sheet at September 26, 2008. This receivable primarily reflects 58% of the non-current income taxes payable subject to the Tax Sharing Agreement. If Tyco International and Tyco Electronics default on their obligations to the Company under the Tax Sharing Agreement, the Company would be liable for the entire amount of these liabilities.

During fiscal 2008, the Company recorded other income of \$214 million and a corresponding increase to its receivable from Tyco International and Tyco Electronics. This amount includes \$231 million (\$0.46 for both basic and diluted earnings per share) which reflects the indirect effect of adopting FIN 48 during the first quarter of fiscal 2008, for which there was also a corresponding increase to our receivable from Tyco International and Tyco Electronics. Note 1 provides further information regarding the Company's adoption of FIN 48. The remaining amount relates to a decrease to the Company's receivable from Tyco International and Tyco Electronics, in accordance with the Tax Sharing Agreement discussed above. This income reflects 58% of interest and other income tax payable amounts recorded during fiscal 2008 which will be covered under the Tax Sharing Agreement.

Guaranteed Tax Liabilities—Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, the Company entered into certain guarantee commitments and indemnifications with Tyco International and Tyco Electronics. These guarantee arrangements and indemnifications primarily relate to certain contingent tax liabilities; Covidien assumed and is responsible for 42% of these liabilities. Regarding the guarantees, if any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs related to any such liability, the Company would be responsible for a portion of the defaulting party or parties' obligation. These arrangements were valued upon the Company's separation from Tyco International using appraisals and liabilities amounting to \$760 million related to these guarantees were recorded on the balance sheet, the offset of which was reflected as a reduction in shareholders' equity. Each reporting period, the Company evaluates the potential loss which it believes is probable as a result of its commitments under the Agreements. To the extent such potential loss exceeds the amount recorded on the balance sheet, an adjustment will be required to increase the recorded liabilities to the amount of such potential loss. This guarantee is not amortized because no predictable pattern of performance exists. As a result, the liability generally will be reduced upon the Company's release from its obligations under the Agreements, which may not occur for some years. In addition, as payments are made to indemnified parties, such payments are recorded as reductions to the liability and the impact of such payments is considered in the periodic evaluation of the sufficiency of the liability. Following an analyses of the tax contingency reserves allocated to the Company and Tyco Electronics at the separation date, the Company adjusted its guaranteed tax liability to correct the initial amount recorded upon separation, based on the net reallocation of income tax reserves between the companies. This adjustment resulted in a \$53 million decrease to the Company's guaranteed tax liability in fiscal 2008. As of September 26, 2008, \$707 million relating to these guarantees remained on our balance sheet.

18. Leases

The Company has facility, vehicle and equipment leases that expire at various dates through the year 2021. Rental expense under facility, vehicle and equipment operating leases was \$126 million, \$112 million, and \$104 million for fiscal 2008, 2007 and 2006, respectively. The Company also has facility and equipment commitments under capital leases.

Following is a schedule of minimum lease payments for non-cancelable leases as of September 26, 2008 (dollars in millions):

| | Operating Leases | Capital Leases |
|---|---------------------|-------------------|
| Fiscal 2009 | \$ 88 | \$ 22 |
| Fiscal 2010 | 61 | 7 |
| Fiscal 2011 | 48 | 7 |
| Fiscal 2012 | 37 | 6 |
| Fiscal 2013 | 29 | 6 |
| Thereafter | 88 | 35 |
| Total minimum lease payments | \$351 | 83 |
| Less interest portion of payments | | (19) |
| Present value of minimum lease payments | | \$ 64 |

19. Commitments and Contingencies

The Company has purchase obligations related to commitments to purchase certain goods and services. At September 26, 2008, such obligations were as follows: \$159 million in fiscal 2009, \$52 million in fiscal 2010, \$51 million in fiscal 2011, \$21 million in fiscal 2012, \$15 million in fiscal 2013, and an aggregate of \$11 million thereafter.

The Company is subject to various legal proceedings and claims, including patent infringement claims, antitrust claims, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. Management believes 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 the Company's experience, current information and applicable law, management does not expect that these proceedings will have a material adverse effect on the Company's financial condition. However, one or more of the proceedings could have a material adverse effect on the Company's results of operations or cash flows for a future period. The most significant of these matters are discussed below.

Patent Litigation

The Company and Applied Medical Resources Corp. ("Applied Medical") are involved in the following patent infringement actions related to trocar products used in minimally invasive surgical procedures:

(1) Applied Medical Resources Corp. v. United States Surgical ("U.S. Surgical") is a patent infringement action that was filed in the United States District Court for the Central District of California on July 31, 2003. U.S. Surgical is a subsidiary of the Company. The complaint alleges that U.S. Surgical's Versaseal Plus trocar product infringes Applied Medical's U.S. Patent No. 5,385,553. Applied Medical seeks injunctive relief and unspecified monetary damages, including enhanced damages for alleged willful infringement. Applied Medical filed a motion for a preliminary injunction, which the district court denied on December 23, 2003. On February 7, 2005, the district court granted U.S. Surgical's motion for summary judgment of non-infringement. Applied Medical appealed the summary judgment ruling. On May 15, 2006, the United States Court of Appeals for the Federal Circuit issued a decision on the appeal vacating the district court's grant of summary judgment and remanded the case for further proceedings. On January 9, 2007, the district court entered an order that denied both parties' motions for summary judgment on the

grounds that material facts remain in dispute. On February 20, 2008, following a five week trial, a jury returned a verdict finding that U.S. Surgical's product does not infringe Applied Medical's '553 patent. On April 29, 2008, the district court denied Applied Medical's post-trial motion seeking judgment as a matter of law or, alternatively, a new trial. Following this ruling, Applied Medical appealed to the United States Court of Appeals for the Federal Circuit seeking a new trial. Oral argument in that appeal took place on November 6, 2008.

- (2) Tyco Healthcare Group LP v. Applied Medical Resources Corp. is a patent infringement action that was filed in the United States District Court for the Eastern District of Texas, Lufkin Division, on July 19, 2006. The complaint alleges that Applied Medical's "Universal Seal" in its trocar product infringes the Company's U.S. Patent No. 5,304,143, No. 5,685,854, No. 5,542,931, No. 5,603,702 and No. 5,895,377. The Company is seeking injunctive relief and unspecified monetary damages. The parties are in the discovery stage. Trial is scheduled to begin on July 8, 2009.
- (3) On October 5, 2006, Applied Medical filed three separate patent infringement complaints in the United States District Court for the Eastern District of Texas, Lufkin Division, under the caption *Applied Medical Resources Corporation v. Tyco Healthcare Group LP and United States Surgical Corporation.* The complaints allege that the Company's "Step" series of trocar products, as well as certain of its "VersaPort" series of trocar products, infringe Applied Medical's U.S. Patent No. 5,385,553, No. 5,584,850 and No. 5,782,812. Applied Medical seeks injunctive relief and unspecified monetary damages, including enhanced damages for alleged willful infringement. On August 13, 2007, in accordance with a stipulation between the parties, the court dismissed with prejudice Applied Medical's infringement claims against the Company with respect to Applied Medical's '553 and '812 patents. On April 30, 2008, in accordance with a stipulation between the parties, the court dismissed with prejudice Applied Medical's infringement claims against the Company with respect to Applied Medical's '850 patent. As a result, all infringement claims against the Company have been dismissed and the case is concluded.

Becton Dickinson and Company ("Becton Dickinson") v. Tyco Healthcare Group LP is a patent infringement action that was filed in the United States District Court for the District of Delaware on December 23, 2002. The complaint alleges that the Company's Monoject Magellan safety needle and safety blood collector products infringe Becton Dickinson's U.S. Patent No. 5,348,544. Following trial, on October 26, 2004, the jury returned a verdict finding that the Company willfully infringed Becton Dickinson's patent and awarded Becton Dickinson \$4 million in lost profits damages and reasonable royalty damages. In post-trial proceedings, the Company filed motions for judgment as a matter of law, or, alternatively, for a new trial. Becton Dickinson filed a post-trial motion for enhanced damages, attorneys' fees, pre-judgment interest and postjudgment interest, and a motion for a permanent injunction. On March 31, 2006, the trial court issued a memorandum and order on the parties' post-trial motions denying the Company's motion for judgment as a matter of law; granting the Company's motion for a new trial on the issue of infringement; and denying Becton Dickinson's motion for enhanced damages, attorneys' fees, pre-judgment interest and post-judgment interest, and a permanent injunction. On November 30, 2007, following the new trial, a jury returned a verdict finding that the Company infringed Becton Dickinson's patent. Before submitting the case to the jury, the district court granted judgment as a matter of law in the Company's favor finding that the Company did not willfully infringe Becton Dickinson's patent. The Company has filed post-trial motions in the district court for judgment as a matter of law, or, in the alternative, for a new trial. Becton Dickinson has filed a motion for permanent injunction. On September 11, 2008, the district court denied the Company's motion for a new trial. On October 17, 2008 the district court denied our motion for judgment as a matter of law. On October 29, 2008, the district court awarded Becton Dickinson \$58 million in damages and prejudgment interest; ordered a post-verdict accounting for additional damages that have accrued since the trial's conclusion; and ordered a permanent injunction precluding us from selling the Monoject Magellan safety needle products that the jury found to have infringed. The injunction is scheduled to take effect on December 17, 2008. The Company has appealed to the United States

Court of Appeals for the Federal Circuit. The Company is also launching redesign products that it believes do not infringe Becton Dickinson's patent. The Company has assessed the status of this matter and has concluded that it is more likely than not that the infringement finding will be overturned, and, further, intends to vigorously pursue all available means to achieve such reversal. Accordingly, no provision has been made in the financial statements with respect to any damage award.

The Company and Medrad, Inc. ("Medrad") were involved in patent infringement actions related to powered injectors used for the delivery of contrast media to patients undergoing diagnostic imaging procedures. During fiscal 2008, the Company and Medrad entered into an agreement to resolve these cases. In accordance with this agreement, the Company paid Medrad \$17 million in exchange for Medrad agreeing not to assert any claim of patent infringement under certain Medrad patents against the Company's power injectors.

Antitrust Litigation

Masimo Corporation ("Masimo") v. Tyco Healthcare Group LP and Mallinckrodt, Inc. was filed on May 22, 2002 in the United States District Court for the Central District of California. Masimo alleges violations of antitrust laws by the Company and Mallinckrodt in the markets for pulse oximetry products. Masimo alleges that the Company and Mallinckrodt used their market position to prevent hospitals from purchasing Masimo's pulse oximetry products. Masimo seeks injunctive relief and monetary damages, including treble damages. Trial in this case began on February 22, 2005. The jury returned its verdict on March 21, 2005, and awarded Masimo \$140 million in damages. The damages are automatically trebled under the antitrust statute to an award of \$420 million. If ultimately successful, Masimo's attorneys are entitled to an award of reasonable fees and costs in addition to the verdict amount. On March 22, 2006, the district court issued its memorandum of decision regarding the post-trial motions. In the memorandum, the district court vacated the jury's liability findings on two business practices; affirmed the jury's liability finding on two other business practices; vacated the jury's damage award in its entirety; and ordered a new trial on damages. The district court held the new trial on the damages on October 18 and 19, 2006. On January 25, 2007, the district court ordered an additional hearing on the issue of damages, which took place on March 22, 2007. On June 7, 2007, the district court issued its memorandum of decision in the new trial on damages and awarded Masimo \$14.5 million in damages. The damages are automatically trebled under the antitrust statute to an award of \$43.5 million. On June 29, 2007, the district court entered final judgment awarding Masimo \$43.5 million in damages, denying Masimo's demand for a permanent injunction, and retaining jurisdiction to determine the amount of attorney's fees and costs, if any, to be awarded Masimo. On November 5, 2007, the district court issued an order granting Masimo \$8.7 million in attorney's fees and costs. Following entry of judgment, both parties appealed to the United States Court of Appeals for the Ninth Circuit. Oral argument in that appeal is scheduled for December 8, 2008. The Company has assessed the status of this matter and has concluded that it is more likely than not that the liability findings and damages award (including attorney's fees and costs) will be overturned, and, further, the Company intends to vigorously pursue all available means to achieve such reversal. Accordingly, no provision has been made in the financial statements with respect to this damage award.

Beginning on August 29, 2005, with *Allied Orthopedic Appliances, Inc. v. Tyco Healthcare Group, L.P.*, and *Mallinckrodt Inc.*, 12 consumer class actions have been filed in the United States District Court for the Central District of California. In all of the complaints, the putative class representatives, on behalf of themselves and others, seek to recover overcharges they allege they paid for pulse oximetry products as a result of anticompetitive conduct by the Company in violation of the federal antitrust laws. The 12 complaints were subsequently consolidated into a single proceeding styled *In re: Pulse Oximetry Antitrust litigation*. By stipulation among the parties, six putative class representatives dismissed their claims against the Company, leaving six remaining putative class representatives as plaintiffs in the consolidated proceeding. On December 21, 2007, the district court denied the plaintiffs' motion for class certification. On March 14, 2008, the United States Court of Appeals for the Ninth Circuit denied the plaintiffs' request for leave to appeal the district

court's denial of their motion for class certification. On July 9, 2008, the district court granted the Company's motion for summary judgment which resulted in the dismissal of all claims. The plaintiffs have appealed both rulings to the United States Court of Appeals for the Ninth Circuit.

Rochester Medical Corporation, Inc. ("Rochester Medical") v. C.R. Bard, Inc., et al. is a complaint filed against the Company, another manufacturer and two group purchasing organizations ("GPOs") in the United States District Court for the Eastern District of Texas on March 15, 2004. The complaint alleges that the Company and the other defendants conspired or acted to exclude Rochester Medical from markets for urological products in violation of federal and state antitrust laws. Rochester Medical also asserts claims under the Lanham Act and for business disparagement, common law conspiracy and tortious interference with business relationships. Rochester Medical seeks injunctive relief and damages. Any damages awarded under the federal antitrust laws will be subject to statutory trebling. Rochester Medical has reported that it has settled its claims against defendants C.R. Bard, Inc. and Premier, Inc./Premier Purchasing Partners, L.P. and Novation, LLC/VHA, Inc. Prior to settlement with these three parties, Rochester Medical alleged a damages figure of approximately \$213 million against all defendants for all claims. At this time, it is not possible to estimate the amount of loss or probable losses, if any, that might result from an adverse resolution of this matter. The Company intends to defend this action vigorously. Trial is scheduled to begin on January 5, 2009.

Southeast Missouri Hospital v. C.R. Bard, et al. is a class action lawsuit filed against the Company and another manufacturer on February 21, 2007, in the United States District Court for the Eastern District of Missouri, Southeastern Division. In the complaint, the putative class representative, on behalf of itself and others, seeks to recover overcharges it alleges that it and others paid for urological products as a result of anticompetitive conduct by the defendants in violation of federal antitrust laws. On January 22, 2008, the district court issued a memorandum and order dismissing all claims against the Company.

Daniels Sharpsmart, Inc. ("Daniels") v. Tyco International (US) Inc., et al. is a complaint filed against the Company, another manufacturer and three GPOs in the United States District Court for the Eastern District of Texas on August 31, 2005. The complaint alleges that the Company monopolized or attempted to monopolize the market for sharps containers and that the Company and the other defendants conspired or acted to exclude Daniels from the market for sharps containers in violation of federal and state antitrust laws. Daniels also asserts claims under the Lanham Act and for business disparagement, common law conspiracy and tortious interference with business relationships. Daniels seeks injunctive relief and unspecified monetary damages, including treble damages. Daniels dismissed with prejudice its claims against Consorta, Inc., one of the defendant GPOs. Also, following a settlement, Daniels dismissed with prejudice its claims against the other two defendant GPOs, Novation, LLC/VHA, Inc. and Premier, Inc./Premier Purchasing Partners, L.P., as well as its claims against Becton Dickinson and Company. At this time, it is not possible to estimate the amount of loss or probable losses, if any, that might result from an adverse resolution of this matter. The Company intends to defend this action vigorously. Trial is scheduled to begin on January 5, 2009 for claims against the Company.

Natchitoches Parish Hospital Service District, et al. v. Tyco International, Ltd., et al. is a class action lawsuit filed against the Company on September 15, 2005 in the United States District Court for the District of Massachusetts. In the complaint, the putative class representatives, on behalf of themselves and others, seek to recover overcharges they allege that they and others paid for sharps containers as a result of anticompetitive conduct by the Company in violation of federal antitrust laws. At this time, it is not possible to estimate the amount of loss or probable losses, if any, that might result from an adverse resolution of this matter. The Company intends to vigorously defend this action. On August 29, 2008, the district court granted the plaintiffs' motion for class certification. The Company filed a request for leave with the United States Court of Appeals for the First Circuit to appeal the district court's granting of the plaintiffs' motion for class certification. No trial date has been scheduled.

Asbestos Matters

Mallinckrodt Inc., a subsidiary of the Company, 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.

The Company's involvement in asbestos cases has been limited because Mallinckrodt did not mine or produce asbestos. Furthermore, in the Company's experience, a large percentage of these claims were never substantiated and have been dismissed by the courts. The Company has not suffered an adverse verdict in a trial court proceeding related to asbestos claims and intends to continue to vigorously defend these lawsuits. When appropriate, the Company settles claims; however, amounts paid to settle and defend all asbestos claims have been immaterial. As of September 26, 2008, there were 10,586 asbestos liability cases pending against Mallinckrodt.

The Company estimates its pending asbestos claims and claims that were incurred but not reported, as well as related insurance recoveries. The Company's estimate of the liability for pending and future claims is based on claim experience over the past five years and covers claims expected to be filed over the next seven years. The Company believes that it has 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, the Company believes that the final outcome of all known and anticipated future claims, after taking into account insurance coverage, will not have a material adverse effect on the Company's results of operations, financial condition or cash flows.

Environmental Proceedings

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. 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 26, 2008, the Company concluded that it was probable that it would incur remedial costs in the range of \$95 million to \$257 million. As of September 26, 2008, the Company concluded that the best estimate within this range was \$125 million, of which \$13 million was included in accrued and other current liabilities and \$112 million was included in other liabilities on the balance sheet. The Company discounts environmental liabilities using a risk-free rate of return when the obligation is fixed or reliably determinable. The impact of the discount was not material in any period presented.

The Company's most significant environmental liability pertains to a site in Orrington, Maine. Mallinckrodt LLC, a subsidiary of the Company, owned and operated a chemical manufacturing facility in Orrington, Maine from 1967 until 1982. Mallinckrodt is responsible for the costs of completing an environmental site investigation required by the United States Environmental Protection Agency ("EPA") and the Maine Department of Environmental Protection ("MDEP"). Mallinckrodt has submitted a Corrective Measures Study (CMS) plan to the EPA and MDEP for approval. MDEP has orally indicated that it does not agree with Mallinckrodt's proposed remedial alternative. Mallinckrodt has been in discussions with MDEP regarding potential alternatives to the remediation approach proposed by Mallinckrodt in the CMS. Mallinckrodt is not certain at this time of the potential outcome of these discussions. Mallinckrodt has been advised that issuance of

an implementation order from MDEP outlining its preferred remedial alternative is pending. At September 26, 2008, estimated future investigation and remediation costs of \$27 million were accrued for this site. This accrual does not include potential costs that the Company may incur if it is ordered to remediate environmental conditions in the Penobscot River and Bay. At this time, it is not possible for the Company to estimate the amount of any such potential additional remediation costs.

In addition, the Company has accrued for the remediation of several other sites, each of which is individually insignificant. The Company believes that any potential payment of such estimated amounts will not have a material adverse effect on its results of operations, financial condition or cash flows.

The Company recorded asset retirement obligations ("AROs") for the estimated future costs primarily associated with legal obligations to decommission two facilities within the Imaging Solutions segment. As of September 26, 2008 and September 28, 2007, the Company's AROs were \$97 million and \$93 million, respectively. The accretion of the liability and the depreciation of the capitalized cost are recognized over the estimated useful lives of the facilities, which range from 23 to 25 years. The increase in AROs in fiscal 2008 resulted largely from interest accretion. The Company believes that any potential payment of such estimated amounts will not have a material adverse effect on its results of operations, financial condition or cash flows.

Other Matters

The Company is a defendant in a number of other pending legal proceedings incidental to present and former operations, acquisitions and dispositions. The Company does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on its results of operations, financial condition or cash flows.

Tyco International Legal Proceedings

As discussed in Note 17, pursuant to the Separation and Distribution Agreement, the Company assumed a portion of Tyco International's contingent and other corporate liabilities, including potential liabilities related to certain of Tyco International's outstanding litigation matters. See "Part I. Item 3. Legal Proceedings" for a description of Tyco International's various significant outstanding litigation proceedings, for which Covidien will be responsible for 42% of any liabilities that arise upon settlement. Covidien, Tyco International and Tyco Electronics are jointly and severally liable for the full amount of these liabilities under the Separation and Distribution Agreement. Accordingly, if Tyco International or Tyco Electronics were to default on their obligation to pay their allocated share of these liabilities, the Company would be required to pay additional amounts.

Securities Class Action Settlement

On May 14, 2007, Tyco International entered into a memorandum of understanding with plaintiffs' counsel in connection with the settlement of 32 securities class action lawsuits alleging violations of the disclosure provisions of the federal securities laws. Under the terms of the memorandum of understanding, the plaintiffs agreed to release all claims against Tyco International, the other settling defendants and ten other individuals in consideration for the payment to the certified class of \$2.975 billion plus accrued interest. Under the terms of the Separation and Distribution Agreement, the companies share in the liability, with Covidien assuming 42%, Tyco International 27% and Tyco Electronics 31% of the total amount. In fiscal 2007, the Company was allocated a net charge of \$1.202 billion from Tyco International. This amount is comprised of the Company's portion of the class action settlement of \$1.249 billion, net of its portion of the related insurance recoveries of \$47 million. Because Covidien, Tyco International and Tyco Electronics were jointly and severally liable for the full amount

of the settlement, at September 28, 2007, the Company had a \$2.992 billion liability for the full amount owed under the settlement, including accrued interest and a \$1.735 billion receivable from Tyco International Ltd. and Tyco Electronics for their portions of the liability. In fiscal 2007, the Company funded its portion of the payment into an escrow account intended to be used to settle the liability. Interest in class action settlement fund on the balance sheet at September 28, 2007, represents the Company's \$1.257 billion interest in Tyco International's funds held in escrow to settle the class action lawsuits.

On December 19, 2007, the United States District Court for the District of New Hampshire entered a final order approving the settlement of the 32 securities class action lawsuits in accordance with the terms of the memorandum of understanding. All legal contingencies that could have affected the final court order approving the class action settlement expired on February 21, 2008. Accordingly, during fiscal 2008, the Company removed the class action settlement liability and the related class action settlement receivable and interest in class action settlement fund, both previously included in corporate assets, from the balance sheet. While the finalization of the class action settlement resulted in a decrease to the Company's cash flow from continuing operations during fiscal 2008, it did not affect the Company's cash balance, as the Company had previously fully funded its portion of the class action settlement into an escrow account intended to be used to settle the liability, as discussed above.

During fiscal 2008, Tyco International received insurance recoveries related to its class action settlement totaling \$38 million. Tyco International in turn paid Covidien \$16 million for its portion of the recoveries in accordance with the sharing percentages included in the Separation and Distribution Agreement.

The settlement does not resolve all securities cases, and several remain outstanding. In addition, the settlement does not release claims arising under ERISA and the lawsuits arising thereunder. If the unresolved securities proceedings, including the opt-out cases described below, were to be determined adversely to Tyco International, the Company's share of any additional potential losses, which are not presently estimable, may have a material adverse effect on the Company's results of operations, financial condition or cash flows.

The deadline for deciding not to participate in the class settlement was September 28, 2007. As of such date, Tyco International received opt-out notices from individuals and entities totaling approximately 4% of the shares owned by class members. A number of these individuals and entities have filed claims separately against Tyco International and/or Tyco International, Tyco Electronics and the Company. Any judgments resulting from such claims, or from claims that are filed in the future, would not reduce the settlement amount. Generally, the claims asserted by these plaintiffs include claims similar to those asserted by the settling plaintiffs; namely, violations of the disclosure provisions of federal securities laws. Tyco International has advised the Company that it intends to vigorously defend any litigation resulting from opt-out claims. At this time, it is not possible to predict the final outcome or to estimate the amount of loss or range of possible loss, if any, that might result from an adverse resolution of the asserted or unasserted claims from individuals that have opted out.

Shareholder Settlements

Ballard v. Tyco International Ltd., et al.—During fiscal 2008, Tyco International entered into an Agreement in Principle ("Agreement") with the trustee of various trusts that brought claims against Tyco International alleging, among other things, securities fraud in connection with Tyco International's 1999 acquisition of AMP, Inc. In accordance with the Agreement, Tyco International paid \$36 million to the plaintiffs to settle Ballard v. Tyco International Ltd., et al., which was filed in the United States District Court for the Southern District of New York on January 20, 2004. This payment is subject to the sharing percentages included in the Separation and Distribution Agreement. Accordingly, during fiscal 2008, Covidien recorded a charge of \$15 million for its portion of this settlement that it paid to Tyco International.

New Jersey v. Tyco International Ltd., et al.—During fiscal 2008, Tyco International signed a definitive agreement with the State of New Jersey, on behalf of several of the State's pension funds, to settle the action captioned New Jersey v. Tyco International Ltd., et al., brought by the State in 2002 in the United States District Court for the District of New Jersey against Tyco International, its former auditors and certain of its former officers and directors, alleging that the defendants had, among other things, violated federal and state securities and other laws through the unauthorized and improper actions of Tyco International's former management. In accordance with the agreement with the State of New Jersey, Tyco International paid \$73 million to the plaintiff in exchange for the plaintiff's agreement to dismiss the case against Tyco International and certain of its former directors and a former employee. During fiscal 2008, the Company recorded a charge of \$31 million for its port of this settlement that it paid to Tyco International, in accordance with the sharing percentages included in the Separation and Distribution Agreement.

Hess v. Tyco International Ltd., et al. and Sciallo v. Tyco International., et al.—In November 2008, Tyco International agreed to settle the actions entitled Hess v. Tyco International Ltd., et al. and Sciallo v. Tyco International., et al. for \$16 million and \$2 million, respectively. These payments are also subject to the sharing percentages included in the Separation and Distribution Agreement. Accordingly, Covidien recorded charges totaling \$8 million in fiscal 2008 for the payment of its portion of these settlements to Tyco International.

Subpoenas and Document Requests from Governmental Entities

Tyco International and others have received various subpoenas and requests from the U.S. Department of Labor, the General Service Administration and others seeking the production of voluminous documents in connection with various investigations into Tyco International's governance, management, operations, accounting and related controls. The Department of Labor is investigating Tyco International and the administrators of certain of its benefit plans. Tyco International cannot predict when these investigations will be completed, nor can it predict what the results of these investigations may be. It is possible that Tyco International will be required to pay material fines or suffer other penalties. The Company's share of any losses resulting from an adverse resolution of this matter is not estimable at this time and could have a material adverse effect on its results of operations, financial condition or cash flows.

Compliance Matters

Tyco International has received and responded to various allegations that certain improper payments were made in recent years by Tyco International subsidiaries, including subsidiaries which are now part of the Company. During 2005, Tyco International reported to the U.S. 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 Foreign Corrupt Practices Act ("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. The Company will continue 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 payments identified by the Company in the course of its ongoing compliance activities. To date, the baseline review has revealed that some business practices may not comply with Covidien and FCPA requirements. At this time, the Company cannot predict the outcome of these matters or other allegations reported to regulatory and law enforcement authorities and therefore cannot estimate the range of potential loss or extent of risk, if any, which may result from an adverse resolution of these matters. However, it is possible that the Company may be required to pay judgments, suffer penalties or incur settlements in amounts that may have a material adverse effect on its results of operations, financial condition or cash flows.

Any judgment required to be paid or settlement or other cost incurred by the Company in connection with these matters would be subject to the liability sharing provisions of the Separation and Distribution Agreement, which provides that Covidien, Tyco International and Tyco Electronics will retain liabilities primarily related to each of its continuing operations. Any liabilities not primarily related to particular continuing operations will be shared equally among Covidien, Tyco International and Tyco Electronics.

20. Segment and Geographic Data

The Company's segments operate in different industries and are managed separately. A description of the four segments in which the Company operates is as follows:

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

Selected information by business segment is presented in the following tables (dollars in millions):

| | 2008 | 2007 | 2006 |
|--------------------------------|--------------|----------|--------------|
| Net sales ⁽¹⁾ : | | | |
| Medical Devices | \$ 6,763 | \$ 6,023 | \$ 5,585 |
| Imaging Solutions | 1,214 | 1,077 | 994 |
| Pharmaceutical Products | 1,013 | 908 | 840 |
| Medical Supplies | 920 | 887 | 894 |
| | \$ 9,910 | \$ 8,895 | \$ 8,313 |
| Operating income: | | | |
| Medical Devices | \$ 1,828 | \$ 1,719 | \$ 1,812 |
| Imaging Solutions | 104 | 100 | 138 |
| Pharmaceutical Products | 332 | 284 | 259 |
| Medical Supplies | 140 | 145 | 146 |
| Corporate ⁽²⁾ | (458) | (1,663) | (303) |
| | \$ 1,946 | \$ 585 | \$ 2,052 |
| Total assets: | | | |
| Medical Devices | \$10,075 | \$ 9,722 | \$ 9,448 |
| Imaging Solutions | 1,253 | 1,228 | 1,205 |
| Pharmaceutical Products | 1,399 | 1,271 | 1,241 |
| Medical Supplies | 631 | 610 | 612 |
| Corporate ⁽³⁾ | 2,298 | 4,618 | 468 |
| Assets held for sale | 347 | 879 | 1,134 |
| | \$16,003 | \$18,328 | \$14,108 |
| Depreciation and amortization: | | | |
| Medical Devices | \$ 260 | \$ 241 | \$ 207 |
| Imaging Solutions | 59 | 53 | 48 |
| Pharmaceutical Products | 49 | 47 | 44 |
| Medical Supplies | 29 | 28 | 26 |
| Corporate | 1 | | |
| | \$ 398 | \$ 369 | \$ 325 |
| Capital expenditures: | | | |
| Medical Devices | \$ 206 | \$ 212 | \$ 218 |
| Imaging Solutions | \$ 200 77 | 51 | \$ 218 68 |
| Pharmaceutical Products | 78 | 44 | 63 |
| Medical Supplies | 78 47 | 45 | 51 |
| Corporate | 1 | 43 | J1 |
| Corporate | | | <u> </u> |
| | \$ 409 | \$ 356 | \$ 400 |

⁽¹⁾ Amounts represent sales to external customers. Intersegment sales are not significant. No single customer represented 10% or more of the Company's total net sales in any period presented.

⁽²⁾ Includes Company corporate expenses, the allocated corporate overhead expenses from Tyco International for fiscal 2007 and 2006, share-based compensation expense, gains and losses from financing hedges and unallocated segment expenses. Fiscal 2007 also includes a net charge of \$1.202 billion allocated to the Company by Tyco International for the Company's portion of the class action settlement and related insurance recoveries (see Note 19).

⁽³⁾ Includes cash and cash equivalents, income tax assets and other corporate assets. Fiscal 2007 also includes assets related to the class action settlement totaling \$2.992 billion.

Net sales by groups of products within the Company's segments are as follows (dollars in millions):

| | 2008 | 2007 | 2006 |
|--|---------|----------------|----------------|
| Endomechanical Instruments | \$2,138 | \$1,858 | \$1,727 |
| Soft Tissue Repair Products | 580 | 494 | 420 |
| Energy Devices | 805 | 638 | 533 |
| Oximetry & Monitoring Products | 636 | 597 | 559 |
| Airway & Ventilation Products | 806 | 766 | 730 |
| Vascular Devices | 533 | 482 | 454 |
| SharpSafety Products | 463 | 460 | 429 |
| Clinical Care Products | 407 | 372 | 352 |
| Other Products | 395 | 356 | 381 |
| Medical Devices | 6,763 | 6,023 | 5,585 |
| Radiopharmaceuticals | 559 | 487 | 432 |
| Contrast Products | 655 | 590 | 562 |
| Imaging Solutions | 1,214 | 1,077 | 994 |
| Dosage Pharmaceuticals | 582 | 468 | 436 |
| Active Pharmaceutical Ingredients | 431 | 440 | 404 |
| Pharmaceutical Products | 1,013 | 908 | 840 |
| Nursing Care Products | 497 | 477 | 470 |
| Medical Surgical Products | 276 | 275 | 275 |
| Original Equipment Manufacturer Products | 147 | 134 | 136 |
| Other Products | | 1 | 13 |
| Medical Supplies | 920 | 887 | 894 |
| | \$9,910 | \$8,895 | \$8,313 |
| | | | ==== |
| Selected information by geographic area is as follows (dollars in millions): | | | |
| | 2008 | 2007 | 2006 |
| Net sales ⁽¹⁾ : | | | |
| United States | \$5,435 | \$5,109 | \$4,897 |
| Other Americas | 577 | 480 | 433 |
| Europe | 2,750 | 2,320 | 2,046 |
| Asia—Pacific | 1,148 | 986 | 937 |
| | \$9,910 | \$8,895 | \$8,313 |
| Property, plant and equipment, net: | | | |
| United States | \$1,833 | \$1,767 | \$1,690 |
| Other Americas | 150 | 147 | 118 |
| Europe | 387 | 379 | 369 |
| Asia—Pacific | 106 | 100 | 82 |
| | \$2,476 | \$2,393 | \$2,259 |
| | Ψ2,470 | Ψ <u>2,393</u> | Ψ <u>2,239</u> |

⁽¹⁾ Sales to external customers are reflected in the regions based on the location of the sales force executing the transaction.

21. Summarized Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for fiscal 2008 and 2007, is as follows (dollars in millions, except per share data):

| | 2008 | | | | |
|--|-------------|-------------|-------------|----------------|--|
| | 1st Qtr.(1) | 2nd Qtr.(2) | 3rd Qtr.(3) | 4th Qtr.(4)(5) | |
| Net sales | \$2,316 | \$2,426 | \$2,595 | \$2,573 | |
| Gross profit | 1,239 | 1,271 | 1,393 | 1,406 | |
| Income from continuing operations | 445 | 249 | 331 | 418 | |
| (Loss) income from discontinued operations | (25) | 14 | (62) | (9) | |
| Net income | 420 | 263 | 269 | 409 | |
| Basic earnings per share: | | | | | |
| Income from continuing operations | \$ 0.89 | \$ 0.50 | \$ 0.66 | \$ 0.83 | |
| (Loss) income from discontinued operations | (0.05) | 0.03 | (0.12) | (0.02) | |
| Net income | 0.84 | 0.53 | 0.54 | 0.81 | |
| Diluted earnings per share: | | | | | |
| Income from continuing operations | \$ 0.89 | \$ 0.49 | \$ 0.65 | \$ 0.82 | |
| (Loss) income from discontinued operations | (0.05) | 0.03 | (0.12) | (0.02) | |
| Net income | 0.84 | 0.52 | 0.53 | 0.81 | |

- (1) Net sales exclude \$294 million of net sales related to discontinued operations. Income from continuing operations includes an IPR&D charge of \$12 million, restructuring charges of \$5 million and other income of \$178 million related to the impact of the Tax Sharing Agreement.
- (2) Net sales exclude \$297 million of net sales related to discontinued operations. Income from continuing operations includes restructuring charges of \$64 million and a shareholder settlement charge of \$31 million for our portion of Tyco International's settlement with the State of New Jersey.
- (3) Net sales exclude \$161 million of net sales related to discontinued operations. Income from continuing operations includes in-process research and development charge of \$10 million, restructuring charges of \$4 million and a net shareholder settlement charge of \$4 million. Income from continuing operations also includes other income of \$9 million related to the non-interest portion of the impact of the Tax Sharing Agreement.
- (4) Net sales exclude \$118 million of net sales related to discontinued operations. Income from continuing operations includes net shareholder settlement charges of \$7 million and restructuring charges of \$4 million. Income from continuing operations also includes other expense of \$41 million related to the non-interest portion of the impact of the Tax Sharing Agreement. This amount includes the impact associated with the adjustments to certain pre-separation tax contingencies discussed in Note 14.
- (5) During the fourth quarter of fiscal 2008, the Company corrected the accounting applied to the adoption of FIN 48 by increasing the amount of liabilities recorded for certain pre-separation tax contingencies. This adjustment did not affect reported net income in either the first or fourth quarter as the direct effect of adoption was recorded to accumulated earnings; however, the increase in contingent tax liabilities resulted in an increase in the recorded amount of receivables due from former parent and affiliates of \$53 million. Because the impact of adoption of FIN 48 on the amounts recorded for these receivables is treated as an indirect impact, such increases were recorded to other income in the fourth quarter of fiscal 2008.

| | 2007 | | | |
|--|-------------|-------------|-------------|-------------|
| | 1st Qtr.(1) | 2nd Qtr.(2) | 3rd Qtr.(3) | 4th Qtr.(4) |
| Net sales | \$2,128 | \$2,200 | \$ 2,269 | \$2,298 |
| Gross profit | 1,116 | 1,131 | 1,184 | 1,191 |
| Income (loss) from continuing operations | 332 | 377 | (1,135) | 261 |
| Income (loss) from discontinued operations | 6 | 17 | 27 | (227) |
| Net income (loss) | 338 | 394 | (1,108) | 34 |
| Basic earnings (loss) per share: | | | | |
| Income (loss) from continuing operations | \$ 0.67 | \$ 0.76 | \$ (2.29) | \$ 0.53 |
| Income (loss) from discontinued operations | 0.01 | 0.03 | 0.06 | (0.46) |
| Net income (loss) | 0.68 | 0.79 | (2.23) | 0.07 |
| Diluted earnings (loss) per share: | | | | |
| Income (loss) from continuing operations | \$ 0.67 | \$ 0.76 | \$ (2.29) | \$ 0.52 |
| Income (loss) from discontinued operations | 0.01 | 0.03 | 0.06 | (0.46) |
| Net income (loss) | 0.68 | 0.79 | (2.23) | 0.07 |

- (1) Net sales exclude \$323 million of net sales related to discontinued operations. Income from continuing operations includes restructuring charges of \$16 million and IPR&D charges of \$8 million.
- (2) Net sales exclude \$339 million of net sales related to discontinued operations. Income from continuing operations includes restructuring charges of \$4 million.
- (3) Net sales exclude \$310 million of net sales related to discontinued operations. Income from continuing operations includes a net charge of \$1.207 billion allocated to the Company by Tyco International for the Company's portion of the class action settlement and related insurance recovery, an IPR&D charge of \$30 million and restructuring charges of \$5 million. Income from continuing operations also includes a loss of \$155 million on the early extinguishment of debt.
- (4) Net sales exclude \$303 million of net sales related to discontinued operations. Income from continuing operations includes intangible asset impairments of \$34 million, restructuring charges of \$32 million and a class action settlement insurance recovery of \$5 million.

22. Covidien International Finance S.A.

In December 2006, prior to the separation from Tyco International Ltd., CIFSA was formed. CIFSA, a Luxembourg company, is a holding company that owns, directly or indirectly, all of the operating subsidiaries of Covidien Ltd. CIFSA is the issuer of the Company's senior notes and commercial paper and the borrower under the revolving credit facility, all of which are fully and unconditionally guaranteed by Covidien Ltd., which in turn is the sole owner of CIFSA. The following information provides the composition of the Company's income, assets, liabilities, equity and cash flows by relevant group within the Company: Covidien Ltd. as the guarantor, CIFSA as issuer of the debt and the operating companies that represent assets of CIFSA. There are no other subsidiary guarantees. Consolidating financial information for Covidien and CIFSA on a stand-alone basis is presented using the equity method of accounting for subsidiaries.

CONSOLIDATING STATEMENT OF OPERATIONS Fiscal Year Ended September 26, 2008 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|--|---------------|---------|-----------------------|------------------------------|---------|
| Net sales | \$ — | \$ — | \$9,910 | \$ — | \$9,910 |
| Cost of goods sold | | | 4,601 | | 4,601 |
| Gross profit | _ | _ | 5,309 | _ | 5,309 |
| Selling, general and administrative expenses | 28 | 3 | 2,850 | _ | 2,881 |
| Research and development expenses | _ | _ | 341 | _ | 341 |
| In-process research and development charges | _ | _ | 22 | _ | 22 |
| Restructuring charges | _ | _ | 77 | _ | 77 |
| Shareholder settlements, net of insurance | | | | | |
| recoveries | 42 | | | | 42 |
| Operating (loss) income | (70) | (3) | 2,019 | | 1,946 |
| Interest expense | | (201) | (8) | | (209) |
| Interest income | 1 | 3 | 39 | _ | 43 |
| Other income (expense), net | 214 | _ | (15) | _ | 199 |
| Equity in net income of subsidiaries | 1,283 | 1,476 | _ | (2,759) | _ |
| Intercompany interest and fees | (67) | 8 | 59 | | |
| Income from continuing operations before | | | | | |
| income taxes | 1,361 | 1,283 | 2,094 | (2,759) | 1,979 |
| Income tax expense | | | 536 | | 536 |
| Income from continuing operations | 1,361 | 1,283 | 1,558 | (2,759) | 1,443 |
| Loss from discontinued operations, net of income | | | | | |
| taxes | | | (82) | | (82) |
| Net income | \$1,361 | \$1,283 | \$1,476 | \$(2,759) | \$1,361 |

CONSOLIDATING STATEMENT OF OPERATIONS Fiscal Year Ended September 28, 2007 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|--|---------------|--------------|-----------------------|------------------------------|-----------------|
| Net sales | \$ — | \$ | \$8,895 | \$ — | \$8,895 |
| Cost of goods sold | | | 4,273 | | 4,273 |
| Gross profit | _ | _ | 4,622 | | 4,622 |
| Selling, general and administrative expenses | 9 | _ | 2,437 | | 2,446 |
| Research and development expenses | _ | _ | 260 | | 260 |
| In-process research and development charges | _ | _ | 38 | | 38 |
| Restructuring charges | _ | _ | 57 | | 57 |
| Class action settlement, net of insurance recoveries | 1,202 | _ | _ | _ | 1,202 |
| Intangible asset impairment charges | | | 34 | | 34 |
| Operating (loss) income | (1,211) | _ | 1,796 | _ | 585 |
| Interest expense | _ | (80) | (108) | _ | (188) |
| Interest income | _ | _ | 35 | _ | 35 |
| Other expense, net | _ | _ | (135) | _ | (135) |
| Equity in net income of subsidiaries | 889 | 228 | _ | (1,117) | _ |
| Intercompany interest and fees | (20) | 9 | 11 | | |
| (Loss) income from continuing operations | | | | | |
| before income taxes | (342) | 157 | 1,599 | (1,117) | 297 |
| Income tax expense | | | 462 | | 462 |
| (Loss) income from continuing operations Loss from discontinued operations, net of income | (342) | 157 | 1,137 | (1,117) | (165) |
| taxes | | | (177) | | (177) |
| Net (loss) income | \$ (342) | <u>\$157</u> | \$ 960 | <u>\$(1,117)</u> | <u>\$ (342)</u> |

CONDENSED CONSOLIDATING BALANCE SHEET At September 26, 2008 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|---|---------------|----------|-----------------------|------------------------------|----------|
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ 181 | \$ 1,027 | \$ — | \$ 1,208 |
| Accounts receivable trade, net | _ | _ | 1,704 | _ | 1,704 |
| Inventories | | _ | 1,280 | _ | 1,280 |
| Intercompany receivable | 3 | _ | | (3) | |
| Prepaid expenses and other current assets | 21 | _ | 729 | _ | 750 |
| Assets held for sale | | | 347 | | 347 |
| Total current assets | 24 | 181 | 5,087 | (3) | 5,289 |
| Property, plant and equipment, net | 3 | _ | 2,473 | | 2,476 |
| Goodwill | | _ | 5,821 | | 5,821 |
| Intangible assets, net | | _ | 1,218 | _ | 1,218 |
| Due from former parent and affiliates | 585 | _ | | _ | 585 |
| Investment in subsidiaries | 8,026 | 12,345 | _ | (20,371) | _ |
| Intercompany loans receivables | 94 | 9,468 | 10,989 | (20,551) | _ |
| Other assets | | 17 | 597 | | 614 |
| Total Assets | \$8,732 | \$22,011 | \$26,185 | \$(40,925) | \$16,003 |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities: | | | | | |
| Current maturities of long-term debt | \$ — | \$ — | \$ 19 | \$ — | \$ 19 |
| Accounts payable | _ | _ | 522 | _ | 522 |
| Intercompany payable | _ | 3 | | (3) | _ |
| Accrued and other current liabilities | 110 | 77 | 1,265 | | 1,452 |
| Liabilities associated with assets held for | | | 105 | | 40.5 |
| sale | | | 105 | | 105 |
| Total current liabilities | 110 | 80 | 1,911 | (3) | 2,098 |
| Long-term debt | _ | 2,916 | 70 | _ | 2,986 |
| Income taxes payable | _ | _ | 1,398 | _ | 1,398 |
| Guaranteed contingent tax liabilities | 707 | _ | | _ | 707 |
| Deferred income taxes | _ | _ | 334 | _ | 334 |
| Intercompany loans payable | 168 | 10,989 | 9,394 | (20,551) | _ |
| Other liabilities | | | 733 | | 733 |
| Total Liabilities | 985 | 13,985 | 13,840 | (20,554) | 8,256 |
| Shareholders' Equity | 7,747 | 8,026 | 12,345 | (20,371) | 7,747 |
| Total Liabilities and Shareholders' | | | | | |
| Equity | \$8,732 | \$22,011 | \$26,185 | <u>\$(40,925)</u> | \$16,003 |

CONDENSED CONSOLIDATING BALANCE SHEET At September 28, 2007 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|---|---------------|-----------------|-----------------------|------------------------------|----------|
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 872 | \$ — | \$ 872 |
| Accounts receivable trade, net | _ | _ | 1,546 | | 1,546 |
| Inventories | _ | _ | 1,126 | | 1,126 |
| Interest in class action settlement fund | 1,257 | _ | | | 1,257 |
| Class action settlement receivables | 1,735 | | _ | _ | 1,735 |
| Intercompany receivable | _ | 178 | 184 | (362) | _ |
| Prepaid expenses and other current assets | 14 | _ | 669 | _ | 683 |
| Assets held for sale | _ | _ | 879 | | 879 |
| Total current assets | 3,006 | 178 | 5,276 | (362) | 8,098 |
| Property, plant and equipment, net | 2 | | 2,391 | (502) | 2,393 |
| Goodwill | | _ | 5,767 | | 5,767 |
| Intangible assets, net | | _ | 1,242 | _ | 1,242 |
| Due from former parent and affiliates | 306 | _ | | | 306 |
| Investment in subsidiaries | 7,128 | 11,281 | | (18,409) | _ |
| Intercompany loans receivables | 138 | 8,981 | 9,055 | (18,174) | _ |
| Other assets | _ | 1 | 521 | (10,17.1) | 522 |
| | | | | \$(26.045) | |
| Total Assets | \$10,580 | <u>\$20,441</u> | \$24,252 | <u>\$(36,945)</u> | \$18,328 |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities: | | | | | |
| Current maturities of long-term debt | \$ — | \$ 474 | \$ 49 | \$ — | \$ 523 |
| Accounts payable | _ | _ | 444 | _ | 444 |
| Class action settlement liability | 2,992 | _ | _ | _ | 2,992 |
| Intercompany payable | _ | 184 | 178 | (362) | _ |
| Accrued and other current liabilities | 86 | 11 | 1,182 | _ | 1,279 |
| Liabilities associated with assets held for | | | | | |
| sale | | | 147 | | 147 |
| Total current liabilities | 3,078 | 669 | 2,000 | (362) | 5,385 |
| Long-term debt | _ | 3,451 | 114 | _ | 3,565 |
| Income taxes payable | _ | _ | 517 | _ | 517 |
| Guaranteed contingent tax liabilities | 760 | _ | | | 760 |
| Deferred income taxes | _ | _ | 576 | _ | 576 |
| Intercompany loans payable | _ | 9,193 | 8,981 | (18,174) | _ |
| Other liabilities | | | 783 | | 783 |
| Total Liabilities | 3,838 | 13,313 | 12,971 | (18,536) | 11,586 |
| Shareholders' Equity | 6,742 | 7,128 | 11,281 | (18,409) | 6,742 |
| Total Liabilities and Shareholders' | <u> </u> | | | | |
| Equity | \$10,580 | \$20,441 | \$24,252 | <u>\$(36,945)</u> | \$18,328 |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Fiscal Year Ended September 26, 2008 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|--|-------------------------------------|--|--|------------------------------|---|
| Cash Flows From Operating Activities: Net cash (used in) provided by continuing operating activities | <u>\$(1,341)</u> | <u>\$ (114)</u> | \$ 2,046 | \$ — | \$ 591 |
| Net cash provided by discontinued operating activities | | | 69 | | 69 |
| Net cash (used in) provided by operating activities | (1,341) | (114) | 2,115 | | 660 |
| Cash Flows From Investing Activities: Capital expenditures Acquisition-related payments, net of cash acquired Divestitures, net of cash retained by businesses sold Decrease in restricted cash Release of interest in class action settlement fund Decrease in intercompany loans Other | (2) 1,257 | 1,309 | (407) (157) 263 24 — — — 18 | (1,309) | (409) (157) 263 24 1,257 — |
| Net cash provided by (used in) continuing investing activities | 1,255 | 1,309 | (259) | (1,309) | 996 |
| Net cash used in discontinued investing activities | | | (30) | | (30) |
| Net cash provided by (used in) investing activities | 1,255 | 1,309 | (289) | (1,309) | 966 |
| Cash Flows From Financing Activities: Net proceeds from commercial paper Repayment of external debt Issuance of external debt Dividends paid Proceeds from exercise of share options Transfers from discontinued operations Loan borrowings from (repayments to) parent Intercompany dividend received (paid) Other | (320) 157 — 213 — 36 | 171 (3,926) 2,728 — — — 30 (17) | (82) | 1,309 — | 171 (4,008) 2,728 (320) 157 38 — (11) |
| Net cash provided by (used in) financing activities | 86 | (1,014) | (1,626) | 1,309 | (1,245) |
| Net cash used in discontinued financing activities | | | (38) | | (38) |
| Net cash provided by (used in) financing activities | 86 | (1,014) | (1,664) | 1,309 | (1,283) |
| Effect of currency rate changes on cash Net increase in cash and cash equivalents Cash and cash equivalents at beginning of period | | 181 — | (7) 155 872 | _ | (7) 336 872 |
| Cash and cash equivalents at end of period | <u> </u> | \$ 181 | \$ 1,027 | \$ — | \$ 1,208 |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Fiscal Year Ended September 28, 2007 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|--|---------------|-----------------|-----------------------|------------------------------|----------|
| Cash Flows From Operating Activities: | | | | | |
| Net cash provided by (used in) continuing operating activities | \$ 29 | \$ (64) | \$ 2,131 | <u>\$ —</u> | \$ 2,096 |
| Net cash provided by discontinued operating activities | | | 113 | | 113 |
| Net cash provided by (used in) operating activities | 29 | (64) | 2,244 | | 2,209 |
| Cash Flows From Investing Activities: Capital expenditures | (2) | | (354) | | (356) |
| Acquisition-related payments | (2) | | (117) | | (117) |
| Increase in restricted cash | _ | _ | (7) | _ | (7) |
| Interest in class action settlement fund | (1,257) | _ | | _ | (1,257) |
| Decrease in intercompany loans | _ | 213 | | (213) | |
| Other | _ | _ | 24 | _ | 24 |
| Net cash (used in) provided by continuing | | | | | |
| investing activities | (1,259) | 213 | (454) | (213) | (1,713) |
| Net cash provided by discontinued investing | | | _ | | |
| activities | | | 4 | | 4 |
| Net cash (used in) provided by investing | | | | | |
| activities | (1,259) | 213 | (450) | (213) | (1,709) |
| Cash Flows From Financing Activities: | | | | | |
| Repayment of external debt | _ | (325) | (200) | _ | (525) |
| Issuance of external debt | _ | 4,248 | 50 | _ | 4,298 |
| Allocated debt activity | _ | _ | (2,291) | | (2,291) |
| Proceeds from exercise of share options | 16 | _ | _ | — | 16 |
| Net transfers from (to) Tyco International Ltd | 1,355 | (4,028) | 1,357 | _ | (1,316) |
| Transfers from discontinued operations | _ | _ | 82 | _ | 82 |
| Loan repayments to parent | (138) | _ | (75) | 213 | _ |
| Other | (3) | (44) | 10 | | (37) |
| Net cash provided by (used in) financing activities | 1,230 | (149) | (1,067) | 213 | 227 |
| Net cash used in discontinued financing | | | | | |
| activities | | | (117) | | (117) |
| Net cash provided by (used in) financing activities | 1,230 | (149) | (1,184) | 213 | 110 |
| Effect of currency rate changes on cash | | | 20 | | 20 |
| Net increase in cash and cash equivalents | _ | _ | 630 | _ | 630 |
| Cash and cash equivalents at beginning of | | | 050 | | 050 |
| period | _ | _ | 242 | _ | 242 |
| Cash and cash equivalents at end of period | \$ — | \$ — | \$ 872 | <u> </u> | \$ 872 |
| Cash and Cash equivalents at the of period | φ — ===== | φ — | φ 0/ <i>L</i> | р — | φ 01Z |

Upon formation in December 2006, CIFSA held \$50 thousand in cash and had share capital of \$50 thousand. The following tables present the historical combined financial information for Covidien Ltd. and all other subsidiaries for the purposes of illustrating the composition of Covidien Ltd. and the other subsidiaries prior to CIFSA establishing the respective ownership in connection with the Separation.

COMBINED STATEMENT OF INCOME Fiscal Year Ended September 29, 2006 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Consolidating Adjustments | Total |
|--|---------------|------------|-----------------------|------------------------------|---------|
| Net sales | \$ — | \$ | \$8,313 | \$ — | \$8,313 |
| Cost of goods sold | | | 4,012 | | 4,012 |
| Gross profit | _ | _ | 4,301 | _ | 4,301 |
| Selling, general and administrative expenses | _ | _ | 1,986 | _ | 1,986 |
| Research and development expenses | | _ | 248 | | 248 |
| In-process research and development charges | _ | — | 63 | _ | 63 |
| Gain on divestiture | | | (48) | | (48) |
| Operating income | | — | 2,052 | _ | 2,052 |
| Interest expense | _ | _ | (171) | _ | (171) |
| Interest income | | _ | 32 | | 32 |
| Other expense, net | _ | — | (13) | _ | (13) |
| Equity in net income of subsidiaries | 1,155 | | | (1,155) | |
| Income from continuing operations before | | | | | |
| income taxes | 1,155 | _ | 1,900 | (1,155) | 1,900 |
| Income tax expense | | | 470 | | 470 |
| Income from continuing operations | 1,155 | — | 1,430 | (1,155) | 1,430 |
| Loss from discontinued operations, net of income | | | | | |
| taxes | | | (275) | | (275) |
| Net income | \$1,155 | <u>\$—</u> | \$1,155 | \$(1,155) | \$1,155 |

CONDENSED COMBINED STATEMENT OF CASH FLOWS Fiscal Year Ended September 29, 2006 (dollars in millions)

| | Covidien Ltd. | CIFSA | Other Subsidiaries | Total |
|---|---------------|------------|-----------------------|----------|
| Cash Flows From Operating Activities: | | | | |
| Net cash provided by continuing operating activities | <u>\$—</u> | <u>\$—</u> | \$ 1,296 | \$ 1,296 |
| Net cash used in discontinued operating activities | | | (92) | (92) |
| Net cash provided by operating activities | | | 1,204 | 1,204 |
| Cash Flows From Investing Activities: | | | | |
| Capital expenditures | | _ | (400) | (400) |
| Acquisitions, net of cash acquired | | _ | (382) | (382) |
| Divestitures | _ | _ | 74 | 74 |
| Increase in restricted cash | _ | _ | (34) | (34) |
| Other | | | (9) | (9) |
| Net cash used in continuing investing activities | | | (751) | (751) |
| Net cash provided by discontinued investing activities | | | 827 | 827 |
| Net cash provided by investing activities | _ | | 76 | 76 |
| Cash Flows From Financing Activities: | | | | |
| Repayment of external debt | _ | | (25) | (25) |
| Issuance of external debt | | _ | 1 | 1 |
| Allocated debt activity | _ | _ | (548) | (548) |
| Net transfers to Tyco International Ltd | _ | _ | (601) | (601) |
| Transfers from discontinued operations | _ | _ | 636 | 636 |
| Other | | | 86 | 86 |
| Net cash used in continuing financing activities | | | (451) | (451) |
| Net cash used in discontinued financing activities | | | (726) | (726) |
| Net cash used in financing activities | | | (1,177) | (1,177) |
| Effect of currency rate changes on cash | | _ | 7 | 7 |
| Net increase in cash and cash equivalents | _ | _ | 110 | 110 |
| Less: net increase in cash related to discontinued operations | _ | _ | (9) | (9) |
| Cash and cash equivalents at beginning of period | _ | _ | 141 | 141 |
| Cash and cash equivalents at end of period | \$ | \$ | \$ 242 | \$ 242 |

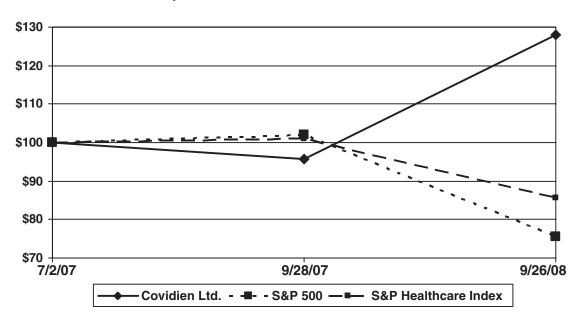
COVIDIEN LTD. SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS (dollars in millions)

| | Balance at Beginning of Year | Additions Charged to Income | Acquisitions, Divestitures and Other | Deductions | Balance at End of Year |
|---------------------------------|------------------------------------|-----------------------------------|--|------------|------------------------------|
| Description | | | | | |
| Fiscal 2008 | | | | | |
| Reserve for rebates | \$364 | \$2,357 | \$ (2) | \$(2,269) | \$450 |
| Allowance for doubtful accounts | \$ 44 | \$ 12 | \$ 10 | \$ (20) | \$ 46 |
| Fiscal 2007 | | | | | |
| Reserve for rebates | \$376 | \$2,016 | \$ 20 | \$(2,048) | \$364 |
| Allowance for doubtful accounts | \$ 41 | \$ 6 | \$ 4 | \$ (7) | \$ 44 |
| Fiscal 2006 | | | | | |
| Reserve for rebates | \$383 | \$2,302 | \$(20) | \$(2,289) | \$376 |
| Allowance for doubtful accounts | \$ 56 | \$ — | \$ 3 | \$ (18) | \$ 41 |

Performance Graph

The following graph compares the cumulative total return on \$100 invested in each of our common stock, the S&P 500 Index and the S&P Healthcare Index for the period beginning on July 2, 2007, the first regular way trading date of our stock, and ending on September 26, 2008, the last day of our fiscal year, assuming reinvestment of all dividends. The stock price performance on the graph below does not necessarily indicate future price performance.

Comparison of Cumulative Total Return



| Company / Index | Period 7/2/07 | Indexed 9/28/07 | |
|----------------------|------------------|-----------------|--------|
| Covidien Ltd | 100 | 95.60 | 127.97 |
| S&P 500 Index | 100 | 102.03 | 75.51 |
| S&P Healthcare Index | 100 | 101.08 | 85.62 |

Corporate and Shareholder Information

OFFICERS

Richard J. Meelia Chairman of the Board, President and Chief Executive Officer

Charles J. Dockendorff Executive Vice President and Chief Financial Officer

José E. Almeida Senior Vice President and President, Medical Devices

Timothy R. Wright Senior Vice President and President, Pharmaceutical Products and Imaging Solutions

Eric A. Kraus Senior Vice President, Corporate Communications and Public Affairs

John H. Masterson Senior Vice President and General Counsel

Amy A. McBride-Wendell Senior Vice President, Strategy and Business Development

Karen A. Quinn-Quintin Senior Vice President, Human Resources

Richard G. Brown, Jr. Vice President, Chief Accounting Officer and Corporate Controller

Kevin G. DaSilva Vice President and Treasurer

Eric C. Green Vice President and Chief Tax Officer

Coleman N. Lannum Vice President, Investor Relations DIRECTORS

Craig Arnold Chief Executive Officer Fluid Power Group Eaton Corp.

Robert H. Brust Chief Financial Officer Sprint Nextel Corp.

John M. Connors, Jr. Chairman Emeritus Hill, Holliday, Connors, Cosmopulos, Inc.

Christopher J. Coughlin Executive Vice President and Chief Financial Officer Tyco International

Timothy M. Donahue Former Chairman Sprint Nextel Corp.

Kathy J. Herbert Former Executive Vice President Albertson's Inc.

Randall J. Hogan III Chairman and Chief Executive Officer, Pentair, Inc.

Richard J. Meelia Chairman of the Board, President and Chief Executive Officer, Covidien Ltd.

Dennis H. Reilley Former Chairman and Chief Executive Officer, Praxair, Inc.

Dr. Tadataka Yamada President, Global Health Program Gates Foundation

Joseph A. Zaccagnino Former President and Chief Executive Officer, Yale-New Haven Health System SHAREHOLDER INFORMATION

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP Boston, MA

REGISTRAR AND TRANSFER AGENT

BNY Mellon Shareowner Services 480 Washington Blvd. Jersey City, NJ 07310 Phone: 866-210-6572 (U.S.) +201-680-6578 (Outside the U.S.) www.bnymellon.com/shareowner/isd

COMMON STOCK LISTING

Our common stock is traded on the New York and Bermuda stock exchanges under the symbol COV.

SHAREHOLDER INQUIRIES

John W. Kapples Vice President and Corporate Secretary

INVESTOR INQUIRIES

Coleman N. Lannum Vice President, Investor Relations

MEDIA INQUIRIES

Eric A. Kraus Senior Vice President, Corporate Communications and Public Affairs

ANNUAL MEETING

The Annual Meeting of Shareholders will take place on Wednesday, March 18, 2009, at the Conrad Dublin Hotel, Earlsfort Terrace, Dublin 2, Ireland. The meeting will convene at 9:00 a.m. local time.

The certifications of our Chief Executive Officer and our Chief Financial Officer, made pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of Covidien's public disclosure, have been filed with the Securities and Exchange Commission as exhibits to the Company's 2008 Annual Report on Form 10-K. In addition, our Chief Executive Officer has certified to the New York Stock Exchange that he is not aware of any violation by Covidien of the New York Stock Exchange Corporate Governance listing standards.



At Covidien, we believe that innovation is the key to helping medical professionals and patients find effective treatments, including those involving hernias and the many concerns that come with them. That's why, from developing new mesh and fixation technologies to creating a new website – yourhernia.com – that provides up-to-date hernia repair options to patients and families alike, we supply the crucial link between healthcare concerns and healthcare successes. For more information, visit covidien.com

