AbbVie Investments Limited (formerly Abbott Investments Limited)

Directors' Report and Financial Statements

for the Year Ended 31 December 2012

Registration number 2981281

463 2-10-13

AbbVie Investments Limited (formerly Abbott Investments Limited)

Directors' Report for the Year Ended 31 December 2012

The directors present their report and the financial statements for the year ended 31 December 2012

Directors of the company

The directors who held office during the year were as follows

T Freyman (resigned 1 January 2013)

C Soenderby (resigned 1 January 2013)

M Smith (resigned 1 January 2013)

S Hudson (resigned 1 January 2013)

The following directors were appointed after the year end

W Chase (appointed 1 January 2013)

M Regan (appointed 1 January 2013)

G White - (appointed 1 January 2013)

Principal activity

The principal activity of the company is that of an investment company There have not been any significant changes in the company's principal activities in the period under review

On the 4 October 2012 the company changed it's name to Abbvie Investments Limited

Business review

Fair review of the business

The profit after tax for the year was $2,674,000 (2011 $2,341,000)

Principal risks and uncertainties

The company is at risk from foreign exchange movements and has some risk from interest rate movements However, the directors do not consider these to be significant risks

The company has considerable financial resources and as a consequence, the directors believe that the company is well placed to manage its business successfully despite the current uncertain economic outlook

Directors' liabilites

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company auditor is aware of that information The directors confirm that there is no relevant information that they know of and which they know the auditor is unaware of

Reappointment of auditors

The current auditor, Deloitte, has expressed a wish to resign after completion of the 31 December 2012 accounts The directors are expecting to appoint Ernst & Young LLP to fill the casual vacancy

Approved by the Board on 24 September 2013 and signed on its behalf by

K Poots
Company secretary

AbbVie Investments Limited (formerly Abbott Investments Limited)

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent Auditor's Report to the Members of AbbVie Investments Limited (formerly Abbott Investments Limited)

We have audited the financial statements of AbbVie Investments Limited (formerly Abbott Investments Limited) for the year ended 31 December 2012, set out on pages 6 to 7 which comprise the profit and loss account, the balance sheet and related notes 1 to 11 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 3), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Richard Muschamp (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

24 September 2013

AbbVie Investments Limited (formerly Abbott Investments Limited)

Profit and Loss Account for the

Year Ended 31 December 2012

	Note	2012 $ 000	2011 $ 000
Turnover		-	-
Administrative expenses		17	(39)
Operating profit/(loss)		17	(39)
Other interest receivable and similar income		3,525	3,224
Profit on ordinary activities before taxation		3,542	3,185
Tax on profit on ordinary activities	3	(868)	(844)
Profit for the financial year	7	2,674	2,341

Turnover and operating profit derive wholly from continuing operations

The company has no recognised gains or losses for the year other than the results above

AbbVie Investments Limited (formerly Abbott Investments Limited)

(Registration number: 2981281)

Balance Sheet at 31 December 2012

	Note	2012 $ 000	2011 $ 000
Current assets			
Debtors	4	142,956	140,216
Cash at bank and in hand		179	24
		143,135	140,240
Creditors Amounts falling due within one year	5	(705)	(484)
Net assets		142,430	139,756
Capital and reserves			
Called up share capital	6	66,463	66,463
Profit and loss account	7	75,967	73,293
Shareholders' funds	8	142,430	139,756

Approved by the Board on 24 September 2013 and signed on its behalf by

M Regan
Director

1 Accounting policies

A summary of the principal accounting policies are set out below, all of which have been applied consistently throughout the period and the preceding year

Basis of preparation
The accounts have been prepared on the historical cost basis and have been prepared in accordance with applicable United Kingdom law and accounting standards

The company is exempt from preparing a cash flow statement as 90% or more of the voting rights are held within the group

Going concern
The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business review which forms part of the Directors' Report After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts

Taxation
UK corporation tax is provided at amounts expected to be paid, or recovered, using tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date Timing differences are differences between the company's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts A net deferred tax asset is recognised as recoverable only when, on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted Deferred tax is not discounted

Foreign currency
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date All exchange differences are included in the profit and loss account

2 Auditor's remuneration

	2012 $ 000	2011 $ 000
Audit of the financial statements	6	6

..... *continued*

3 Taxation

Tax on profit on ordinary activities

	2012 $ 000	2011 $ 000
Current tax		
Corporation tax charge	868	844
Total current tax	868	844

Factors affecting current tax charge for the year

Tax on profit on ordinary activities for the year is the same as (2011 - the same as) the standard rate of corporation tax in the UK of 24 5% (2011 - 26 5%)

The differences are reconciled below

	2012 $ 000	2011 $ 000
Profit on ordinary activities before taxation	3,542	3,185
Corporation tax at standard rate	868	844
Total current tax	868	844

4 Debtors

	2012 $ 000	2011 $ 000
Amounts owed by group undertakings	142,956	140,216

5 Creditors: Amounts falling due within one year

	2012 $ 000	2011 $ 000
Amounts owed to group undertakings	5	2
Corporation tax	680	462
Accruals	20	20
	705	484

..... *continued*

6 Share capital

Allotted, called up and fully paid

	31 December 2012 $000	30 November 2011 $000
66,462,949 ordinary shares of $1 each	66,463	66,463

7 Reserves

	Profit and loss account $ 000	Total $ 000
At 1 January 2012	73,293	73,293
Profit for the year	2,674	2,674
At 31 December 2012	75,967	75,967

8 Reconciliation of movement in shareholders' funds

	2012 $ 000	2011 $ 000
Profit attributable to the members of the company	2,674	2,341
Net addition to shareholders' funds	2,674	2,341
Shareholders' funds at 1 January	139,756	137,415
Shareholders' funds at 31 December	142,430	139,756

9 Related party transactions

The company has taken advantage of the exemption in FRS8 "Related Party Disclosures" from disclosing transactions with other members of the group

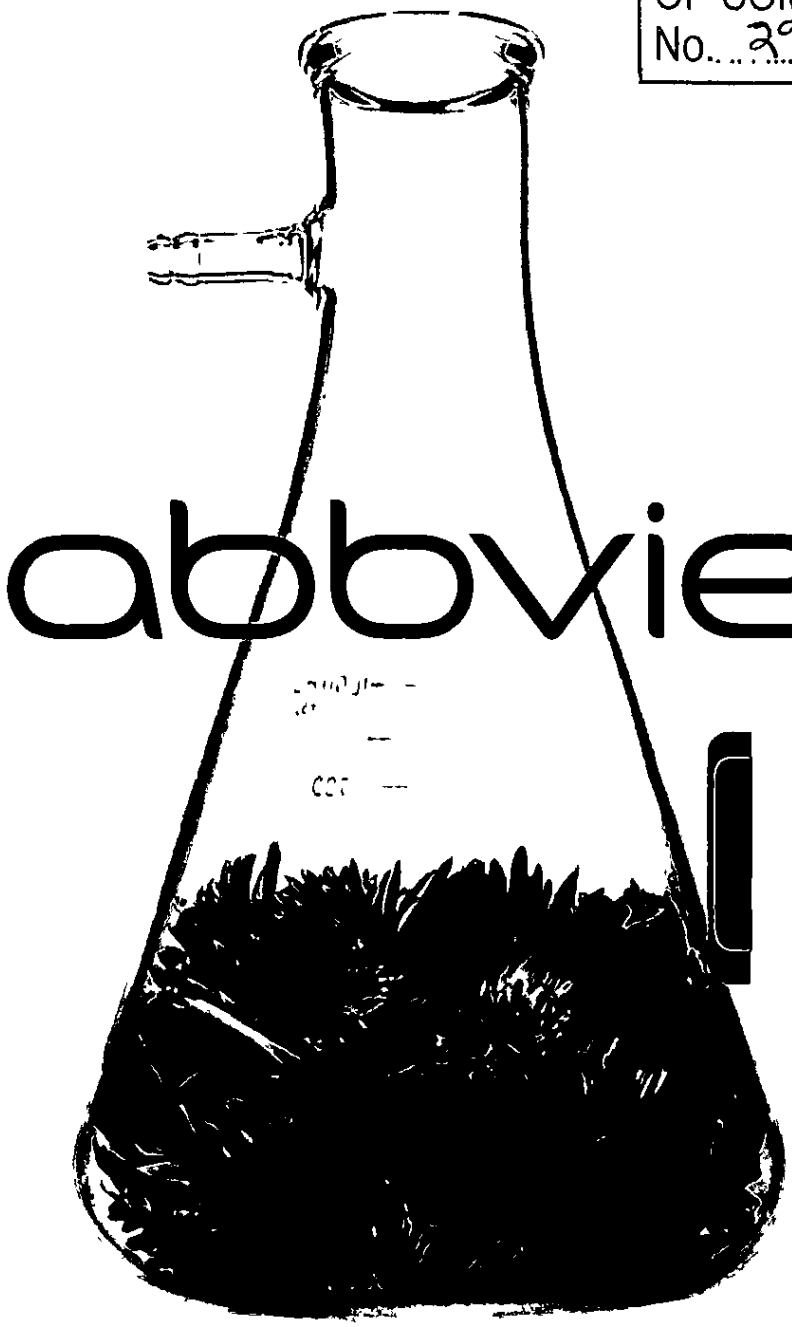
10 Control

The company is controlled by immediate parent company Abbvie Bahamas Limited, incorporated in Bahamas The largest group in which the results of Abbvie Investments Limited are consolidated is the ultimate parent company Abbott Laboratories, incorporated in the State of Illinois, USA The consolidated accounts are available to the public and may be obtained from Abbott Laboratories, 100 Abbott Park Road, Abbott Park, IL60064-6400, USA

..... *continued*

11 Post balance sheet events

On 1 January 2013, Abbott Laboratories completed the spin off of its research based pharmaceutical business and the ultimate parent company became Abbvie incorporated, 1 North Waukegan Road, North Chicago, Illinois, 60064-6400, USA



abbvie

2012 ANNUAL REPORT ON FORM 10-K

2013 NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

ABOUT ABBVIE

AbbVie is a global, research-based biopharmaceutical company formed in 2013 following separation from Abbott. With its 125-year history, the company's mission is to use its expertise, dedicated people and unique approach to innovation to develop and market advanced therapies that address some of the world's most complex and serious diseases. In 2013, AbbVie employs approximately 21,500 people worldwide and markets medicines in more than 170 countries.

For further information on the company and its people, portfolio and commitments, please visit www.abbvie.com.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AbbVie Inc. and Subsidiaries

Combined Statements of Earnings

years ended December 31 (in millions, except per share data)	2012	2011	2010
Net sales	$18,380	$17,444	$15,638
Cost of products sold	4,508	4,639	4,293
Selling, general and administrative	4,989	5,894	3,820
Research and development	2,778	2,618	2,495
Acquired in-process research and development	288	673	313
Total operating costs and expenses	12,563	13,824	10,921
Operating earnings	5,817	3,620	4,717
Interest expense, net	84	(20)	(28)
Net foreign exchange (gain) loss	17	(30)	(30)
Other (income) expense, net	(9)	2	(61)
Earnings before income tax	5,725	3,668	4,836
Income tax expense	450	235	658
Net earnings	$ 5,275	$ 3,433	$ 4,178
Per share data			
Basic and diluted earnings per share(a)	$ 3 35	$ 2 18	$ 2 65

(a) On January 1, 2013, Abbott Laboratories distributed 1,577 million shares of AbbVie common stock The computation of basic and diluted earnings per common share for all periods through December 31, 2012 was calculated using the shares distributed on January 1, 2013

The accompanying notes are an integral part of these combined financial statements

AbbVie Inc. and Subsidiaries

Combined Statements of Comprehensive Income

years ended December 31 (in millions)	2012	2011	2010
Net earnings	$5,275	$3,433	$4,178
Foreign currency translation gain (loss) adjustments	173	(295)	(383)
Pension and post-employment benefits, net of tax benefit of $(24) in 2012, $(12) in 2011 and $(2) in 2010	(150)	(7)	(22)
Unrealized (loss) gains on marketable equity securities, net of tax (benefit) expense of $(15) in 2012, $10 in 2011 and $4 in 2010	(25)	17	7
Hedging activities, net of tax (benefit) expense of $(8) in 2012, $(8) in 2011 and $10 in 2010	(27)	(28)	5
Other comprehensive loss	(29)	(313)	(393)
Comprehensive income	$5,246	$3,120	$3,785

The accompanying notes are an integral part of these combined financial statements

AbbVie Inc. and Subsidiaries

Combined Statements of Cash Flows

years ended December 31 (in millions) (brackets denote cash outflows)	2012	2011	2010
Cash flows from operating activities			
Net earnings	$ 5,275	$ 3,433	$ 4,178
Adjustments to reconcile earnings to net cash from operating activities			
Depreciation	525	508	476
Amortization of intangible assets	625	764	708
Stock-based compensation	187	163	167
Acquired in-process research and development	288	673	313
Other	66	—	—
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	223	(498)	(60)
Inventories	(203)	(87)	(73)
Prepaid expenses and other assets	90	(206)	(38)
Accounts payable and other liabilities	(731)	1,497	(695)
Cash flows from operating activities	6,345	6,247	4,976
Cash flows from investing activities			
Acquisitions and investments, net of cash acquired	(688)	(273)	(2,621)
Acquisitions of property and equipment	(333)	(356)	(448)
Release of (deposit of) restricted funds	—	1,870	(1,870)
Purchases of investment securities	(2,550)	(1,943)	(93)
Sales of investment securities	1,153	1,255	1
Cash flows from investing activities	(2,418)	553	(5,031)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	14,586	—	—
Net change in short-term borrowings	1,000	—	—
Other	(151)	(21)	(32)
Net transactions with Abbott Laboratories, excluding noncash items	(13,504)	(6,762)	97
Cash flows from financing activities	1,931	(6,783)	65
Effect of exchange rate changes on cash and equivalents	16	—	—
Net increase in cash and equivalents	5,874	17	10
Cash and equivalents, beginning of year	27	10	—
Cash and equivalents, end of year	$ 5,901	$ 27	$ 10

The accompanying notes are an integral part of these combined financial statements

AbbVie Inc. and Subsidiaries

Combined Balance Sheets

as of December 31 (in millions)	2012	2011
Assets		
Current assets		
Cash and equivalents	$ 5,901	$ 27
Short-term investments	2,075	626
Accounts receivable	3,602	3,817
Due from Abbott Laboratories	696	—
Inventories	1,091	872
Deferred income taxes	1,446	1,469
Prepaid expenses and other	543	543
Total current assets	15,354	7,354
Investments	119	229
Net property and equipment	2,247	2,144
Intangible assets, net of amortization	2,323	2,910
Goodwill	6,130	6,100
Other assets	835	784
Total assets	$27,008	$19,521
Liabilities and net parent company investment in AbbVie Inc.		
Current liabilities		
Short-term borrowings	$ 1,020	$ —
Current maturities of long-term debt and lease obligations	22	16
Accounts payable and accrued liabilities	4,811	5,881
Due to Abbott Laboratories	923	—
Total current liabilities	6,776	5,897
Long-term liabilities	2,239	1,660
Long-term debt and lease obligations	14,630	32
Commitments and contingencies		
Parent company equity		
Net parent company investment in AbbVie Inc	3,713	11,957
Accumulated other comprehensive (loss)	(350)	(25)
Total parent company equity	3,363	11,932
Total liabilities and net parent company investment in AbbVie Inc	$27,008	$19,521

The accompanying notes are an integral part of these combined financial statements

AbbVie Inc and Subsidiaries

Combined Statements of Parent Company Equity

years ended December 31 (in millions)	Net parent company investment	Accumulated other comprehensive income	Total
Balance at January 1, 2010	$ 10,973	$ 681	$ 11,654
Net earnings	4,178		4,178
Net transactions with Abbott Laboratories	264		264
Other comprehensive loss		(393)	(393)
Balance at December 31, 2010	15,415	288	15,703
Net earnings	3,433		3,433
Net transactions with Abbott Laboratories	(6,891)		(6,891)
Other comprehensive loss		(313)	(313)
Balance at December 31, 2011	11,957	(25)	11,932
Net earnings	5,275		5,275
Net transactions with Abbott Laboratories	(13,519)		(13,519)
Assumption of accumulated unrealized losses on pension and other post-employment benefits, net of tax benefit of $36		(296)	(296)
Other comprehensive loss		(29)	(29)
Balance at December 31, 2012	$ 3,713	$(350)	$ 3,363

The accompanying notes are an integral part of these combined financial statements

AbbVie Inc and Subsidiaries

Notes to Combined Financial Statements

Note 1 Basis of Presentation

The principal business of AbbVie Inc (AbbVie or the company) is the discovery, development, manufacture and sale of a broad line of proprietary pharmaceutical products Substantially all of AbbVie's U S sales are to three wholesalers Outside the United States, products are sold primarily to health care providers or through distributors, depending on the market served

On January 1, 2013, AbbVie became an independent company as a result of the distribution by Abbott Laboratories (Abbott) of 100 percent of the outstanding common stock of AbbVie to Abbott's shareholders AbbVie was incorporated in Delaware on April 10, 2012 Abbott's Board of Directors approved the distribution of its shares of AbbVie on November 28, 2012 AbbVie's Registration Statement on Form 10 was declared effective by the U S Securities and Exchange Commission on December 7, 2012 On January 1, 2013, Abbott's shareholders of record as of the close of business on December 12, 2012, received one share of AbbVie common stock for every one share of Abbott's common stock held as of the record date AbbVie's common stock began trading "regular-way" under the ticker symbol "ABBV" on the New York Stock Exchange on January 2, 2013

The accompanying combined financial statements have been prepared on a stand-alone basis and are derived from Abbott's consolidated financial statements and accounting records as if the former research-based pharmaceutical business of Abbott had been part of AbbVie for all periods presented The combined financial statements reflected AbbVie's financial position, results of operations and cash flows as its business was operated as part of Abbott prior to the distribution, in conformity with U S generally accepted accounting principles

The combined financial statements included the allocation of certain assets and liabilities that have historically been held at the Abbott corporate level but which are specifically identifiable or allocable to AbbVie Prior to 2012, cash and equivalents, short-term investments and restricted funds held by Abbott were not allocated to AbbVie unless those assets were held by an entity that was transferred to AbbVie As of December 31, 2012, AbbVie's combined balance sheet reflected the direct holdings for AbbVie legal entities All intracompany transactions and accounts have been eliminated Prior to 2012, all intercompany transactions between AbbVie and Abbott were considered to be effectively settled in the combined financial statements at the time the transaction was recorded As a result, the total net effect of settlement of these intercompany transactions was reflected in the combined statements of cash flows as a financing activity and in the combined balance sheet as net parent company investment in AbbVie As of December 31, 2012, outstanding intercompany transactions between AbbVie and Abbott are reflected as Due from Abbott Laboratories and Due to Abbott Laboratories in the combined balance sheet

AbbVie's combined financial statements included an allocation of expenses related to certain Abbott corporate functions, including senior management, legal, human resources, finance, information technology and quality assurance These expenses have been allocated to AbbVie based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenues, headcount, square footage, number of transactions or other measures AbbVie considers the expense allocation methodology and results to be reasonable for all periods presented However, the allocations may not be indicative of the actual expenses that would have been incurred had AbbVie operated as an independent, publicly-traded company for the periods presented

AbbVie employees participated in various benefit and stock-based compensation programs maintained by Abbott A portion of the cost of those programs was included in AbbVie's financial statements However, AbbVie's combined balance sheet does not include any equity related to stock-based

compensation plans See Note 9 and Note 10 for a further description of the accounting for post-employment benefits and stock-based compensation, respectively

Note 2 Summary of Significant Accounting Policies

Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States and necessarily include amounts based on estimates and assumptions by management Actual results could differ from those amounts Significant estimates include amounts for sales rebates, income taxes, pension and post-employment benefits, valuation of intangible assets and goodwill, litigation, financial instruments, and inventory and accounts receivable exposures

Revenue Recognition

AbbVie recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability of the sales price is reasonably assured Revenue from product sales is recognized when title and risk of loss have passed to the customer Provisions for discounts, rebates and sales incentives to customers and returns and other adjustments are provided for in the period the related sales are recorded Sales incentives to customers are not material Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales Revenue from the launch of a new product, from an improved version of an existing product, or for shipments in excess of a customer's normal requirements are recorded when the conditions noted above are met In those situations, management records a returns reserve for such revenue, if necessary Sales of product rights for marketable products are recorded as revenue upon disposition of the rights

Research and Development Costs

Internal research and development (R&D) costs are expensed as incurred Clinical trial costs incurred by third parties are expensed as the contracted work is performed Where contingent milestone payments are due to third parties under research and development collaborations for pre-commercialization milestones, the milestone payment obligations are expensed when the milestone results are achieved Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product Amounts capitalized for such payments are included in intangible assets, net of accumulated amortization

Advertising

Costs associated with advertising are expensed in the year incurred and are included in selling, general and administrative expenses (SG&A) Advertising expenses were $506 million, $375 million and $290 million in 2012, 2011 and 2010, respectively

Pension and Post-Employment Benefits

AbbVie records annual expenses relating to its pension benefit and other post-employment plans based on calculations which include various actuarial assumptions, including discount rates, assumed asset rates of return, compensation increases, turnover rates and health care cost trend rates AbbVie reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends Actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method, in accordance with the rules for accounting for post-employment benefits Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period

AbbVie employees participate in defined benefit pension and other post-employment plans sponsored by Abbott, which include participants of Abbott's other businesses Such plans are accounted for as multiemployer plans in the historical financial statements for AbbVie and, as a result, no asset or liability was recorded by AbbVie in the historical combined balance sheets to recognize the funded status of these plans In 2013, subsequent to the separation from Abbott, AbbVie's portion of the defined benefit pension plans will be separated from the Abbott defined benefit pension plans at which time the funded status for each plan will be reflected in the AbbVie combined balance sheets using a December 31, 2012 measurement date In addition to participation in defined benefit pension and other post-employment plans sponsored by Abbott, AbbVie is the sole sponsor for certain defined benefit pension and other post-employment plans The funded status of these plans have been recorded in the combined balance sheets for AbbVie at December 31, 2012

Refer to Note 9 for information regarding AbbVie's pension and post-employment plans

Income Taxes

Income taxes on earnings reflect the annual effective rates, including charges for interest and penalties Deferred income taxes are provided for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements based on enacted tax laws and rates The combined balance sheet as of December 31, 2011 has been appropriately revised to increase deferred tax liabilities in long-term liabilities by $156 million, decrease deferred tax assets in other assets by $136 million, and decrease net parent company investment in AbbVie by $292 million to properly reflect temporary differences attributable to AbbVie assets

In AbbVie's combined financial statements, income tax expense and deferred tax balances have been calculated on a separate tax return basis although AbbVie's operations have historically been included in the tax returns filed by the respective Abbott entities of which the AbbVie business is a part In the future, as a stand-alone entity, AbbVie will file tax returns on its own behalf and its deferred taxes and effective tax rate may differ from those in the historical periods

AbbVie does not maintain an income taxes payable to/from account with Abbott With the exception of certain entities outside the United States that transferred to AbbVie at separation, AbbVie is deemed to have settled current tax balances with the Abbott tax paying entities in the respective jurisdictions These settlements were reflected as changes in net parent company investment

Cash and Equivalents

Cash and equivalents include time deposits and money market funds with original maturities of three months or less

Investments

Short-term investments consist primarily of time deposits and U S Treasury securities and are carried at fair value Investments in marketable equity securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses, net of tax, included in accumulated other comprehensive income (loss) Investments in equity securities that are not traded on public stock exchanges and held-to-maturity debt securities are recorded at cost

AbbVie reviews the carrying value of investments each quarter to determine whether an other than temporary decline in market value exists AbbVie considers factors affecting the investee, factors affecting the industry the investee operates in and general equity market trends The company considers the length of time an investment's market value has been below cost and the near-term prospects for recovery When AbbVie determines that an other than temporary decline has occurred, the cost basis investment is written down with a charge to income and the available-for-sale securities'

unrealized loss is recognized as a charge to income and removed from accumulated other comprehensive income (loss) (AOCI)

Accounts Receivable

Accounts receivable are stated at their net realizable value The allowance against gross accounts receivable reflects the best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information Accounts receivable are written off after all reasonable means to collect the full amount (including litigation, where appropriate) have been exhausted The allowance was $178 million at December 31, 2012 and $161 million at December 31, 2011

Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) or market Cost includes material and conversion costs Inventories, net, consist of the following

as of December 31 (in millions)	2012	2011
Finished goods	$ 547	$429
Work-in-process	286	207
Materials	258	236
Inventories, net	$1,091	$872

Property and Equipment

as of December 31 (in millions)	2012	2011
Land	$ 94	$ 106
Buildings	1,278	1,305
Equipment	4,865	4,331
Construction in progress	305	206
Property and equipment, gross	6,542	5,948
Less accumulated depreciation	(4,295)	(3,804)
Property and equipment, net	$ 2,247	$ 2,144

Depreciation for property and equipment is recorded on a straight-line basis over the estimated useful lives of the assets The estimated useful life for buildings ranges from 15 to 66 years, with an average depreciation period of 25 years, and five to 35 years for equipment, with an average depreciation period of 10 years Leasehold improvements are amortized over the life of the related facility lease (including any renewal periods, if appropriate) or the asset, whichever is shorter Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was $525 million, $508 million and $476 million, respectively Equipment includes certain computer software and software development costs incurred in connection with developing or obtaining software for internal use Assets under capital leases included in property and equipment in the combined balance sheets are not material

Litigation

Loss contingency provisions are recorded for probable losses at management's best estimate of a loss When a best estimate cannot be made, a minimum loss contingency amount is recorded Legal fees are expensed as incurred

Product Liability

AbbVie accrues for product liability claims, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information The liabilities are adjusted quarterly as additional information becomes available Receivables for insurance recoveries for product liability claims are recorded as assets, on an undiscounted basis, when it is probable that a recovery will be realized

Business Combinations

Results of operations of acquired companies are included in AbbVie's results of operations as of the respective acquisition dates Assets acquired and liabilities assumed are recognized at the date of acquisition at their respective fair values Any excess of the purchase price over the estimated fair values of the net assets acquired is recognized as goodwill Contingent consideration is recognized at the estimated fair value on the acquisition date, which is determined by utilizing a probability weighted discounted cash flow model Subsequent changes to the fair value of contingent payments are recognized in earnings The allocation of purchase price in certain cases may be subject to revision based on the final determination of fair value Legal costs, audit fees, business valuation costs and all other business acquisition costs are expensed when incurred

Goodwill and Intangible Assets

Purchased intangible assets are recorded at fair value using a discounted cash flow model The discounted cash flow model requires assumptions about the timing and amount of future net cash flows, risk, the cost of capital, terminal values and market participants Definite-lived intangibles are amortized over their estimated useful lives AbbVie reviews the recoverability of definite-lived intangible assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable Impairment is reviewed by comparing projected undiscounted cash flows to be generated by the asset to its carrying value If the undiscounted cash flows of an intangible asset are less than the carrying value of an intangible asset, the intangible asset is written down to its fair value, which is usually the discounted cash flow amount and a loss is recorded equal to the excess of the asset's net carrying value over its fair value Where cash flows cannot be identified for an individual asset, the review is applied at the lowest level for which cash flows are identifiable

Goodwill and indefinite-lived assets are not amortized but are subject to an impairment review annually and whenever indicators of impairment exist An impairment of goodwill would occur if the carrying amount of a reporting unit exceeded the fair value of that reporting unit, calculated using a weighting of the income approach and the market approach The fair value under the income approach is calculated as the present value of estimated cash flows discounted using a risk-free market rate adjusted for a market participant's view of similar companies and perceived risks in cash flows The fair value under the market approach is calculated using market multiples for peer groups applied to the operating results of the reporting units to determine fair value The implied fair value of goodwill is then determined by subtracting the fair value of all identifiable net assets other than goodwill from the fair value of the reporting units, with an impairment charge recorded for the excess, if any, of the carrying amount of goodwill over the implied fair value Based on the company's most recent annual impairment test performed in the third quarter, the fair value of the reporting units was substantially in excess of their carrying value

Indefinite-lived assets are tested for impairment by comparing the fair value of each intangible asset with its carrying value The value of indefinite-lived is based on the present value of projected cash flows using an income approach If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value

Acquired In-Process Research and Development

The initial costs of rights to acquired in-process research and development (IPR&D) projects acquired in an asset acquisition are expensed as IPR&D unless the project has an alternative future use These costs include initial payments incurred prior to regulatory approval in connection with research and development collaboration agreements that provide rights to develop, manufacture, market and/or sell pharmaceutical products The fair value of IPR&D projects acquired in a business combination are capitalized and accounted for as indefinite-lived intangible assets until the underlying project receives regulatory approval, at which point the intangible asset will be accounted for as a definite-lived intangible asset, or discontinuation, at which point the intangible asset will be written off Development costs incurred after the acquisition are expensed as incurred Indefinite- and definite-lived assets are subject to impairment reviews as discussed previously

Foreign Currency Translation

Foreign subsidiary earnings are translated into U S dollars using average exchange rates The net assets of foreign subsidiaries are translated into U S dollars using current exchange rates The U S dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recognized in other comprehensive income (OCI) The net assets of subsidiaries in highly inflationary economies are remeasured as if the functional currency were the reporting currency The remeasurement is recognized in earnings and is immaterial for all years presented

Derivatives

All derivative instruments are recognized as either assets or liabilities at fair value in the combined balance sheets and are classified as current or long-term based on the scheduled maturity of the instrument The accounting for changes in the fair value of a derivative instrument depends on whether it has been formally designated and qualifies as part of a hedging relationship under the applicable accounting standards and, further, on the type of hedging relationship

For derivatives formally designated as hedges, the company assesses at inception and quarterly thereafter, whether the hedging derivatives are highly effective in offsetting changes in the fair value or cash flows of the hedged item The changes in fair value of a derivative designated as a fair value hedge and of the hedged item attributable to the hedge risk are recognized in earnings immediately Fair value hedges are used to hedge the interest rate risk associated with certain of the company's fixed-rate debt The effective portions of changes in the fair value of a derivative designated as a cash flow hedge are reported in AOCI and are subsequently recognized in earnings consistent with the underlying hedged item Cash flow hedges are used to manage exposures from changes in foreign currency exchange rates

The derivatives that are not designated and do not qualify as hedges are adjusted to fair value through current earnings If it is determined that a derivative is no longer highly effective as a hedge, the company discontinues hedge accounting prospectively Gains or losses are immediately reclassified from AOCI to earnings relating to hedged forecasted transactions that are no longer probable of occurring Gains or losses relating to terminations of effective cash flow hedges in which the forecasted transactions are still probable of occurring are deferred and recognized consistent with the income or loss recognition of the underlying hedged items Terminations of a fair value hedge result in a cumulative fair value adjustment to the hedged items at the date of termination which is amortized to earnings over the remaining term of the hedged item

Derivatives, including those that are not designated as a hedge, are principally classified in the operating section of the combined statements of cash flows, consistent with the underlying hedged item

Refer to Note 8 for information regarding AbbVie's derivative and hedging activities

Earnings per Share

The numerator for both basic and diluted earnings per common share (EPS) is net earnings attributable to AbbVie The denominator for basic and diluted EPS is based on the number of shares of AbbVie common stock outstanding on the distribution date On January 1, 2013, the distribution date, Abbott shareholders of record as of the close of business on December 12, 2012 received one share of AbbVie common stock for every one share of Abbott's common stock held as of the record date

Basic and diluted earnings per common share and the average number of common shares outstanding were calculated using the number of AbbVie common shares outstanding immediately following the distribution The same number of shares was used to calculate basic and diluted earnings per share since no AbbVie equity awards were outstanding prior to the distribution

years ended December 31 (in millions, except per share amounts)	2012	2011	2010
Net earnings	$5,275	$3,433	$4,178
Basic and diluted earnings per common share	3 35	2 18	2 65
Basic and diluted average shares outstanding	1,577	1,577	1,577

Note 3 Supplemental Financial Information

Interest Expense, net

years ended December 31 (in millions)	2012	2011	2010
Interest and dividend income	$(20)	$(20)	$(28)
Interest expense	104	—	—
Interest expense, net	$ 84	$(20)	$(28)

Other (Income) Expense

Other (income) expense, net, for 2012 included income of $21 million from the resolution of a contractual agreement and a loss of $52 million for the impairment of an equity security Other (income) expense, net, included losses of $29 million in 2012 and $56 million in 2011 of fair value adjustments and accretion in the contingent consideration related to the acquisition of Solvay SA's U S pharmaceuticals business (Solvay) Other (income) expense, net, for 2012, 2011 and 2010 also included ongoing contractual payments from Takeda associated with the conclusion of the TAP Pharmaceutical Products Inc joint venture in 2008

Accounts Payable and Accrued Liabilities

as of December 31 (in millions)	2012	2011
Sales rebates	$1,616	$1,537
Accounts payable	556	417
Salaries, wages and commissions	523	435
Royalty license arrangements	398	417
Government investigation	—	1,509
Acquired IPR&D	—	400
Other	1,718	1,166
Accounts payable and accrued liabilities	$4,811	$5,881

Long-Term Liabilities

as of December 31 (in millions)	2012	2011
Deferred income taxes	$ 360	$ 646
Pension and other post-employment benefits	979	397
Other	900	617
Long-term liabilities	$2,239	$1,660

Accumulated Other Comprehensive Income (Loss)

The net-of-tax components of AOCI, a component of parent company equity, were as follows

as of December 31 (in millions) (brackets denote loss)	2012	2011
Cumulative foreign currency translation gain adjustments	$ 181	$ 8
Pension and other post-employment benefits	(511)	(65)
Cumulative unrealized gains on marketable equity securities	1	26
Cumulative losses/gains on derivative instruments designated as cash flow hedges	(21)	6
Accumulated other comprehensive loss	$(350)	$(25)

Note 4 Acquisitions, Collaborations and Other Arrangements

In 2012, 2011 and 2010, cash outflows related to acquisitions, collaborations and other arrangements totaled $688 million, $273 million and $2 6 billion, respectively AbbVie recorded IPR&D charges of $288 million, $673 million and $313 million in 2012, 2011 and 2010, respectively The following are the more significant acquisitions and investments, including licensing and collaboration agreements, some of which require contingent milestone payments

Acquisitions

Solvay SA Pharmaceuticals

In February 2010, AbbVie acquired Solvay and certain other product rights for approximately $1 9 billion, in cash, plus contingent payments of up to EUR 100 million per year if certain sales milestones are met in 2011, 2012 and 2013 The total consideration was valued at $2 2 billion, which includes the $1 9 billion cash payment plus the estimated fair value of the milestone-based contingent payments of approximately $290 million The estimated fair value of the contingent consideration was based on the estimated probability of achieving the specified sales milestones discounted based on the expected timing of payment Subsequent changes to the fair value of contingent payments are recognized in earnings

This transaction provides AbbVie with a complementary pharmaceutical product portfolio including the U S rights to AndroGel and Creon, worldwide rights to Duodopa, and various research and development projects AbbVie acquired control of this business on February 15, 2010, and the financial results of the acquired operations are included in these financial statements beginning on that date Net sales of the acquired operations were approximately $1 1 billion in 2010 Had the Solvay acquisition taken place on January 1, 2010, combined net sales and net earnings would not have been significantly different from reported amounts The acquisition was funded with cash and short-term investments

The allocation of the fair value of the arrangement as of the acquisition date is shown in the table below

(in billions)	
Acquired intangible assets, non-deductible	$ 1 8
IPR&D, non-deductible	0 5
Goodwill, non-deductible	0 4
Deferred income taxes	(0 5)
Total consideration	$ 2 2

The excess of the purchase price over the fair value of the assets acquired and liabilities assumed of approximately $400 million was recorded as goodwill Goodwill is attributable to expected synergies and other benefits AbbVie believed would result from the acquisition Acquired intangible assets consist primarily of product rights for currently marketed products and are amortized over 2 to 13 years (average of 8 years) Acquired IPR&D projects are accounted for as indefinite-lived intangible assets until regulatory approval or discontinuation

Facet Biotech Corporation

In April 2010, AbbVie acquired the outstanding shares of Facet Biotech Corporation (Facet) for approximately $430 million, in cash, net of cash held by Facet The acquisition enhances AbbVie's early-and mid-stage pharmaceutical pipeline, including daclizumab, a biologic for multiple sclerosis, and an oncology compound A substantial portion of the fair value of the acquisition, including $381 million for daclizumab, has been allocated to acquired IPR&D projects that are accounted for as indefinite-lived intangible assets until regulatory approval or discontinuation Had the Facet acquisition taken place on January 1, 2010, combined net sales and net earnings would not have been significantly different from reported amounts

Collaborations and Other Arrangements

The company enters into collaborative agreements with third parties to develop and commercialize drug candidates Collaborative activities may include joint research and development and commercialization of new products AbbVie generally receives certain licensing rights under these arrangements These collaborations often require upfront payments and may include additional milestone, research and development cost sharing, royalty or profit share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development and commercialization Upfront payments associated with collaborative arrangements during the development stage are expensed to IPR&D Subsequent payments made to the partner for the achievement of milestones during the development stage are expensed to R&D when the milestone is achieved Milestone payments made to the partner subsequent to regulatory approval are capitalized as intangible assets and amortized to cost of products sold over the estimated useful life of the related asset Royalty and sales-based milestones are expensed as cost of products sold when incurred

Reata Pharmaceuticals, Inc

During 2010 and 2011, AbbVie entered into a series of transactions with Reata Pharmaceuticals, Inc (Reata) AbbVie acquired equity interests in Reata of $62 million each in 2011 and 2010 In 2010, AbbVie entered into an agreement to acquire licensing rights outside the United States, excluding certain Asian markets, to bardoxolone methyl, a product in development for the treatment of chronic kidney disease, resulting in a charge to IPR&D of $238 million The achievement of certain development milestones under the license agreement resulted in charges of $50 million in 2012 to R&D and $188 million in 2011 to IPR&D Additional payments of up to $150 million could be

required for the achievement of certain development and regulatory milestones associated with the chronic kidney disease compound in development

In the fourth quarter of 2011, AbbVie entered into a collaboration with Reata for the joint development and commercialization of second-generation oral antioxidant inflammation modulators resulting in a charge to IPR&D of $400 million, which was paid in the first quarter of 2012

On October 17, 2012, Reata informed AbbVie that it is discontinuing the Phase III clinical study for bardoxolone methyl for chronic kidney disease Reata and AbbVie will closely examine the data from this study to determine whether there is an appropriate path forward for the development of bardoxolone methyl in chronic kidney disease or other indications In the fourth quarter of 2012, AbbVie recorded a charge of $52 million in other (income) expense, net for the impairment of the equity investment in Reata

Seattle Genetics, Inc

In October 2012, AbbVie recorded a charge to IPR&D of $28 million as a result of entering into a two-year collaboration agreement with Seattle Genetics, Inc to research, develop and commercialize up to three compounds with Antibody-Drug Conjugate approaches Additional payments of up to $220 million for each licensed compound may be required based on the achievement of specified development, regulatory and commercial milestones under this agreement

Action Pharma A/S

In May 2012, AbbVie recorded a charge to IPR&D of $110 million as a result of the acquisition of ABT-719 (previously referred to as AP214), a drug under development for the prevention of acute kidney injury associated with major cardiac surgery in patients at increased risk

Galapagos NV

In February 2012, AbbVie recorded a charge to IPR&D of $150 million as a result of entering into a global collaboration with Galapagos NV to develop and commercialize a next-generation, oral Janus Kinase 1 (JAK1) inhibitor in Phase II development with the potential to treat multiple autoimmune diseases Additional payments of approximately $1 2 billion could be required for the achievement of certain development, regulatory and commercial milestones under this agreement

Biotest AG

In June 2011, AbbVie entered into a global agreement with Biotest AG to develop and commercialize an anit-CD4, a treatment for rheumatoid arthritis and psoriasis, resulting in an $85 million charge to IPR&D AbbVie could, in the future, be required to make additional payments totaling up to $395 million based on the achievement of certain development, regulatory and commercial milestones under this agreement

Neurocrine Biosciences, Inc

In June 2010, AbbVie entered into an exclusive worldwide agreement with Neurocrine Biosciences, Inc to develop and commercialize a product for the treatment of endometriosis, resulting in a $75 million charge to IPR&D AbbVie could, in the future, be required to make additional payments of up to $500 million based on the achievement of certain development, regulatory and commercial milestones under this agreement

Note 5 Goodwill and Intangible Assets

The carrying amount of goodwill at December 31, 2012 and 2011 was $6,130 million and $6,100 million, respectively Changes in the goodwill balance were due to foreign currency translation As of December 31, 2012, there were no accumulated goodwill impairment losses

The following table summarizes AbbVie's intangible assets

	December 31, 2012			December 31, 2011		
(in millions)	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets						
Developed product rights	$4,699	$(3,031)	$1,668	$4,675	$(2,492)	$2,183
License agreements	969	(734)	235	949	(647)	302
Total definite-lived intangible assets	5,668	(3,765)	1,903	5,624	(3,139)	2,485
Indefinite-lived research and development	420	—	420	425	—	425
Total intangible assets	$6,088	$(3,765)	$2,323	$6,049	$(3,139)	$2,910

The indefinite-lived intangible assets relate to IPR&D acquired in a business combination Amortization expense for 2012, 2011 and 2010 was $625 million, $764 million and $708 million, respectively In 2012 and 2011, AbbVie recorded impairment charges of $13 million and $46 million, respectively, for certain projects under development These charges are included in R&D expenses At December 31, 2012, the anticipated annual amortization expense for intangible assets recorded as of December 31, 2012 was $511 million in 2013, $348 million in 2014, $267 million in 2015, $140 million in 2016 and $116 million in 2017 Intangible asset amortization is included in cost of products sold in the combined statements of earnings Amortizable intangible assets are amortized over 2 to 16 years with an average of 11 years for both developed product rights and license agreements

Note 6 Restructuring Plans

In 2012 and prior years, AbbVie management approved plans to realign its worldwide manufacturing operations and selected domestic and international commercial and R&D operations in order to reduce costs In 2012, AbbVie recorded a charge of approximately $177 million for employee severance and contractual obligations, primarily related to the exit from an R&D facility with $169 million classified in R&D and $8 million as SG&A expenses In 2011, AbbVie recorded a charge of $160 million reflecting employee severance and other related charges, with $42 million classified as cost of products sold, $69 million as R&D and $49 million as SG&A expenses The following summarizes the activity for these restructurings

(in millions)	
Accrued balance at December 31, 2009	$ 54
Payments and other adjustments	(54)
Accrued balance at December 31, 2010	—
2011 restructuring charges	160
Payments and other adjustments	(70)
Accrued balance at December 31, 2011	90
2012 restructuring charges	177
Payments and other adjustments	(74)
Accrued balance at December 31, 2012	$193

An additional $69 million, $26 million and $7 million were subsequently recorded in 2012, 2011 and 2010, respectively, relating to these restructurings, primarily for accelerated depreciation

Solvay Plans

In 2010, AbbVie management approved restructuring plans primarily related to the acquisition of Solvay This plan streamlined operations, improved efficiencies and reduced costs in certain Solvay sites and functions as well as in certain AbbVie and Solvay commercial organizations in various countries In 2010, AbbVie recorded a charge of $147 million, with $6 million classified in cost of products sold, $126 million classified in R&D and $15 million classified in SG&A expenses The following summarizes the employee severance activity for this restructuring

(in millions)	
2010 employee severance charge	$147
Payments and other adjustments	(35)
Accrued balance at December 31, 2010	112
Payments and other adjustments	(92)
Accrued balance at December 31, 2011	20
Payments and other adjustments	(20)
Accrued balance at December 31, 2012	$ —

An additional $27 million and $17 million were recorded in 2011 and 2010, respectively, relating to this restructuring, primarily for accelerated depreciation and asset impairments

Note 7 Debt, Credit Facilities, and Commitments and Contingencies

Long-Term Debt

The following is a summary of long-term debt as of December 31, 2012

(in millions)	Effective interest rate in 2012(a)	2012
Floating rate notes due 2015	1 13%	500
1 2% notes due 2015	1 24%	3,500
1 75% notes due 2017	1 82%	4,000
2 0% notes due 2018	2 12%	1,000
2 9% notes due 2022	3 01%	3,100
4 4% notes due 2042	4 50%	2,600
Other	—	104
Fair value hedges and unamortized bond discounts	—	(152)
Total long-term debt and lease obligations		14,652
Current portion		22
Noncurrent portion		$14,630

(a) Excludes the effect of any related interest rate swaps

In November 2012, AbbVie issued $14 7 billion aggregate principal amount of senior notes Approximately $3 0 billion of these senior notes were issued to Abbott as partial consideration for the transfer of assets from Abbott to AbbVie AbbVie used part of the net proceeds from the sale of senior notes (other than the senior notes issued to Abbott) to finance the payment made in November 2012

of a $10 2 billion distribution to Abbott, as provided by the terms of the separation agreement The debt was guaranteed by Abbott until AbbVie separated from Abbott on January 1, 2013

AbbVie may redeem all of the senior notes of each series, other than the floating notes due in 2015, at any time, and some of the senior notes of each series, other than the floating notes due in 2015, from time to time, at a redemption price equal to the principal amount of the senior notes redeemed plus a make-whole premium AbbVie may not redeem the floating notes due in 2015 prior to maturity

Debt issuance costs incurred in connection with the senior note debt offering, which totaled $63 million, are being amortized over the respective terms of the notes to interest expense in the combined statements of earnings

At December 31, 2012, the company was in compliance with its senior note covenants

Short-Term Borrowings

At December 31, 2012, short-term borrowings included $1 0 billion of commercial paper borrowings The weighted-average interest rate on short-term borrowings was 0 4% at December 31, 2012 AbbVie has a $2 0 billion unsecured bank credit facility agreement, which backs the commercial paper program, and matures in July 2017 Abbott was relieved of its obligations under the credit facility upon separation of AbbVie from Abbott on January 1, 2013, and AbbVie became the sole obligor of this facility The credit facility enables the company to borrow funds on an unsecured basis at floating interest rates At December 31, 2012, the company was in compliance with its credit facility covenants Compensating balances and commitment fees are not material

Leases

As part of the separation, AbbVie entered into agreements to lease certain facilities, including office, laboratory, and factory and warehouse space, under principally non-cancelable operating leases The leases generally provide for the company to pay taxes, maintenance, insurance and other operating costs of the leased property AbbVie also leases office space on a short-term basis typically under cancelable operating leases The company has capital lease obligations principally for automobiles As of December 31, 2012, annual future minimum lease payments are not material

Future Minimum Lease Payments and Long-Term Debt Maturities

as of and for the years ended December 31 (in millions)	
2013	$ 22
2014	15
2015	4,012
2016	9
2017	4,000
Later years	6,746
Total obligations and commitments	14,804
Fair value hedges and unamortized bond discounts	(152)
Current and long-term debt and lease obligations	$14,652

Contingencies and Guarantees

In connection with the distribution, AbbVie has indemnified Abbott for all liabilities resulting from the operation of AbbVie's business other than income tax liabilities with respect to periods prior to the distribution date and other liabilities as agreed to by AbbVie and Abbott AbbVie has no material exposures to off-balance sheet arrangements, no special-purpose entities and no activities that included

non-exchange-traded contracts accounted for at fair value In the ordinary course of business, AbbVie has periodically entered into third-party agreements, such as the assignment of product rights, which have resulted in AbbVie becoming secondarily liable for obligations for which AbbVie had previously been primarily liable Since AbbVie no longer maintains a business relationship with the other parties, AbbVie is unable to develop an estimate of the maximum potential amount of future payments, if any, under these obligations Based upon past experience, the likelihood of payments under these agreements is remote AbbVie periodically acquires a business or product rights in which AbbVie agrees to pay contingent consideration based on attaining certain thresholds or based on the occurrence of certain events

Note 8 Financial Instruments and Fair Value Measures

Risk Management Policy

The company is exposed to foreign currency exchange rate and interest rate risks related to its business operations The company's hedging policy attempts to manage these risks to an acceptable level based on the company's judgment of the appropriate trade-off between risk, opportunity and costs The company uses derivative instruments to reduce its exposure to foreign currency exchange rates The company is also exposed to the risk that its earnings and cash flows could be adversely impacted by fluctuations in interest rates The company periodically enters into interest rate swaps, based on judgment, to manage interest costs in which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount Derivative instruments are not used for trading purposes or to manage exposure to changes in interest rates for investment securities, and none of the company's outstanding derivative instruments contain credit risk related contingent features

Financial Instruments

Various AbbVie foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany transactions denominated in a currency other than the functional currency of the local entity These contracts, totaling $1 0 billion and $249 million at December 31, 2012 and 2011, respectively, are designated as cash flow hedges and are recorded at fair value Accumulated gains and losses as of December 31, 2012 will be included in cost of products sold at the time the products are sold, generally through the next twelve months

The company enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated trade payables and receivables and intercompany loans The contracts are marked-to-market, and resulting gains or losses are reflected in income and are generally offset by losses or gains on the foreign currency exposure being managed At December 31, 2012 and 2011, AbbVie held $4 3 billion and $3 0 billion, respectively, of such foreign currency forward exchange contracts

AbbVie was a party to interest rate hedge contracts, designated as fair value hedges, totaling $8 0 billion at December 31, 2012 The effect of the hedge is to change a fixed-rate interest obligation to a floating rate for that portion of the debt AbbVie recorded the contracts at fair value and adjusted the carrying amount of the fixed-rate debt by an offsetting amount

The following table summarizes the amounts and location of AbbVie's derivative instruments as of December 31

(in millions)	Fair value—assets 2012	2011	Balance sheet caption	Fair value—liabilities 2012	2011	Balance sheet caption
Interest rate swaps designated as fair value hedges	$—	$—		$ 81	$—	Long-term liabilities
Foreign currency forward exchange contracts—						
Hedging instruments	1	18	Prepaid expenses and other	10	—	Accounts payable and accrued liabilities
Others not designated as hedges	14	21	Prepaid expenses and other	15	43	Accounts payable and accrued liabilities
Total	$15	$39		$106	$43	

The following table summarizes the activity for derivative instruments and the amounts and location of income (expense) and gain (loss) reclassified into income and for certain other derivative instruments for the years ended December 31 The amount of hedge ineffectiveness was not significant in 2012, 2011 and 2010

(in millions)	(Loss) gain recognized in other comprehensive (loss) income 2012	2011	2010	Income (expense) and gain (loss) reclassified into income 2012	2011	2010	Income statement caption
Foreign currency forward exchange contracts—							
Designated as cash flow hedges	$(11)	$ (2)	$ 75	$ 24	$18	$45	Cost of products sold
Not designated as hedges	n/a	n/a	n/a	(23)	30	30	Net foreign exchange (gain) loss
Interest rate swaps designated as fair value hedges	n/a	n/a	n/a	(81)	—	—	Interest expense, net

The loss of $81 million related to fair value hedges recognized in net interest expense in 2012 was offset equally by $81 million in gains on the underlying hedged item, the fixed-rate debt

Fair Value Measures

The fair value hierarchy under the accounting standard for fair value measurements consists of the following three levels

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets that the company has the ability to access,
- Level 2—Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market, and
- Level 3—Valuations using significant inputs that are unobservable in the market and include the use of judgment by the company's management about the assumptions market participants would use in pricing the asset or liability

The following table summarizes the bases used to measure certain assets and liabilities that are carried at fair value on a recurring basis in the combined balance sheets as of December 31

(in millions)	Balance at December 31, 2012	Basis of fair value measurement: Quoted prices in active markets for identical assets (Level 1)	Basis of fair value measurement: Significant other observable inputs (Level 2)	Basis of fair value measurement: Significant unobservable Inputs (Level 3)
Assets				
Cash and equivalents	$5,901	$675	$5,226	$ —
Certificates of deposit	1,775	—	1,775	—
U S Treasury securities	300	300	—	—
Equity securities	12	12	—	—
Foreign currency forward contracts	15	—	15	—
Total assets	$8,003	$987	$7,016	$ —
Liabilities				
Interest rate hedges	$ 81	$ —	$ 81	$ —
Foreign currency forward contracts	25	—	25	—
Contingent consideration	251	—	—	251
Total liabilities	$ 357	$ —	$ 106	$251

(in millions)	Balance at December 31, 2011	Basis of fair value measurement: Quoted prices in active markets for identical assets (Level 1)	Basis of fair value measurement: Significant other observable inputs (Level 2)	Basis of fair value measurement: Significant unobservable inputs (Level 3)
Assets				
Cash and equivalents	$ 27	$ 27	$—	$ —
U S Treasury securities	626	626	—	—
Equity securities	58	58	—	—
Foreign currency forward contracts	39	—	39	—
Total assets	$750	$711	$39	$ —
Liabilities				
Foreign currency forward contracts	$ 43	$ —	$43	$ —
Contingent consideration	349	—	—	349
Total liabilities	$392	$ —	$43	$349

Available-for-sale equity securities consist of investments for which the fair value is determined by using the published market price per unit multiplied by the number of units held, without consideration of transaction costs The derivatives entered into by the company are valued using publicized spot and forward prices for foreign currency hedges and publicized swap curves for interest rate hedges The contingent payments are valued using a discounted cash flow technique that reflects management's expectations about probability of payment

Gross unrealized holding gains on available-for-sale equity securities totaled $1 million and $44 million at December 31, 2012 and 2011, respectively

There have been no transfers of assets or liabilities between the fair value measurement levels The following table is a reconciliation of the fair value measurements that use significant unobservable inputs (Level 3), which consist of contingent payments related to acquisitions

(in millions)	
Fair value as of December 31, 2010	$ 295
Other	(2)
Loss recognized in earnings	56
Fair value as of December 31, 2011	349
Payments	(134)
Other	7
Loss recognized in earnings	29
Fair value as of December 31, 2012	$ 251

In connection with the acquisition of Solvay's U S pharmaceuticals business in 2010, the achievement of a certain sales milestone resulted in a payment of approximately $134 million in 2012 for which a liability was previously established

In addition to the financial instruments that the company is required to recognize at fair value on the combined balance sheets, the company has certain financial instruments that are recognized at historical cost or some basis other than fair value The carrying values and fair values of certain financial instruments as of December 31 are shown in the table below

	Book values		Approximate fair values	
(in millions)	2012	2011	2012	2011
Assets				
Investments	$ 107	$171	$ 104	$171
Liabilities				
Short-term borrowings	1,020	—	1,020	—
Current maturities of long-term debt and lease obligations	22	16	22	16
Long-term debt and lease obligations	14,630	32	15,066	32

The following table summarizes the bases used to measure the approximate fair values of the financial instruments as of December 31, 2012

		Basis of fair value measurement		
(in millions)	Fair value at December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments	$ 104	$—	$ 32	$72
Total assets	$ 104	$—	$ 32	$72
Liabilities				
Short-term borrowings	$ 1,020	$—	$ 1,020	$—
Current maturities of long-term debt and lease obligations	22	—	22	—
Long-term debt and lease obligations	15,066	—	15,066	—
Total liabilities	$16,108	$—	$16,108	$—

Investments consist of cost method investments and held-to-maturity debt securities In determining the fair value of cost method investments, the company takes into consideration recent transactions, as well as the financial information of the investee, which represents a Level 3 basis of fair value measurement The fair value of held-to-maturity debt securities and long-term debt was estimated based upon the quoted market prices for the same or similar debt instruments The fair values of short-term and current borrowings approximate the carrying values due to the short maturities of these instruments There were no material adjustments to fair value during the years ended December 31, 2012 and 2011, of assets and liabilities that are not measured at fair value on a recurring basis, except as discussed in Note 4 regarding the impairment of the company's investment in Reata The counterparties to financial instruments consist of select major international financial institutions

Concentrations of Risk

The company invests excess cash in time deposits, money market funds and U S Treasury securities and diversifies the concentration of cash among different financial institutions The company monitors concentrations of credit risk associated with deposits with financial institutions Credit exposure limits have been established to limit a concentration with any single issuer or institution

Three U S wholesalers accounted for 48 percent and 43 percent of total net accounts receivables as of December 31, 2012 and 2011, respectively, and substantially all of AbbVie's U S sales are to these three wholesalers In addition, governmental accounts in Greece, Portugal, Italy and Spain accounted for 20 percent and 30 percent of total net accounts receivable as of December 31, 2012 and 2011, respectively

Note 9 Post-Employment Benefits

Abbott Sponsored Plans

AbbVie employees participated in certain U S and international defined benefit pension and other post-employment plans sponsored by Abbott These plans included participants of Abbott's other businesses and were accounted for as multiemployer plans in AbbVie's combined financial statements As a result, no asset or liability was recorded by AbbVie in the historical balance sheets through December 31, 2012 to recognize the funded status of these plans Abbott made voluntary contributions to its defined benefit pension funds that AbbVie accounts for as multiemployer plans totaling $310 million, $289 million and $439 million in 2012, 2011 and 2010, respectively The multiemployer pension plans were approximately 94 percent and 99 percent funded as of December 31, 2012 and 2011, respectively In connection with the separation of AbbVie from Abbott on January 1, 2013, these plans will be separated and Abbott will transfer certain liabilities and assets of these plans to AbbVie The estimated amounts that will be assumed by AbbVie in 2013 are shown in the table below

(in millions)	Defined benefit plans	Other post-employment plans
Accumulated benefit obligations	$ 2,456	$318
Deferred losses	(1,422)	(59)
Projected benefit obligations	2,929	318
Fair value of assets	2,295	—
Net liability	$ 634	$318

For Abbott sponsored defined benefit and post-employment benefit plans, AbbVie recorded expenses of $200 million in 2012 and $150 million in both 2011 and 2010

AbbVie Sponsored Plans

AbbVie is the sole sponsor for certain other defined benefit pension and other post-employment plans, which have been reflected in the combined balance sheets as of December 31, 2012 and 2011 During 2012, in preparation for the separation from Abbott, certain pension and other post-employment benefit plans were assumed by AbbVie and have been reflected in the December 31, 2012 combined balance sheet AbbVie made voluntary contributions to the AbbVie sponsored pension plans of $46 million, $64 million and $50 million in 2012, 2011 and 2010, respectively In the first quarter of 2013, AbbVie made a voluntary contribution of $145 million to its main domestic defined benefit pension plan, which was assumed in 2013

The benefit plan information in the table below pertains to the AbbVie sponsored pension and other post-employment plans

	Defined benefit plans		Other post-employment plans
as of and for the years ended December 31 (in millions)	2012	2011	2012
Projected benefit obligations			
Beginning of period	$ 649	$ 636	$ —
Service cost	21	18	—
Interest cost	38	32	—
Assumption of plan liabilities	797	—	231
Actuarial loss (gain)	182	(1)	—
Benefits paid	(40)	(35)	—
Other, primarily foreign currency translation loss (gain)	22	(1)	—
End of period	$1,669	$ 649	$ 231
Fair value of plan assets			
Beginning of period	$ 230	$ 201	$ —
Actual return on plans assets	42	—	—
Company contributions	46	64	—
Assumption of plan assets	620	—	—
Benefits paid	(40)	(35)	—
End of period	898	230	—
Funded status at December 31	$ (771)	$(419)	$(231)
Amounts recognized in combined balance sheets			
Other assets	$ 11	$ —	$ —
Current liabilities	(27)	(22)	(7)
Long-term liabilities	(755)	(397)	(224)
Net liability at December 31	$ (771)	$(419)	$(231)
Actuarial losses, net	$ 526	$ 97	$ 69
Prior service cost	10	1	(1)
AOCI at December 31	$ 536	$ 98	$ 68

The projected benefit obligations (PBO) in the table above included $1 1 billion and $405 million at December 31, 2012 and 2011, respectively, related to international defined benefit pension plans which are generally not funded, in accordance with local regulations Benefit payments for those plans are funded from company assets

For plans reflected in the table above, the accumulated benefit obligations (ABO) were $1 5 billion and $620 million at December 31, 2012 and 2011, respectively For those plans reflected in the table above in which the ABO exceeded plan assets at December 31, 2012, the ABO, PBO and aggregate plan assets were $951 million, $1 0 billion and $278 million, respectively

Amounts Recognized in AOCI and OCI

The pension and other post-employment plans' gains or losses and prior service costs or credits not yet recognized in net periodic benefit cost are recognized on a net-of-tax basis in AOCI and will be amortized to net periodic benefit cost in the future The following is a summary of the pretax losses included in OCI for 2012 and 2011

(in millions)	
Actuarial loss	$167
Prior service cost	9
Amortization of prior service cost and actuarial losses	(7)
Foreign exchange loss	5
Total pretax loss recognized in OCI at December 31, 2012	$174
Actuarial loss	$ 19
Amortization of prior service cost and actuarial losses	(2)
Foreign exchange loss	2
Total pretax loss recognized in OCI at December 31, 2011	$ 19

The pretax amount of actuarial losses and prior service cost included in AOCI at December 31, 2012 that is expected to be recognized in the net periodic benefit cost in 2013 is $32 million for defined benefit plans and $3 million for other post-employment plans

Net Periodic Benefit Cost

years ended December 31 (in millions)	2012	2011	2010
Service cost	$ 21	$ 18	$ 15
Interest cost	38	32	32
Expected return on plans assets	(29)	(21)	(16)
Amortization of actuarial losses and prior service costs	7	2	1
Net periodic pension benefit cost	$ 37	$ 31	$ 32

Weighted-Average Assumptions Used in Determining Benefit Obligations at the Measurement Date

	2012	2011
Discount rate	4 0%	5 1%
Rate of compensation increases	3 9%	4 2%

The assumptions above, which were used in calculating the December 31, 2012 measurement date benefit obligations, will be used in the calculation of net periodic benefit cost in 2013

Weighted-Average Assumptions Used in Determining Net Periodic Benefit Cost

	2012	2011	2010
Discount rate	5.1%	5.0%	5.4%
Expected long-term rate of return on plan assets	8.5%	8.5%	8.5%
Expected rate of change in compensation	4.2%	4.1%	3.7%

Pension Plan Assets

		Basis of fair value measurement		
(in millions)	Balance at December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equities				
U.S. large cap(a)	$232	$232	$ —	$—
U.S. mid cap(b)	45	31	14	—
International(c)	276	234	42	—
Fixed income securities				
U.S. government securities(d)	73	24	49	—
Corporate debt instruments(e)	109	93	16	—
Government Securities International	26	26	—	—
Other	2	1	1	—
Absolute return funds(f)	90	22	37	31
Real assets	18	9	7	2
Other(g)	27	27	—	—
Fair value of plan assets	$898	$699	$166	$33

		Basis of fair value measurement		
(in millions)	Balance at December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equities				
U.S. large cap(a)	$ 54	$53	$ 1	$—
U.S. mid cap(b)	17	5	12	—
International(c)	27	2	25	—
Fixed income securities				
U.S. government securities(d)	35	16	19	—
Corporate debt instruments(e)	14	3	11	—
Other	2	2	—	—
Absolute return funds(f)	71	12	32	27
Other(g)	10	2	8	—
Fair value of plan assets	$230	$95	$108	$27

(a) A mix of index funds that track the S&P 500 (50 percent in 2012 and 45 percent in 2011) and separate actively managed equity accounts that are benchmarked to the Russell 1000 (50 percent in 2012 and 55 percent in 2011)

(b) A mix of index funds (75 percent) and separate actively managed equity accounts (25 percent) that track or are benchmarked to the S&P 400 midcap index

(c) Primarily separate actively managed pooled investment accounts that are benchmarked to the MSCI emerging market and various local indices

(d) Index funds (50 percent in 2012 and 45 percent in 2011) and separate actively managed accounts (50 percent in 2012 and 55 percent in 2011)

(e) Index funds (20 percent in 2012 and 40 percent in 2011) and separate actively managed accounts (80 percent in 2012 and 60 percent in 2011)

(f) Primarily funds invested by managers that have a global mandate with the flexibility to allocate capital broadly across a wide range of asset classes and strategies including, but not limited to equities, fixed income, commodities, interest rate futures, currencies and other securities to outperform an agreed upon benchmark with specific return and volatility targets

(g) Primarily investments in liquid commodity future contracts, private energy funds, cash and cash equivalents

Equities that are valued using quoted prices are valued at the published market prices Equities in a common collective trust or a registered investment company that are valued using significant other observable inputs are valued at the net asset value (NAV) provided by the fund administrator The NAV is based on the value of the underlying assets owned by the fund minus its liabilities Fixed income securities that are valued using significant other observable inputs are valued at prices obtained from independent financial service industry-recognized vendors Absolute return funds and commodities are valued at the NAV provided by the fund administrator

The following table summarizes the change in the value of plan assets that are measured using significant unobservable inputs (Level 3)

(in millions)	2012	2011
January 1	$27	$22
Transfers in from other categories	—	3
Actual return on plan assets on hand at year end	3	(1)
Purchases, sales and settlements, net	3	3
December 31	$33	$27

The investment mix of equity securities, fixed income and other asset allocation strategies is based upon achieving a desired return, balancing higher return, more volatile equity securities, and lower return, less volatile fixed income securities Investment allocations are made across a range of markets, industry sectors, capitalization sizes, and in the case of fixed income securities, maturities and credit quality There are no known significant concentrations of risk in the plans' assets

The plans' expected return on assets, as shown above is based on management's expectations of long-term average rates of return to be achieved by the underlying investment portfolios In establishing this assumption, management considers historical and expected returns for the asset classes in which the plans are invested, as well as current economic and capital market conditions

Expected Pension and Other Post-Employment Payments

(in millions)	Defined benefit plans	Other post-employment plans
2013	$ 58	$ 7
2014	59	7
2015	60	8
2016	64	8
2017	65	9
2018 to 2022	363	53

The above table reflects total benefit payments expected to be paid to participants, which includes payments funded from company assets as well as paid from the plans

Other

AbbVie employees also participate in the Abbott Laboratories Stock Retirement Plan, which is Abbott's principal defined contribution plan AbbVie recorded expense of $67 million, $68 million and $65 million for the years ended December 31, 2012, 2011 and 2010, respectively, related to this plan

AbbVie provides certain other post-employment benefits, primarily salary continuation plans, to qualifying employees and accrues for the related cost over the service lives of the employees

Note 10 Stock-Based Compensation

Prior to separation, AbbVie employees participated in Abbott's incentive stock program In conjunction with the separation, the company adopted the AbbVie Incentive Stock Program, which provides for the assumption of certain awards granted under the Abbott incentive stock program and authorizes the grant of several different forms of benefits including nonqualified stock options, restricted stock awards (RSAs), and restricted stock units (RSUs) The AbbVie Incentive Stock Program initially reserved 100 million shares of common stock for issuance with respect to awards for participants Subsequent to year-end, this reserve was reduced by approximately 7 million shares for stock option, RSA and RSU awards granted by AbbVie's Board of Directors

The following disclosures represent the portion of Abbott's incentive stock program in which AbbVie employees participated All awards granted under the program consisted of Abbott common shares As such, all related equity account balances are reflected in Abbott's consolidated statements of stockholders' equity and have not been reflected in AbbVie's combined financial statements AbbVie's combined statements of earnings reflects compensation expense for these stock-based awards associated with the portion of Abbott's incentive stock program in which AbbVie employees participated, accordingly, the amounts presented are not necessarily indicative of future performance and do not necessarily reflect the results that AbbVie would have experienced as an independent, publicly-traded company for the periods presented

All equity award amounts presented below have not been converted to reflect the separation from Abbott Upon the separation on January 1, 2013, holders of Abbott stock options, RSAs and RSUs generally received one AbbVie stock-based award for each Abbott stock-based award outstanding The value of the combined Abbott and AbbVie stock-based awards after separation was designed to generally preserve the intrinsic value and the fair value of the award immediately prior to separation The per share data presented in this Note has not been adjusted to reflect the impact of the separation

Stock Compensation Expense

Stock compensation expense recognized in the combined statements of earnings was $187 million, $163 million and $167 million in 2012, 2011 and 2010, respectively The related tax benefit recognized was $56 million, $48 million and $51 million in 2012, 2011 and 2010, respectively More than half of stock-compensation expense was classified in SG&A, with the remainder classified in R&D and cost of products sold Compensation costs capitalized in the combined balance sheets at December 31, 2012 and 2011 was not significant

Compensation expense for stock-based awards is measured based on the fair value of the awards, as of the date the share-based awards are granted and adjusted to the estimated number of awards that are expected to vest Forfeitures are estimated based on historical experience at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates Compensation cost for stock-based awards are amortized over their service period, which could be shorter than the vesting period if an employee is retirement eligible, with a charge to compensation expense For stock-based awards granted to retirement-eligible employees, compensation expense is recognized immediately at the grant date because the employee is able to retain the award without continuing to provide service

Stock Options

The exercise price for options granted is at least equal to 100 percent of the market value on the date of grant Stock options typically have a contractual term of 10 years and generally vest in one-third increments over a three-year period except for options with a replacement feature Pre-2005 options were granted with a replacement option feature The terms and conditions of the replacement option are the same in all material respects as those applicable to the original grant When the exercise price of an option with a replacement option feature is paid with the common shares held by the employee, a replacement option is granted for the number of shares used to make that payment The closing price of the common share on the business day before the exercise is used to determine the number of shares required to exercise the related option and the exercise price of the replacement option The replacement option is exercisable in full six months after the date of grant, and has a term expiring on the expiration date of the original option

The fair value of stock options is determined using the Black-Scholes model The weighted-average assumptions used in estimating the fair value of stock options granted during each year, along with weighted-average grant-date fair values, were as follows

years ended December 31	2012	2011	2010
Risk-free interest rate	1 2%	2 7%	2 9%
Average life of options (years)	6 0	6 0	6 0
Volatility	21 0%	21 0%	22 0%
Dividend yield	3 6%	4 1%	3 2%
Fair value per stock option	$6 80	$6 23	$9 24

The risk-free interest rate is based on the rates available at the time of the grant for zero-coupon U S government issues with a remaining term equal to the option's expected life The average life of an option is based on both historical and projected exercise and lapsing data Expected volatility is based on implied volatilities from traded options on Abbott's stock and historical volatility of Abbott's stock over the expected life of the option Dividend yield is based on the option's exercise price and annual dividend rate at the time of grant

The following table summarizes stock option activity for the year ended December 31, 2012 and stock option outstanding balances at December 31, 2012 under Abbott's Incentive Stock Programs for AbbVie employees

(options in thousands, aggregate intrinsic value in millions)	Options	Weighted average exercise price	Weighted average remaining life (in years)	Aggregate intrinsic value
Outstanding at December 31, 2011	25,783	$49 77	4 1	
Granted	944	62 54		
Exercised	(13,347)	49 62		
Lapsed	(95)	53 88		
Outstanding at December 31, 2012	13,285	$50 80	3 7	$196
Exercisable at December 31, 2012	12,329	$50 09	3 6	$190

The aggregate intrinsic value in the table above represents the difference between the exercise price and the closing stock price on the last day of trading of the year The total intrinsic value of options exercised in 2012, 2011 and 2010 was $170 million, $31 million and $20 million, respectively

As of December 31, 2012, $1 million of unrecognized compensation cost related to stock options is expected to be recognized as expense over the next three years

RSAs & RSUs

Restricted stock awards generally vest between three and five years For restricted stock awards that vest over five years, no more than one-third of the award vests in any one year RSUs vest over three years and upon vesting, the recipient receives one share of common stock for each vested restricted stock unit The fair value of RSAs and RSUs is determined based on the number of shares granted and the quoted price of the common stock on the date of grant

The following table summarizes RSAs and RSUs balances and activity under Abbott's Incentive Stock Programs for AbbVie employees

(share units in thousands)	Share units	Weighted average grant date fair value
Nonvested shares December 31, 2011	4,710	$50 29
Granted	2,749	56 07
Vested	(2,164)	51 23
Lapsed	(251)	48 62
Nonvested shares December 31, 2012	5,044	$53 12

The fair market value of restricted stock awards and units vested in 2012, 2011 and 2010 was $123 million, $74 million and $53 million, respectively As of December 31, 2012, $90 million of unrecognized compensation cost related to RSAs and RSUs is expected to be recognized as expense over the next three years

Note 11 Income Taxes

Earnings Before Income Taxes

years ended December 31 (in millions)	2012	2011	2010
Domestic	$ 625	$ 626	$ (191)
Foreign	5,100	3,042	5,027
Total earnings before income taxes	$5,725	$3,668	$4,836

Income Taxes

years ended December 31 (in millions)	2012	2011	2010
Current			
Domestic	$ 94	$ 177	$ 987
Foreign	252	390	408
Total current taxes	$346	$ 567	$1,395
Deferred			
Domestic	$ 89	$(198)	$ (624)
Foreign	15	(134)	(113)
Total deferred taxes	104	(332)	(737)
Total income taxes	$450	$ 235	$ 658

Effective Tax Rate Reconciliation

years ended December 31 (in millions)	2012	2011	2010
Statutory tax rate	35 0%	35 0%	35 0%
Benefit of lower tax rates and tax exemptions, primarily in Puerto Rico	(23 5)	(25 4)	(22 5)
Resolution of certain tax positions pertaining to prior years	(3 4)	(11 2)	—
Effect of non-deductible litigation loss accrual	0 6	12 9	—
Puerto Rico excise tax credit	(1 2)	(3 2)	—
State taxes, net of federal benefit	0 1	0 3	0 2
All other, net	0 3	(2 0)	0 9
Effective tax rate	7 9%	6 4%	13 6%

Income taxes in 2012 and 2011 included the recognition of tax benefits totaling approximately $195 million and $410 million, respectively, as a result of favorable resolutions of various tax positions pertaining to prior years Income taxes in 2011 also reflected the non-deductibility of a litigation reserve Excluding these discrete items, the effective tax rates were less than the statutory U S federal income tax rate of 35 percent principally due to the benefit of lower statutory tax rates and tax exemptions in Puerto Rico and other foreign taxing jurisdictions, which reduced the tax rates by 23 5, 25 4 and 22 5 percentage points in 2012, 2011 and 2010, respectively

In 2010, Puerto Rico enacted legislation that assesses an excise tax beginning in 2011 on certain products manufactured in Puerto Rico The tax is levied on gross inventory purchases from entities in Puerto Rico and is included in cost of products sold in the combined statements of earnings The majority of the tax is creditable for U S income tax purposes In 2012 and 2011, the excise tax totaled approximately $180 million and $105 million, respectively

At December 31, 2012, U S income taxes have not been provided on approximately $19 4 billion of undistributed foreign earnings as these earnings have been indefinitely reinvested for continued use in foreign operations It is not practicable to determine the amount of deferred income taxes not provided on these earnings

Deferred Tax Assets and Liabilities

as of December 31 (in millions)	2012	2011
Deferred tax assets		
Compensation and employee benefits	$ 295	$ 290
Trade receivable reserves	412	371
Inventory reserves	42	49
Deferred intercompany profit	777	592
State income taxes	106	125
Other	1,039	1,196
Total deferred tax assets	$2,671	$2,623
Deferred tax liabilities		
Depreciation	—	(20)
Other, primarily the excess of book basis over tax basis of intangible assets	(857)	(983)
Total deferred tax liabilities	(857)	(1,003)
Net deferred tax asset	$1,814	$1,620

Unrecognized Tax Benefits

years ended December 31 (in millions)	2012	2011	2010
January 1	$1,039	$1,645	$1,319
Increase due to current year tax positions	370	294	346
Increase due to prior year tax positions	1	149	110
Decrease due to current year tax positions	—	(15)	—
Decrease due to prior year tax positions	(220)	(604)	(48)
Settlements	(50)	(430)	(82)
December 31	$1,140	$1,039	$1,645

AbbVie and Abbott entered into a tax sharing agreement effective on the date of separation For tax contingencies prior to the separation, Abbott will indemnify and hold AbbVie harmless if the tax positions are settled for amounts in excess of recorded liabilities, and AbbVie will not benefit if prior tax positions are resolved more favorably than recorded amounts As a result, no liability for uncertain tax positions was recorded in the combined financial statements as of December 31, 2012, 2011 and 2010

Note 12 Litigation

There are a number of patent disputes with third parties who claim AbbVie's products infringe their patents On February 21, 2012, the U S Supreme Court denied Centocor Inc 's and New York University's petition to review a February 2011 Federal Circuit Court of Appeals decision reversing a $1 67 billion judgment in favor of Centocor and New York University on a patent they claimed AbbVie's HUMIRA infringed This decision concludes the case

The U S Department of Justice, through the U S Attorney for the Western District of Virginia, and various state Attorneys General investigated AbbVie's sales and marketing activities for Depakote The

government sought to determine whether any of these activities violated civil and/or criminal laws, including the Federal False Claims Act, the Food, Drug and Cosmetic Act, and the Anti-Kickback Statute in connection with Medicare and/or Medicaid reimbursement to third parties The state Attorneys General offices sought to determine whether any of these activities violated various state laws, including state consumer fraud/protection statutes AbbVie recorded charges of $1 5 billion in the third quarter of 2011 and $100 million in the first quarter of 2012 related to civil and criminal claims arising from this matter In May 2012, AbbVie reached resolution of all Depakote-related federal claims, Medicaid-related claims with 49 states and the District of Columbia, and consumer protection claims with 45 states and the District of Columbia In 2012, AbbVie paid approximately $1 6 billion for the settlement The payments were material to AbbVie's cash flows in 2012

The recorded accrual balance for litigation at December 31, 2012 was not significant Within the next year, other legal proceedings may occur that may result in a change in the estimated loss accrued by AbbVie While it is not feasible to predict the outcome of all other proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on AbbVie's financial position, cash flows, or results of operations

Note 13 Related Party Transactions with Abbott

In the historical financial statements, Abbott provided AbbVie certain services, which included administration of treasury, payroll, employee compensation and benefits, travel and meeting services, public and investor relations, real estate services, internal audit, telecommunications, information technology, corporate income tax and selected legal services Some of these services will be provided to AbbVie on a temporary basis after the separation The financial information in these combined financial statements does not necessarily include all the expenses that would have been incurred had AbbVie been a separate, stand-alone entity As such, the financial information herein may not necessarily reflect the combined financial position, results of operations and cash flows of AbbVie in the future or what they would have been had AbbVie been a separate, stand-alone entity during the periods presented Management believes that the methods used to allocate expenses to AbbVie are reasonable The allocation methods included relative sales, headcount, square footage, number of transactions or other measures These allocations totaled $838 million, $801 million and $677 million for the years ended December 31, 2012, 2011 and 2010, respectively In 2012, AbbVie incurred $288 million of separation-related expenses, including legal, information technology and regulatory fees, which were principally classified in SG&A As of December 31, 2012, outstanding intercompany transactions between AbbVie and Abbott are reflected as Due from Abbott Laboratories and Due to Abbott Laboratories in the combined balance sheet

Note 14 Segment and Geographic Area Information

AbbVie operates in one business segment—pharmaceutical products Substantially all of AbbVie's U S sales are to three wholesalers Outside the United States, products are sold primarily to health care providers or through distributors, depending on the market served Net sales of key products were as follows

years ended December 31 (in millions)	2012	2011	2010
HUMIRA	$ 9,265	$ 7,932	$ 6,508
AndroGel	1,152	874	649
TriCor/TRILIPIX	1,098	1,372	1,355
Kaletra	1,013	1,170	1,223
Niaspan	911	976	927
Synagis	842	792	726
Lupron	800	810	741
Sevoflurane	602	665	664
Synthroid	551	522	451
Norvir	389	419	344
Zemplar	383	409	596
Creon	353	332	246
All other	1,021	1,171	1,208
Net sales	$18,380	$17,444	$15,638

Net sales to external customers, based on the country that sold the product, were as follows

years ended December 31 (in millions)	2012	2011	2010
United States	$10,435	$ 9,712	$ 8,971
The Netherlands	776	904	845
Germany	756	701	635
Japan	718	616	484
United Kingdom	552	496	418
Spain	525	569	515
France	500	516	479
Canada	500	446	374
Brazil	434	382	287
Italy	408	428	385
All other countries	2,776	2,674	2,245
Net sales	$18,380	$17,444	$15,638

Long-lived assets, consisting of net property and equipment in the United States and Puerto Rico, totaled approximately $1 6 billion and $1 5 billion as of December 31, 2012 and 2011, respectively

Note 15 Quarterly Financial Data (unaudited)

(in millions except per share data)	2012	2011
First Quarter		
Net sales	$4,173	$3,897
Gross margin	3,017	2,689
Net earnings	883	723
Basic and diluted earnings per share	0 56	0 46
Second Quarter		
Net sales	$4,493	$4,274
Gross margin	3,420	3,168
Net earnings	1,267	1,540
Basic and diluted earnings per share	0 80	0 98
Third Quarter		
Net sales	$4,508	$4,409
Gross margin	3,494	3,260
Net earnings	1,585	13
Basic and diluted earnings per share	1 01	0 01
Fourth Quarter		
Net sales	$5,206	$4,864
Gross margin	3,941	3,688
Net earnings	1,540	1,157
Basic and diluted earnings per share	0 98	0 73

The computation of basic and diluted earnings per share for all periods was calculated using the shares distributed on January 1, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of AbbVie Inc

We have audited the accompanying combined balance sheets of AbbVie Inc and subsidiaries (the "Company") as of December 31, 2012 and 2011 and the related combined statements of earnings, comprehensive income, statement of parent company equity and cash flows for each of the three years in the period ended December 31, 2012 These combined financial statements are the responsibility of the Company's management Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing 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 combined financial statements are free of material misstatement The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting Accordingly, we express no such opinion An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America

As described in Note 1, the accompanying combined financial statements have been derived from the consolidated financial statements and accounting records of Abbott Laboratories The combined financial statements also include expense allocations for certain corporate functions historically provided by Abbott Laboratories These allocations may not be reflective of the actual expense which would have been incurred had the Company operated as a separate legal entity apart from Abbott Laboratories

/s/ Deloitte & Touche LLP

Chicago, Illinois
March 15, 2013

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported on AbbVie's Current Report on Form 8-K, dated December 20, 2012, the Audit Committee of AbbVie's Board of Directors approved the dismissal of Deloitte & Touche LLP (Deloitte) as AbbVie's independent registered public accountant, effective as of the date of Deloitte's completion of the audit services for the fiscal year ending December 31, 2012 and the filing of AbbVie's 2012 Annual Report on Securities and Exchange Commission Form 10-K, and approved the appointment of Ernst & Young LLP as AbbVie's independent registered public accounting firm to perform independent audit services beginning with the fiscal year ending December 31, 2013

During the fiscal years ended December 31, 2012, 2011 and 2010, and through March 15, 2013, (i) there were no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between AbbVie and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to the subject matter of the disagreement in connection with its reports on AbbVie's combined financial statements for such years, and (ii) there were no "reportable events" (as that term is defined in Item 304(a)(1)(v) of Regulation S-K)

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures The Chief Executive Officer, Richard A Gonzalez, and the Chief Financial Officer, William J Chase, evaluated the effectiveness of AbbVie's disclosure controls and procedures as of the end of the period covered by this report, and concluded that AbbVie's disclosure controls and procedures were effective to ensure that information AbbVie is required to disclose in the reports that it files or submits with the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed by AbbVie in the reports that it files or submits under the Exchange Act is accumulated and communicated to AbbVie's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure

Internal Control Over Financial Reporting

Management's annual report on internal control over financial reporting This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies

Changes in internal control over financial reporting During the quarter ended December 31, 2012, there were no changes in AbbVie's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, AbbVie's internal control over financial reporting

Inherent Limitations on Effectiveness of Controls. AbbVie's management, including its Chief Executive Officer and its Chief Financial Officer, do not expect that AbbVie's disclosure controls or internal control over financial reporting will prevent or detect all error and all fraud A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs Further, because of the inherent limitations in all control systems, no evaluation of controls can provide

absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls

The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions Projections of any evaluation of controls effectiveness to future periods are subject to risks Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures

ITEM 9B. OTHER INFORMATION

None